



THE REGIONAL MUNICIPALITY OF NIAGARA
BUDGET REVIEW COMMITTEE OF THE WHOLE
FINAL AGENDA

BRCOTW 9-2019

Thursday, November 28, 2019

6:30 p.m.

Council Chamber

Niagara Region Headquarters, Campbell West

1815 Sir Isaac Brock Way, Thorold, ON

	Pages
1. <u>CALL TO ORDER</u>	
2. <u>DISCLOSURES OF PECUNIARY INTEREST</u>	
3. <u>PRESENTATIONS</u>	
4. <u>DELEGATIONS</u>	
5. <u>ITEMS FOR CONSIDERATION</u>	
5.1 <u>CSD 71-2019</u> 2020 Budget - Water and Wastewater Operating Budget, Rate Setting and Requisition A presentation will precede the discussion of this item.	3 - 47
5.2 <u>CSD 70-2019 - REVISED</u> 2020 Budget - Waste Management Services Operating Budget and Requisition A presentation will precede the discussion of this item.	48 - 83
6. <u>CONSENT ITEMS FOR INFORMATION</u>	
6.1 <u>BRC-C 10-2019</u> Councillor Information Requests - October 10, 2019, Budget Review Committee of the Whole	84 - 91

7. OTHER BUSINESS

8. CLOSED SESSION

8.1 Confidential PW 69-2019

A Matter of Commercial and Financial Information, supplied in confidence to the municipality, which, if disclosed, could reasonably be expected to prejudice significantly the competitive position or interfere significantly with the contractual or other negotiations of a person, group of persons, or organization - Financial Information Supporting Waste Management Collection Contract Procurement Process - Pricing of Successful Proponents to Manage Diaper Waste Under Every Other Week Garbage Collection.

9. BUSINESS ARISING FROM CLOSED SESSION

10. NEXT MEETING

The next meeting will be held on Thursday, December 5, 2019 at 6:30 p.m. in the Council Chamber, Regional Headquarters.

11. ADJOURNMENT

If you require any accommodations for a disability in order to attend or participate in meetings or events, please contact the Accessibility Advisor at 905-980-6000 ext. 3252 (office), 289-929-8376 (cellphone) or accessibility@niagararegion.ca (email).



NIAGARA REGION BUDGET

2020

Water & Wastewater Operating
Budget, Rate Setting & Requisition

Budget Review Committee of the VWhole

November 28th, 2019



2020 Water & Wastewater Operating Budget

Key Themes

New Budget Planning By-law

- Base budget increase of 2.00% is within Council budget direction
- Funding for sustainability of Capital is at the discretion of Council

Balancing Sustainability, Transparency & Affordability with the Capital Financing Policy

- Financial Sustainability Plan proposed 3.15% for Capital sustainability
- Based on funding principles consistent with recently approved capital financing strategy

2020 Water & Wastewater Operating Budget, Rate Setting and Requisition

What we're going to cover tonight:

- Operating Budget Summary
- Municipal Comparators
- Requisition
- Risks and Opportunities
- Next Steps

NIAGARA REGION BUDGET

2020 WATER & WASTEWATER

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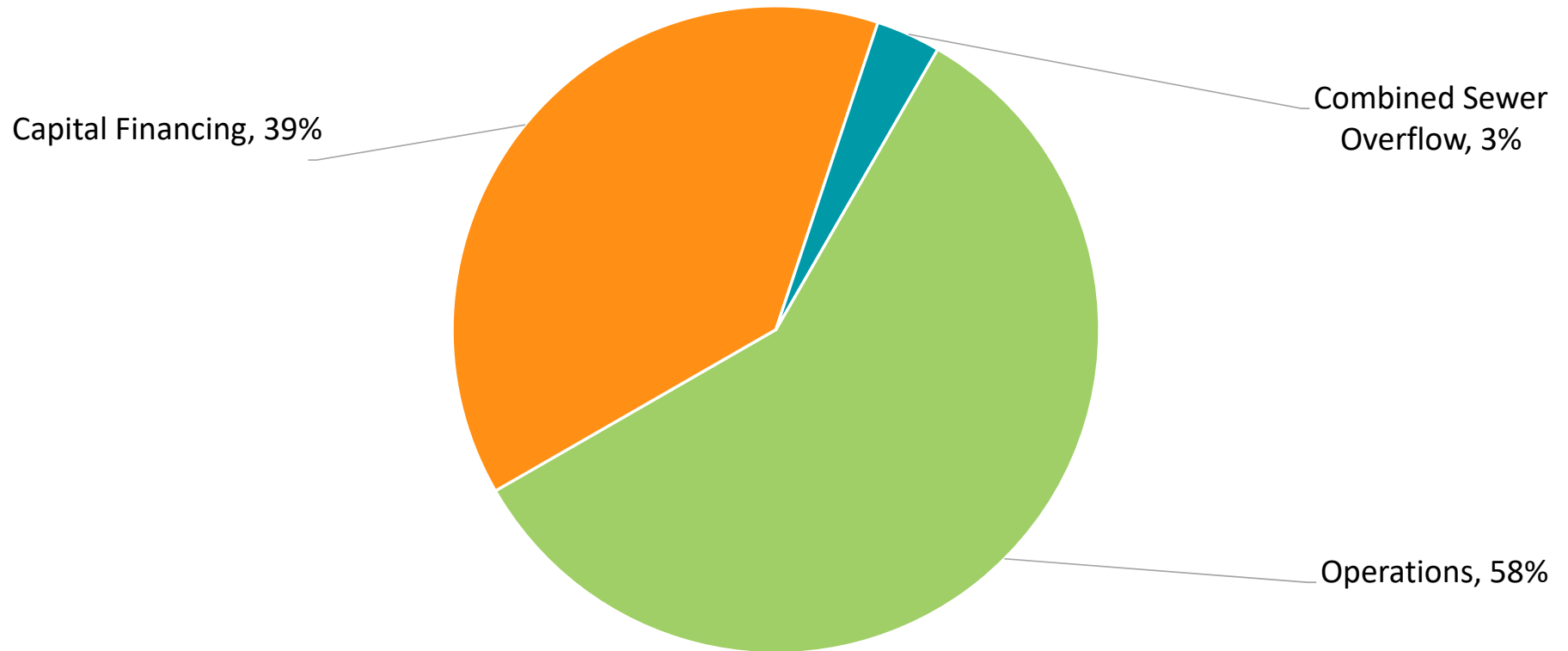


2020 Budget Process

- ✓ June 20 - Council established base budget direction of 2.00%
- ✓ Staff developed budget to support:
 - current service delivery,
 - comply with legislation
 - SDWA Financial Plan
- ✓ Rate Workshop provided education and information
- ✓ BRC approval required

2020 Water & Wastewater Budget

Where does the money go? Gross Budget = \$119M



NIAGARA REGION BUDGET

2020 WATER & WASTEWATER

2020 Water & Wastewater Operating Budget

Before Enhanced Capital Financing: \$119.3 M (\$2.3M increase)

2020 Proposed Budget - Gross & Net			
	Water	Wastewater	Total
Net 2019 Budget Requisition	44,238,899	72,679,759	116,918,658
2020 Budget:			
Total Operating Expenses	23,971,949	51,391,810	75,363,759
Reserve Transfer & Debt Charges	20,978,212	26,779,977	47,758,189
Gross 2020 Budget Total	44,950,161	78,171,787	123,121,948
Less: Revenues	(379,663)	(3,483,572)	(3,863,235)
Less: Reserve Funding	-	-	-
Net 2020 Budget Requisition - Before Increased Capital Financing	44,570,498	74,688,215	119,258,713
Percentage Change	0.75%	2.76%	2.00%
Increased Capital Requirement	1,350,459	2,332,479	3,682,938
Net 2020 Budget Requisition - After Increased Capital Financing	45,920,957	77,020,694	122,941,651
Percentage Change	3.80%	5.97%	5.15%

\$3.7 million
for Capital

2020 Water & Wastewater Operating Budget

Before Enhanced Capital Financing: \$119.3M (\$2.3M increase)

Pressures:

- Labour related costs of \$1.1M inclusive of enhancements for asset planning, capital project management
- Asset Management Software Enhancements (\$0.2M)
- Large Diameter Main Inspection (\$0.3M)
- Chemicals (\$0.5M)
- Overall escalations in administrative support costs charged back from Levy (\$0.4M)
- Repairs & Maintenance (\$0.5M)

Offset by:

- Anticipated Electricity Savings of \$1.1M

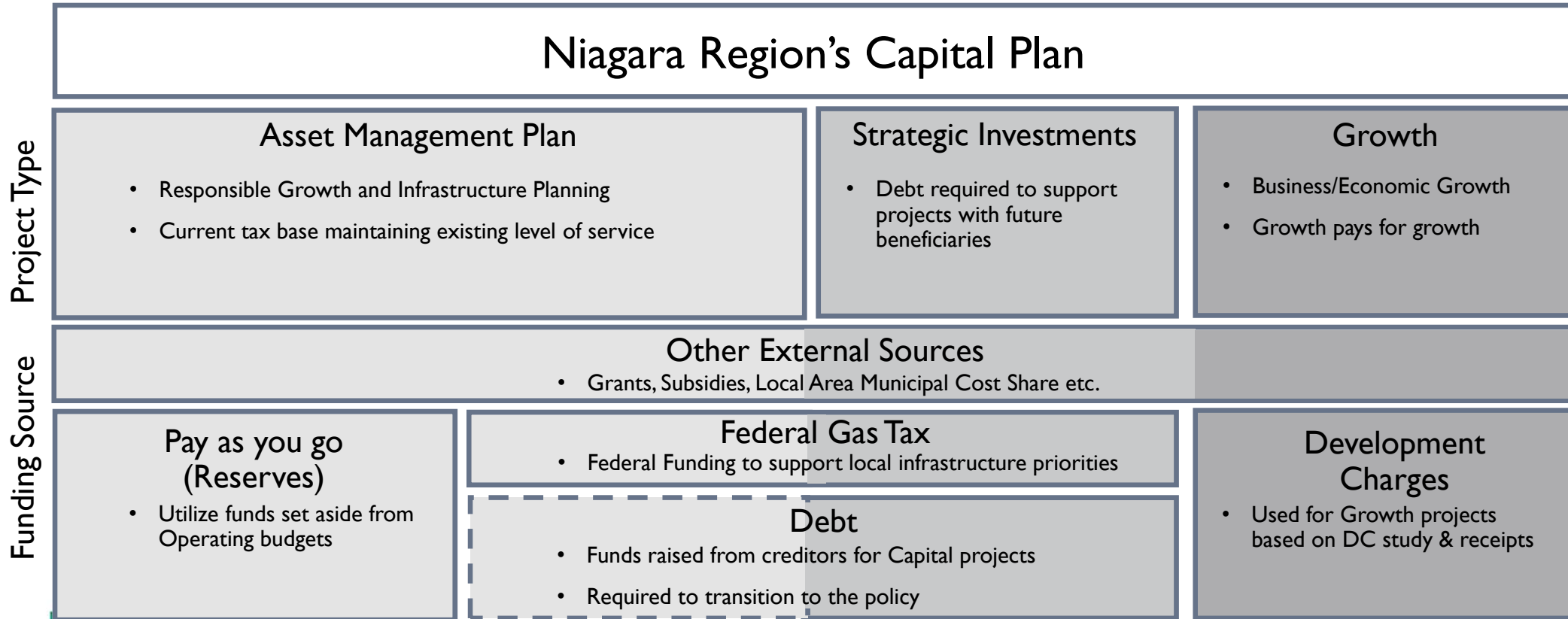
2020 Water & Wastewater Program Changes

Included in Base Budget Increase of \$2.3M

Division	FTE	Item	Net Amount	Details
Wastewater Operations	1	Biosolids Operator	\$7 K	Compensation cost mostly offset by savings in sludge collection of \$73K; currently there is only 1 employee at each facility; having a backup will enable processing to continue if existing staff is not available.
Total	9		\$7 K	

2020 Water & Wastewater Capital Financing

Regional Capital Financing Strategy



NIAGARA REGION BUDGET

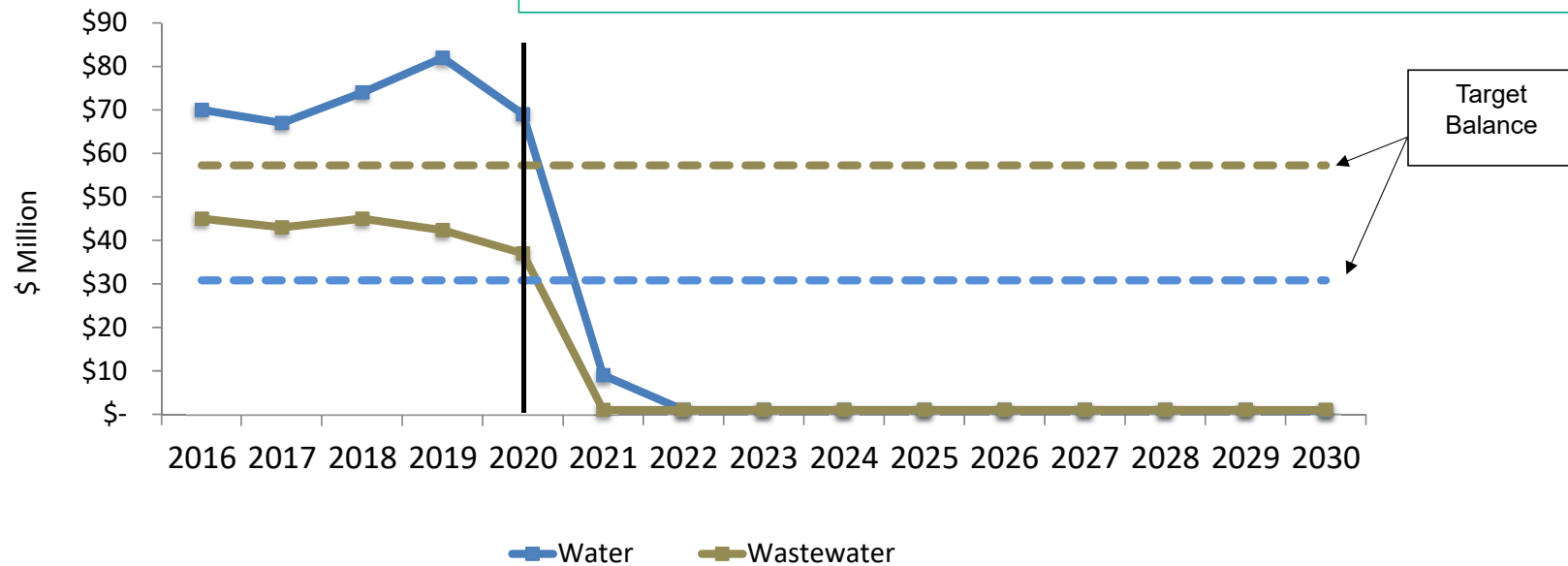
2020 WATER & WASTEWATER

2020 Water & Wastewater Capital Financing

Operating Budget Includes Contributions to Reserves

Without strategy, post 2021 capital budget will be restricted to current annual operating budget contributions:

- Water \$17M
- Wastewater \$19M



NIAGARA REGION BUDGET

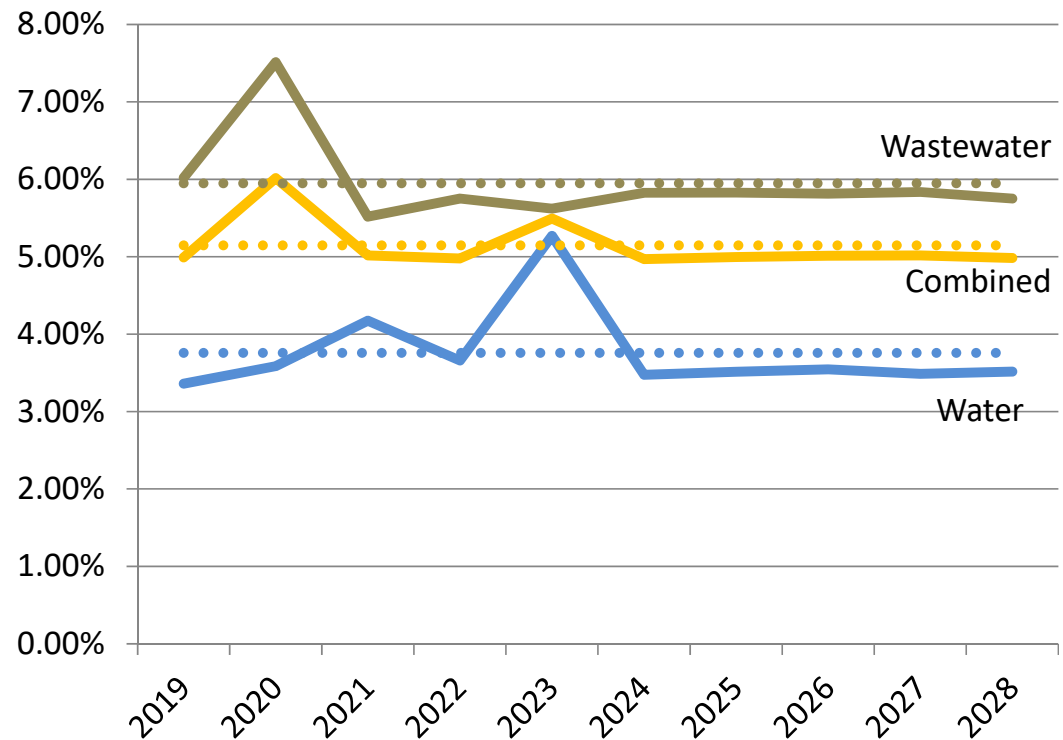
2020 WATER & WASTEWATER

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2020 Water & Wastewater Sustainability Plan

5.15% Required for 10 Years to Smooth Operating and Capital Costs

- To fund capital in accordance with the Council approved AMP and MSP
- 10 year average Water increase of 3.8%, Wastewater of 6.0%
- Base increase may be +/- 2% which will vary the Capital increase to an average of 3.15%



2020 Water & Wastewater Capital Budget

Capital Budget does not rely on Enhanced Capital Financing

If \$3.7M is approved:

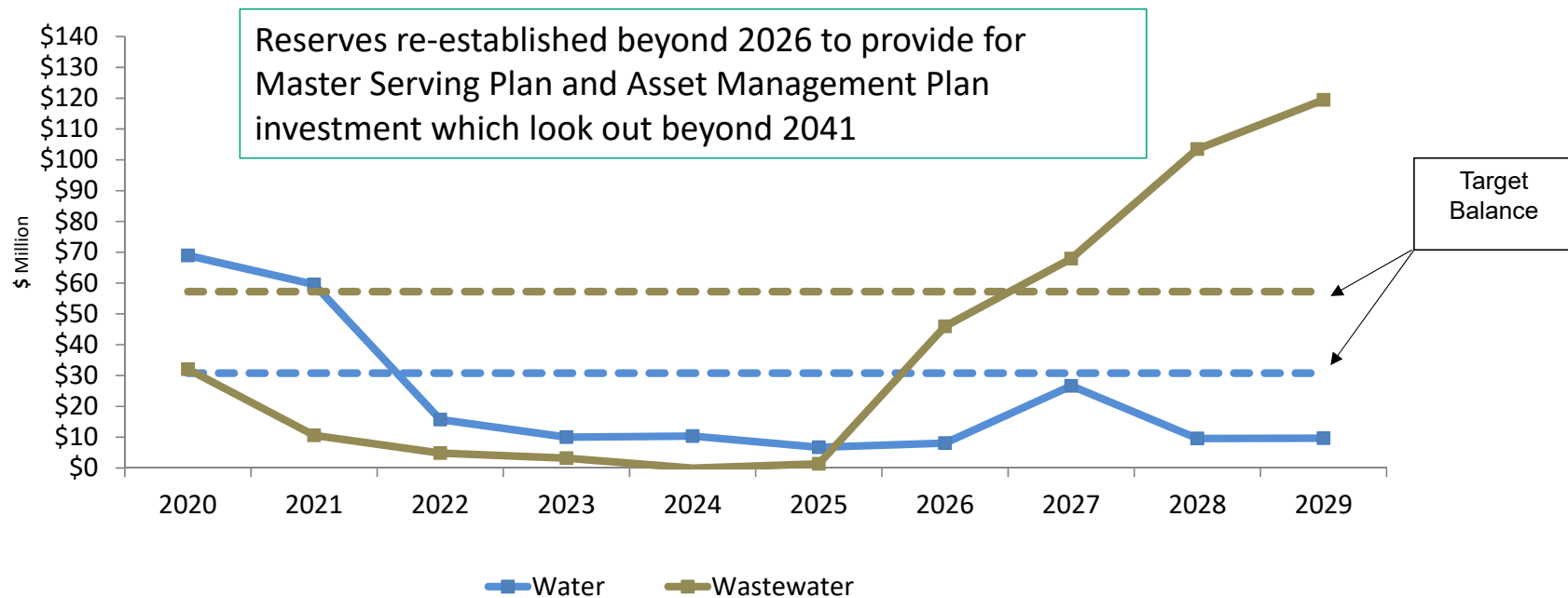
- \$0.5M for Debt Servicing,
- \$3.2M for Capital Reserve Contribution

Capital Budget could be amended to re-introduced:

- Dain City Station Forcemain Replacement (\$550k) – *Reserve Financed*
- Thundering Waters Sanitary Trunk Sewer Rehab (\$8.3M) – *Debt Financed*

2020 Water & Wastewater Sustainability Plan

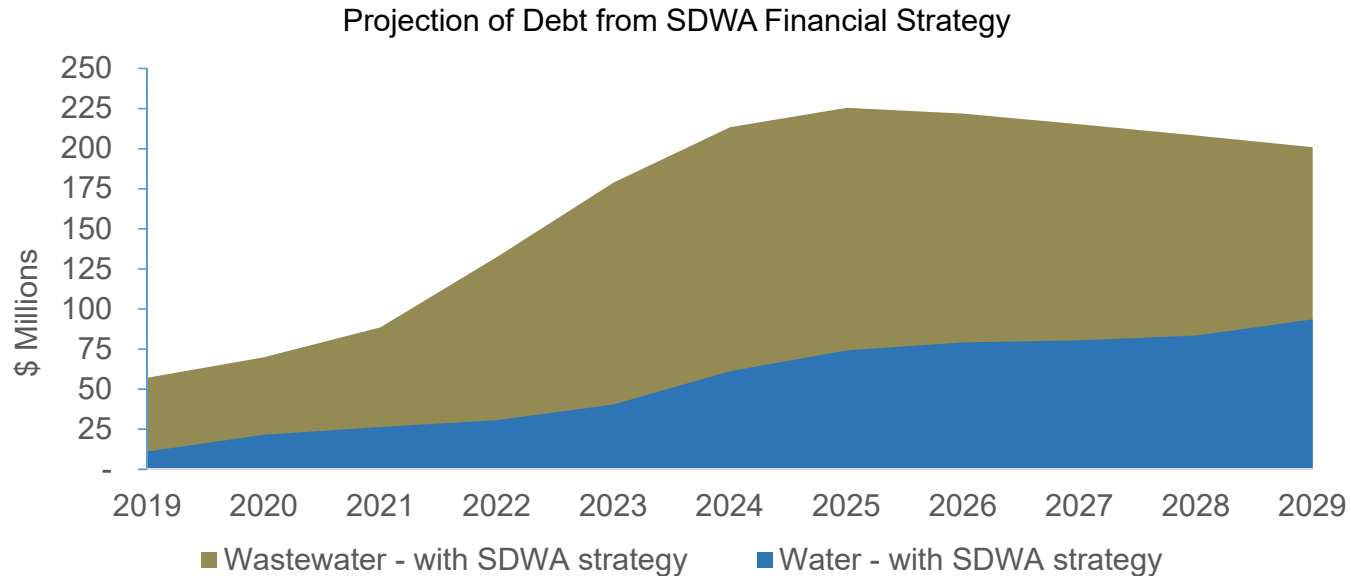
Capital Reserve Balance Forecast



2020 Water & Wastewater Sustainability Plan

Water & Wastewater Use of Debt

\$68.3M of \$380M in outstanding debt relates to W/WW



Municipal Comparators

- We aren't alone in these increase requirements
- Our peers have seen or are planning similar increases

Municipality	2015 rate increase	2016 rate increase	2017 rate increase	2018 rate increase	2019 rate increase	Proposed 2020 rate increase
<i>Halton*</i>	4.90%	5.00%	5.10%	3.80%	3.70%	3.90%
<i>Durham*</i>	5.00%	5.00%	3.60%	4.00%	1.80%	TBD
<i>Waterloo</i>	6.61%	5.18%	5.32%	5.32%	5.18%	TBD
<i>Peel*</i>	7.00%	9.00%	4.20%	5.00%	6.50%	6.30%
<i>York</i>	2.77%	9.00%	9.00%	9.00%	9.00%	9.00%
Average	5.26%	6.64%	5.44%	5.42%	5.24%	6.40%
Niagara	0.84%	-0.03%	0.81%	2.05%	5.15%	5.15%
Niagara Guidance	2.00%	0.00%	1.00%	2.00%	1.50% / 2.00%	2.00%

*Upper-tier responsible for WWW billing/maintenance of distribution system.

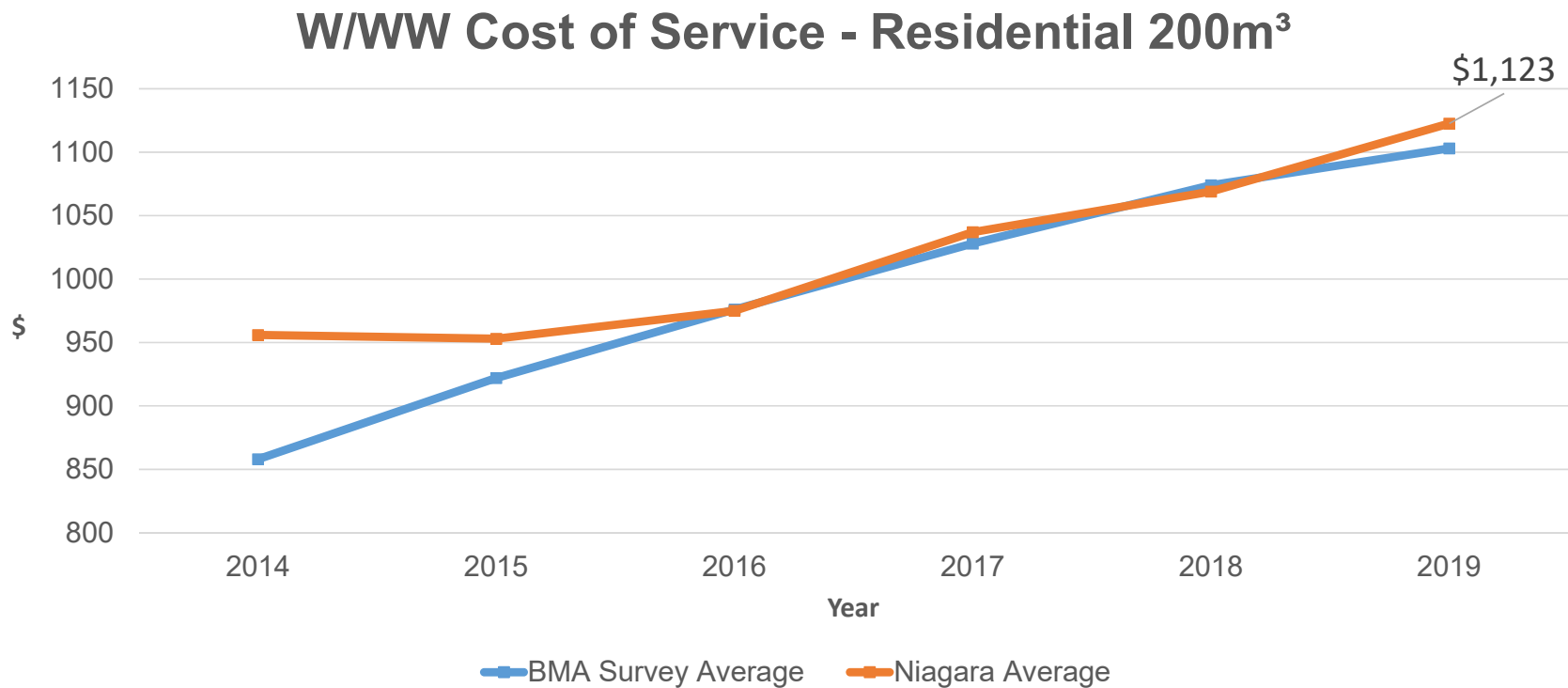
NIAGARA REGION BUDGET

2020 WATER & WASTEWATER

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2020 Water & Wastewater Average Cost per Household

BMA Study Average (Includes Region & Local Costs)



2020 Water & Wastewater Average Cost per Household

Estimated Average Regional Impacts

	40% Region		Difference		60% Region		Difference	
	2019	2020	\$	%	2019	2020	\$	%
Water Wastewater	\$449	\$472	\$23	5.15%	\$674	\$708	\$35	5.15%

\$23 as a % of \$1,123 is 2.0%

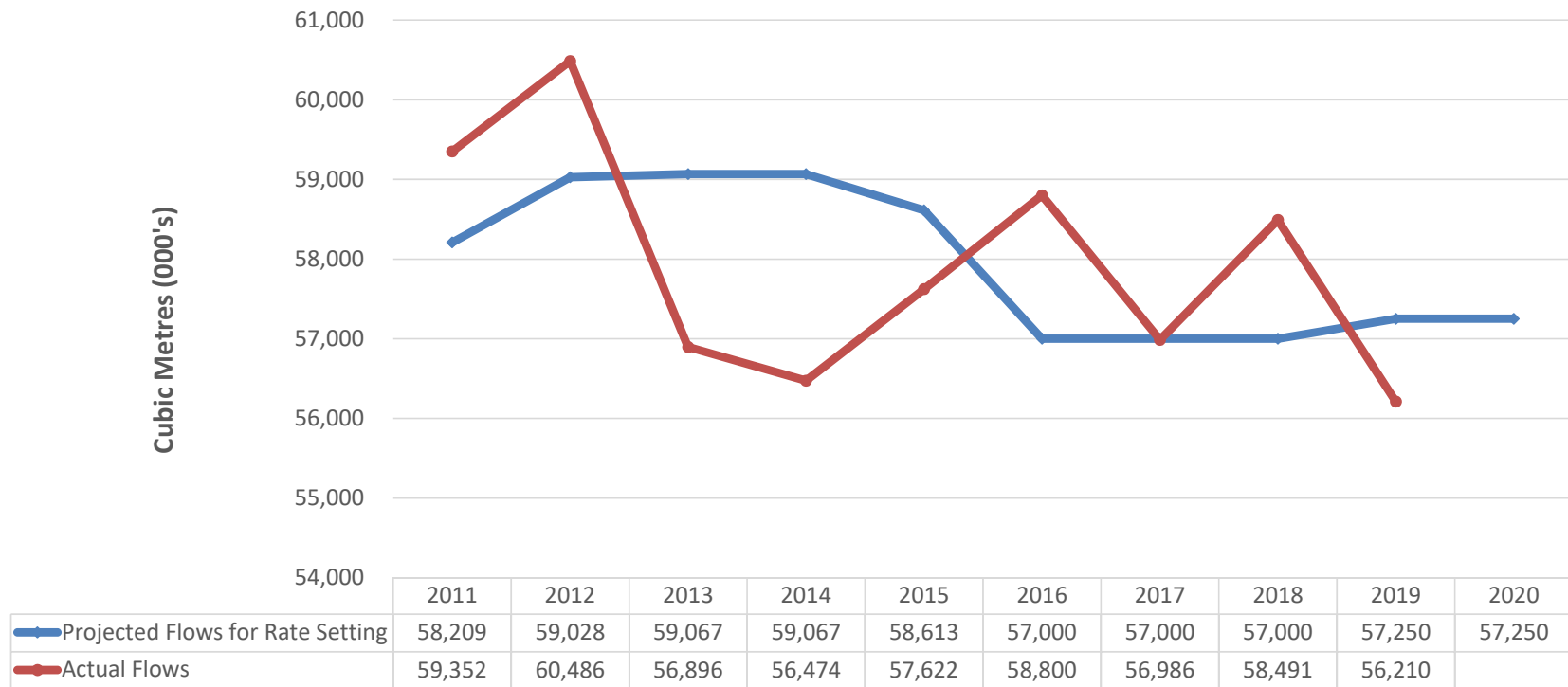
\$35 as a % of \$1,123 is 3.1%

Water Requisition

Methodology

- In place since 2009, reaffirmed in 2011 for 2012-2015, and reaffirmed again in 2015
- 25% Fixed Requisition
 - Based on three-year average volume
- 75% Variable Rate
 - Projected water sale of 57.25 million m³ (same as 2019)
 - 75% of \$45.9 million budget divided by 57.25 million m³
 - Variable rate proposed at \$0.602 per m³ (2019 rate \$0.580)

Water Requisition Volume Analysis



Water Requisition

25% fixed distributed by LAM

Municipality	Fixed Requisition			
	2019 (\$000)	2020 (\$000)	Difference	
			\$000s	%
Fort Erie	892	900	8	0.91%
Grimsby	620	608	(12)	-1.89%
Lincoln	440	453	12	2.80%
Niagara Falls	2,935	3,011	77	2.61%
Niagara-on-the-Lake	599	624	25	4.16%
Pelham	241	237	(4)	-1.81%
Port Colborne	588	610	22	3.66%
St. Catharines	2,920	3,043	123	4.19%
Thorold	395	427	32	8.14%
Welland	1,266	1,393	127	10.02%
West Lincoln	164	176	12	7.12%
Total	11,060	11,480	421	3.80%

Wastewater Requisition

Methodology

- 100% fixed since 2007
- 2011 established for 2012 to 2015, and reaffirmed in 2015, the reconciliation and adjustment for actual flows
 - Budget based on 3 years average to September
 - Actual based on 1 year to December
- Reconciliation of 2018 budget included in the 2020 requisition
 - \$1.177 million in rebates and \$1.177 million in payments

Wastewater Requisition

100% fixed distribution by LAM

Municipality	Fixed Requisition			
	2019 (\$000)	2020 (\$000)	Difference	
			\$000s	%
Fort Erie	7,596	8,045	449	5.91%
Grimsby	3,324	3,741	417	12.53%
Lincoln	2,837	2,949	112	3.95%
Niagara Falls	14,728	15,115	387	2.63%
Niagara-on-the-Lake	2,961	3,186	225	7.59%
Pelham	1,354	1,379	25	1.86%
Port Colborne	4,077	4,545	468	11.47%
St. Catharines	20,741	21,918	1,177	5.67%
Thorold	3,536	3,900	364	10.30%
Welland	10,363	11,013	650	6.28%
West Lincoln	1,163	1,238	75	6.42%
Total	72,680	77,028	4,348	5.98%

Wastewater Requisition

100% fixed distribution plus 2018 reconciliation by LAM

Municipality	Requisition		Reconciliation Payment / (Refund)		Total Charge (Requisition + Reconciliation)			
	2019 By-Law	2020 By-Law	2019 (2017 Rec.)	2020 (2018 Rec.)	2019 By-Law	2020 By-Law	Difference	
	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	%
Fort Erie	7,596	8,045	328	190	7,924	7,855	(69)	-0.87%
Grimsby	3,324	3,741	165	73	3,489	3,814	324	9.30%
Lincoln	2,837	2,949	231	23	3,068	2,972	(96)	-3.12%
Niagara Falls	14,728	15,115	805	(711)	15,532	14,404	(1,129)	-7.27%
Niagara-on-the-Lake	2,961	3,186	338	115	3,299	3,301	2	0.05%
Pelham	1,354	1,379	(65)	(84)	1,289	1,296	7	0.55%
Port Colborne	4,077	4,545	(181)	160	3,896	4,704	809	20.76%
St. Catharines	20,741	21,918	(1,427)	448	19,314	22,366	3,052	15.80%
Thorold	3,536	3,900	179	301	3,715	4,201	486	13.09%
Welland	10,363	11,013	(404)	(192)	9,960	10,821	861	8.65%
West Lincoln	1,163	1,238	32	57	1,195	1,294	100	8.33%
Total	72,680	77,028	-	-	72,680	77,028	4,348	5.98%

2020 Water & Wastewater Operating Budget

Risks & Opportunities

Objective	Actions
Sustainability	Implementation of Capital Financing Policy funding strategies. Requires approval of the additional 3.15% or further deferrals will be required.
Affordability	10 year smoothing of annual increases until the SDWA financial plan requirements are fully addressed.
Risk Mitigation	Cost of maintenance activities limit financial flexibility (until the budget fully addresses the asset management plan/SDWA)
Compliance with legislation	New provincial standards may create operational pressures.
Transparency	Additional information and metrics to be included in the quarterly financial report on work in progress and spending forecasts.
Health Equity	Strategies for piloting the reporting on health equity are in progress.

Next Steps

Approval and Requisition

- Discussion, review and approval of CSD 71-2019 today
- Council approval of budget and requisitions (including by-laws) on December 12, 2019
- Communication to LAMs of budget approval and wholesale requisitions which are effective for January flows billed in February
- LAM set their individual fixed and variable rates for their customers



Subject: 2020 Budget-Water and Wastewater Operating Budget, Rate Setting and Requisition

Report to: Budget Review Committee of the Whole

Report date: Thursday, November 28, 2019

Recommendations

1. That the 2020 net Water & Wastewater operating base budget increase of \$2,340,055 or 2.00% over the 2019 operating budget **BE APPROVED** in accordance with Council approved budget planning direction;
2. That the 2020 net Water & Wastewater operating budget increase of an additional 3.15% over the 2019 operating budget **BE APPROVED** to accommodate enhanced Capital financing contributions in accordance with Council approved Safe Drinking Water Act Financial Plan as follows:
 - a. \$1,350,459 or 1.16% over the 2019 operating budget representing an increase in capital financing contributions for water; and
 - b. \$2,332,479 or 1.99% over the 2019 operating budget representing an increase in capital financing contributions for wastewater;
3. That the 2020 gross Water Operations operating budget of \$46,300,620 and net budget in the amount of \$45,920,957 as outlined in Appendix 6 for the Water Budget, Rates and Requisition **BE APPROVED**;
4. That the proposed fixed water requisition shown in Table 3 of report CSD 71-2019, based on 25% of the Region's water net operating budget for the year and divided by 12 to determine the monthly charge, to be billed to each of the serviced Local Area Municipalities starting January 1, 2020, apportioned based on their previous three year's average water supply volumes, **BE APPROVED**;
5. That the Region's proposed 2020 variable water rate of \$0.602, shown in Table 4 of report CSD 71-2019, to be effective January 1, 2020 and calculated by taking 75% of the Region's water net operating budget and dividing by the estimated supply volume, to be billed on a monthly basis to each serviced Local Area Municipality based on the previous month's metered flows, **BE APPROVED**;
6. That the 2020 gross Wastewater Operations operating budget of \$80,504,266 and net budget in the amount of \$77,020,694 as outlined in Appendix 6 for the Wastewater Budget, Rates and Requisition **BE APPROVED**;

7. That the proposed 2020 fixed wastewater requisition as shown in Table 5 of report CSD 71-2019, based on 100% of the Region's net operating budget for the year and divided by 12 to determine the monthly charge, to be billed to each of the Local Area Municipalities starting January 1, 2020, apportioned based on their previous three year's average wastewater supply volumes, **BE APPROVED**;
8. That the 2020 wastewater monthly bills **INCLUDE** reconciliation for the 2018 net requisition allocation based on actual wastewater flows versus the estimated flows, as shown in Table 6 of report CSD 71-2019;
9. That the necessary by-laws **BE PREPARED** and **PRESENTED** to Council for consideration; and
10. That a copy of Report CSD 71-2019 **BE CIRCULATED** to the Local Area Municipalities.

Key Facts

- The proposed net Water budget before enhanced capital financing represents a \$0.33 million increase, or 0.75% over 2019; the proposed net Wastewater budget before enhanced capital financing represents a \$2.3 million increase, or 2.76% over 2019, for a combined Water & Wastewater Budget increase of 2.00% as shown in Table 1.
- The budget is representative of the Council approved 2020 budget planning direction of 2.0% for base budget expenditure.
- Staff are requesting a separate 3.15% increase for capital financing to support infrastructure requirements as outlined in the Council approved Safe Drinking Water Act (SDWA) Financial Plan.
- Included in the 2020 base program change (and therefore accommodated within the 2% budget planning direction) is a program change totaling \$7 thousand representing 1 new FTEs.
- The requisition methodology conforms to Council approved cost recovery methodology from 2011, which was reaffirmed through report CSD 61-2015, on July 2, 2015. The methodology apportions to the local area municipalities water at 75% variable rate and 25% as a fixed component and wastewater 100% fixed.
- The proposed variable water rate is increased to \$0.584 for base expenditure and by an additional \$0.018 for capital for a total of \$0.602 (2019 = \$0.580) attributed to the budget increase with no projected change in water flows.

Financial Considerations

The Water and Wastewater Division's proposed 2020 net budget amount of \$122.94 million represents a \$6.02 million net increase or 5.15% from the 2019 budget, as shown in Table 1. \$77.02 million of the total net cost is related to the Wastewater program, representing a net increase of \$4.34 million, or 5.97% from 2019. The

remaining \$45.92 million relates to the Water program, which has increased by \$1.68 million, or 3.80% from 2019. The proposed gross budget and comparison to the 2019 net budget are outlined in Table 1.

Table 1 – Summary of Proposed Water and Wastewater Base Budgets

2020 Proposed Budget - Gross & Net			
	Water	Wastewater	Total
Net 2019 Budget Requisition	44,238,899	72,679,759	116,918,658
2020 Budget:			
Total Operating Expenses	21,928,290	48,378,209	70,306,499
Business support	2,043,659	3,013,601	5,057,260
Reserve Transfer & Debt Charges	20,978,212	26,779,977	47,758,189
Gross 2020 Budget Total	44,950,161	78,171,787	123,121,948
Less: Revenues*	(379,663)	(3,483,572)	(3,863,235)
Less: Reserve Funding*	-	-	-
Net 2020 Budget Requisition - Before Increased Capital Financing	44,570,498	74,688,215	119,258,713
Percentage Change	0.75%	2.76%	2.00%
Increased Capital Requirement	1,350,459	2,332,479	3,682,938
Net 2020 Budget Requisition - After Increased Capital Financing	45,920,957	77,020,694	122,941,651
Percentage Change	3.80%	5.97%	5.15%

**Revenue amounts presented in this table do not include revenue amounts in water and wastewater shared services (included as an offset in total operating expenses).*

Analysis

The 2020 Water and Wastewater budgets were developed giving consideration to historical results (2018 actuals, 2019 forecast), operational concerns, legislative compliance, standard operating procedures, collaborations with LAMs, and cross-divisional and corporate business support costs.

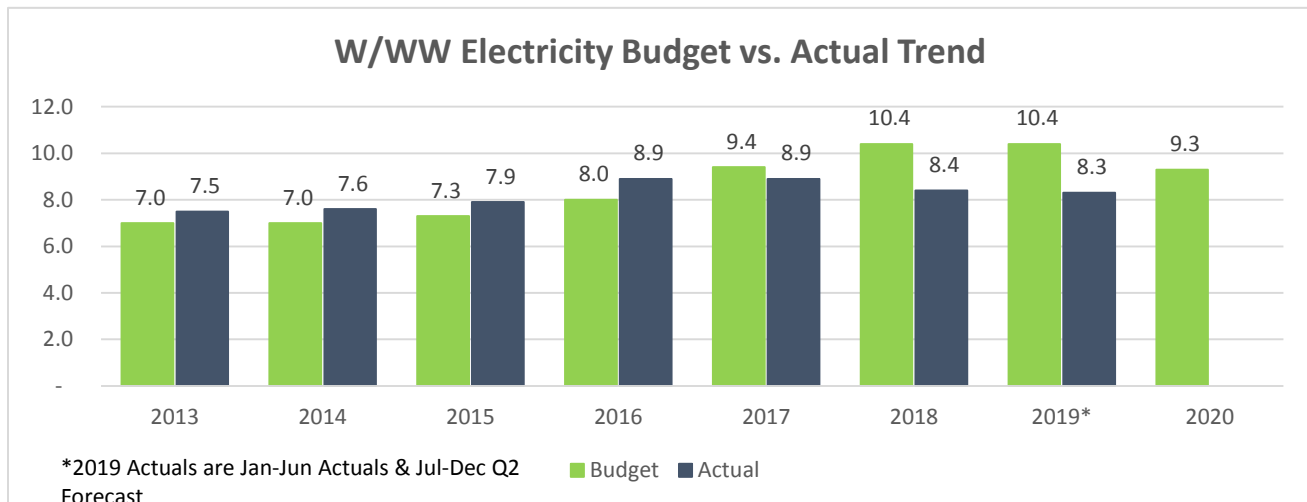
The total program cost includes both operating expenditures (representing 55% of total program costs), as well as transfers to reserve and debt charges in support of the capital program (representing 41% of the total program costs) with the remaining as business support (4%).

Pressures

Despite the pressures discussed below, the based combined operating budget impact for 2020 over 2019 has been limited to \$2,340,055 or 2.00% as per Council approved budget planning direction. Pressures to the 2020 budget include:

- Labour Related Costs (\$1.1 million) – Base labour related costs increased by \$576,000 or 2.4% over 2019. The remainder of the increase can be attributed to a shift in resources directly attributed and funded by capital to asset management planning (\$74k), a staffing program change as outlined in Table 2 (\$80k gross) and the inclusion of 2.5 temporary FTEs that were added in 2019 by way of delegated authority and funded through salary gapping for capital project management.
- W/WW Master Servicing Plans (MSP) (Gross = \$0.8 million, Net = \$0.08 million) and Biosolids MSP (Gross = \$0.5 million, Net = \$0) - The MSP project was included in the Development Charge background study and is funded 90% from development charges with the remainder being funded by the existing ratepayers. Staff are recommending that the Biosolids MSP be funded from the wastewater stabilization reserve which will result in a net impact for 2020 of \$0. The biosolids MSP was not identified in the Development Charges background study as an eligible project for development charge funding.
- Computer software support as a result of Asset Management improvements (\$0.2 million) - Staff have identified an opportunity to enhance existing processes for water and wastewater asset management through a betterment to existing software. This software licensing fee has been accommodated within the base budget expenditure. Water and wastewater staff have communicated the need for this software enhancement with the corporate asset management office. It has been indicated that this enhancement does not overlap with future enhancement with the corporate asset management office.
- Large diameter mains inspection program (\$0.3 million), chemicals based on usage and cost increases (\$0.5 million), property taxes (\$0.2 million) and indirect allocation support costs (\$0.4 million).
- Anticipated savings in electricity (\$1.1 million) - Savings experienced in the budget for electricity expenditures amounts to \$1.1 million for 2020. As noted in Chart 1, historical actual electricity expenditures have shown a consistent year over year increase since 2013 through 2016. This trend however has leveled off starting in 2017. The budgeted decrease in electricity expenditures forecasted for 2020 is to right size the budget based on the recent flattened trend. It is expected that the current level of electricity expenditure will continue on the current trajectory until the expiry of the Fair Hydro Act in 2021.

Chart 1 – Electricity Budget vs. Actuals 2013 to 2020



The proposed 2020 operating budget includes in the base budget a staff initiative for one FTE as a program change. This program change is summarized below in **Table 2**.

Table 2 – Summary of Proposed Water and Wastewater Program Change

Division	FTE	Item	Net Amount	Details
Wastewater Operations	1	Biosolids Operator	\$7.1 K	Compensation cost mostly offset by savings in sludge collection of \$73K; currently there is only 1 employee at each facility; having a backup will enable processing to continue if existing staff is not available.
Total	9		\$7.1 K	

Reserve Management - Capital/Infrastructure

Council provided budget planning direction of 2% for base services in accordance with core CPI. Staff have prepared the base budget in accordance with this planning direction but are making a specific request for enhanced financing for 2020 to align with the SDWA financial plan. As per the Council approved SDWA Financial Plan, staff presented a 5.15% increase for water and wastewater infrastructure within CSD 40-2019 – 2020 Budget Planning.

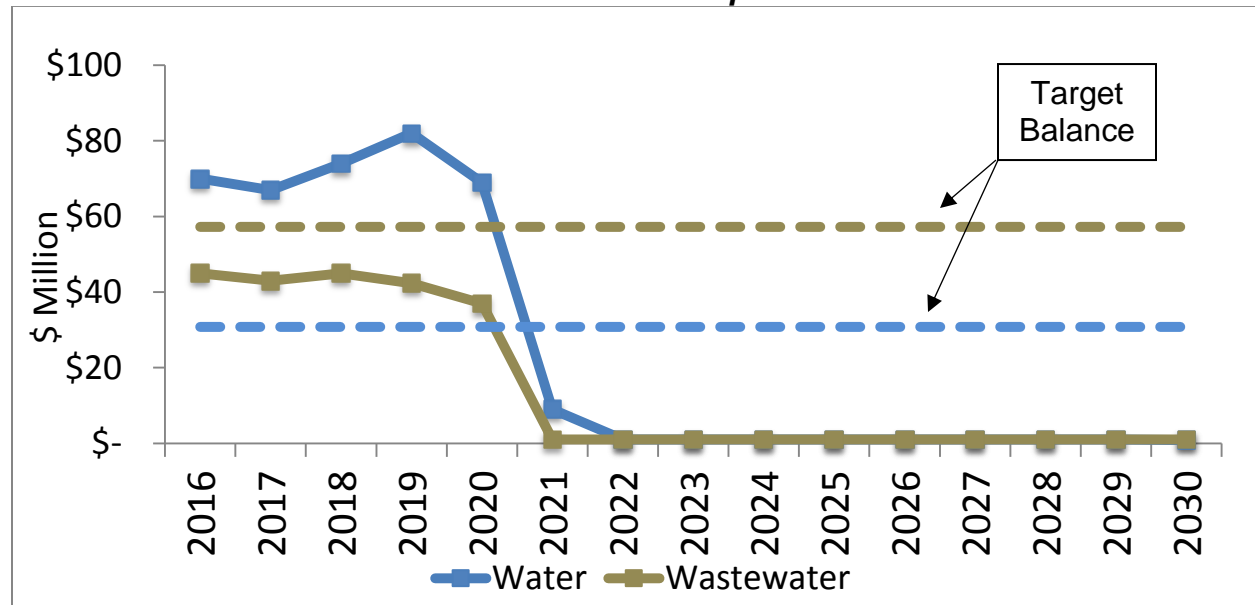
In 2017, Council approved a comprehensive Asset Management Plan (AMP). The detailed information available in the AMP was utilized in the 2020 capital budget preparation. The consultant reviewed the 10 year budget and established that even if the entire available capital dollars were applied against the replacement and rehabilitation of existing assets the Region's annual funding gap would be \$77M (10

year Average Annual Renewal investment - AARI). This annual investment would address the average 10 year requirement and backlog as of December 2016.

During 2018, Regional Council reviewed and approved the Safe Water Drinking Act (SDWA) Financial Plan which identified increasing capital financing as an urgent need in order to address the current infrastructure gap. At that time Council approved in principle a combined annual 5.15% increase for water and wastewater. For 2019, this 3.15% increase for capital resulted in an additional combined water and wastewater transfer from operating to capital of \$3M. If approved for 2020, a similar amount would be allocated to the capital financing.

As presented within the financial strategy, staff proposed as a guiding principle that a minimum reserve balance of 2% of the current asset value be maintained. The dotted lines on the chart below illustrate the 2% target compared against the forecasted reserve balance for each year. Without the additional 3.15% annual contribution towards capital, both the water and wastewater reserve are fully committed through the end of the forecast period and the capital financing does not adequately address the capital infrastructure needs for the future.

Chart 2 – Forecasted Water and Wastewater Capital Reserve Balances



Water Requisition

Fixed Water Requisition

As per Council's approved methodology, \$11,480,239 (25%) of the net Water budget will be recovered from fixed monthly requisitions to the local municipalities based on historical flows. The historical water flows and percentages utilized are included in **Appendix 1 and 2**. This annual amount based on the historical flows is then divided by

12 to determine the monthly charge to be billed to each of the services LAMs starting January 1, 2020. Also included as part of **Appendix 1** is the annual impact on the fixed water requisition amount between 2019 and 2020 for each LAM. Table 3 summarizes the fixed amounts to be billed to each LAM based on the above methodology.

Table 3 – Fixed Water Requisition for 2020 Net Budget

Fixed Water Requisition for 2020 Net Budget			
Municipality	3-Year Avg. (%)	Allocation (\$)	Monthly (\$)
Fort Erie	7.84%	\$899,645	\$74,970
Grimsby	5.30%	\$608,082	\$50,674
Lincoln	3.94%	\$452,771	\$37,731
Niagara Falls	26.23%	\$3,011,163	\$250,930
Niagara-on-the-Lake	5.43%	\$623,711	\$51,976
Pelham	2.06%	\$236,558	\$19,713
Port Colborne	5.31%	\$610,016	\$50,835
St. Catharines	26.51%	\$3,042,931	\$253,578
Thorold	3.72%	\$427,215	\$35,601
Welland	12.13%	\$1,392,536	\$116,045
West Lincoln	1.53%	\$175,609	\$14,634
Total	100.00%	\$11,480,239	\$956,687

Variable Water Rate

The remaining \$34,440,718 (75%) will be charged through the variable water rates. Staff is recommending that the variable rate be set at \$0.602 per cubic metre as outlined in Table 4 using a water forecast based on the average flow volumes that have been realized over the past three years. For 2020, staff are projecting water flows to be consistent with the amount estimated for the 2019 budget. An overview of the water trends and related risk is outlined in more detail in **Appendix 2**. The proposed variable water rate is increased by \$0.004 (0.67%) for base and \$0.018 (3.05%) for capital for a total of \$0.602 (2019 = \$0.580) which is attributed to budget increases with no projected change in water flows. Despite above average growth for the Region in recent years the flow estimates are still volatile and are dependent on weather conditions for the year. Staff are projecting that the 2019 estimated flows will not be achieved by year end. By maintaining the flow forecast it will assist in mitigating the risks associated with the volatility in weather conditions (particularly wet weather conditions).

Table 4 – Variable Water Rate for 2020 Net Budget

2020 Variable Water Rate	
Variable Allocation (75% x \$45,920,957)	\$34,440,718
2020 Water Flow Forecast (m ³)	57,250,000
Variable Rate (\$/m ³)	\$0.602

Wastewater Requisition

100% of the net wastewater requisition will be recovered from fixed monthly requisitions to the local municipalities. The historical wastewater flows and percentages utilized are included in **Appendix 3**. This annual amount based on the historical flows is then divided by 12 to determine the monthly charge to be billed to each of the services Local Area Municipalities starting January 1, 2020. Also included as part of **Appendix 3** is the annual impact of the fixed wastewater requisition amount between 2019 and 2020 for each LAM. Table 5 summarizes the fixed amounts to be billed to each LAM based on the above methodology.

Table 5 – Fixed wastewater Requisition for 2020 Net Budget

Fixed Wastewater Requisition for 2020 Net Budget			
Municipality	3-Year Avg. (%)	Allocation (\$)	Monthly (\$)
Fort Erie	10.44%	\$8,043,911	\$670,326
Grimsby	4.86%	\$3,740,290	\$311,691
Lincoln	3.83%	\$2,948,685	\$245,724
Niagara Falls	19.62%	\$15,113,526	\$1,259,460
Niagara-on-the-Lake	4.14%	\$3,185,401	\$265,450
Pelham	1.79%	\$1,379,048	\$114,921
Port Colborne	5.90%	\$4,544,117	\$378,676
St. Catharines	28.45%	\$21,916,001	\$1,826,333
Thorold	5.06%	\$3,899,808	\$324,984
Welland	14.30%	\$11,012,336	\$917,695
West Lincoln	1.61%	\$1,237,572	\$103,131
Total	100.00%	\$77,020,694	\$6,418,391

As per Council's approved cost recovery methodology, the 2020 monthly Wastewater charges will include reconciliation of the 2018 Wastewater requisition payments. Municipal 2018 rebates or charges will be based on their respective share of actual flows versus the estimated share used to initially allocate the 2018 charges. This reconciliation results in a total of \$1,176,562 in payments to, and \$1,176,562 in rebates from, the local municipalities. Tables outlining the calculation of the reconciliation have been included as **Appendix 4**, and the total charge including the 2020 requisition and 2018 reconciliation by local municipality has been included as **Appendix 5**.

Table 6 – Wastewater Reconciliation for 2018 included in 2020 Requisition

Wastewater Reconciliation (2018)			
Municipality	Reconciliation (\$)	Monthly Rebate (\$)	Monthly Payment (\$)
Fort Erie	(189,542)	(15,795)	
Grimsby	72,923		6,077
Lincoln	23,238		1,937
Niagara Falls	(711,135)	(59,261)	
Niagara-on-the-Lake	114,819		9,568
Pelham	(83,549)	(6,962)	
Port Colborne	159,962		13,330
St. Catharines	448,367		37,364
Thorold	300,668		25,056
Welland	(192,335)	(16,028)	
West Lincoln	56,585		4,715
Total	(0)	(98,047)	98,047

Risks

- Water revenue is weather dependant and therefore subject to fluctuations that are outside the Region's control.
- Wastewater costs can also be weather dependent and therefore subject to fluctuations that are outside the Region's control.
- Unanticipated equipment and underground infrastructure failure which may impact operating expenditures.
- Unanticipated new provincial standards that may create operational pressures.
- Limited operational financial flexibility until the budget fully addresses the asset management plan/SDWA and may create further pressure on the already forecasted decline in reserves.
- Additional capital expenditures may be required as a result of Ontario Power Generation's operational and maintenance activities with respect to the Hydro Power Canal closure.

Alternatives Reviewed

1. Council may elect to not approve the enhanced capital financing as presented representing an increase of 3.15% over 2019. This alternative is **NOT RECOMMENDED**. This alternative would limit the increase in the requisition from 2019 to 2020 to 2.00% which is within Council's approved budget directions. This alternative would not provide the requisite capital financing needed to support future capital expenditures as identified within the SDWA Financial Plan as approved by Council.
2. If Council approves the 3.15% or \$3.68 million to enhance capital financing, staff **RECOMMEND** that \$479,990 be allocated to debt servicing, \$550,000 allocated

to reserve funding with the remaining \$2,652,948 as a contribution to the reserve for capital project utilization in 2021 or future, to support an amendment to the 2020 Capital budget to address previously deferred projects as follows:

- Dain City Station Forcemain Replacement (\$550k) – **Reserve Financed**
- Thundering Waters Sanitary Trunk Sewer Rehab (\$8.3M) – **Debt Financed**
- The Niagara Falls WWTP Secondary Treatment Upgrade (\$58M) which was also deferred is not recommended to be added back to 2020 as WWW staff have indicated that the Ministry of Environment , Conservation and Parks (MECP) has granted an extension on the project which will enable time to obtain necessary approvals and complete detailed design.
- The Port Dalhousie WWTP Upgrade (\$14M) which was also deferred is not recommended to be added back to 2020 as WWW staff have indicated that a phased approach for this project is more appropriate due to the limited space to accommodate contractors on site, as such phase 2 should remain in 2021.

Relationship to Council Strategic Priorities

The 2020 Water and Wastewater proposed budgets support Council's strategic priorities of organizational excellence, by meeting or exceeding legislative requirements and having 41% of the total program costs related to infrastructure renewal and replacement.

Other Pertinent Reports

CSD 21-2017	Asset Management Plan
PDS 37-2016	Niagara 2041 Growth Strategy – Local Municipal Growth Allocations
PW 22-2017	2016 Water & Wastewater Master Servicing Plan Update
PW 5-2019	Safe Drinking Water Act Financial Plan

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Appendices

Appendix 1	Water Flows and Fixed Water Requisition by Local Area Municipality
Appendix 2	Water Volume Analysis
Appendix 3	Wastewater Flows and Fixed Wastewater Requisition by Local Area Municipality
Appendix 4	2017 By-law Wastewater Reconciliation
Appendix 5	Fixed Wastewater Requisition including Reconciliation by Local Area Municipality
Appendix 6	Water and Wastewater Schedule of Revenues and Expenditures by Object of Expenditure

**Appendix 1 - Water Flows and Fixed Water Requisition by Local Area
Municipality**

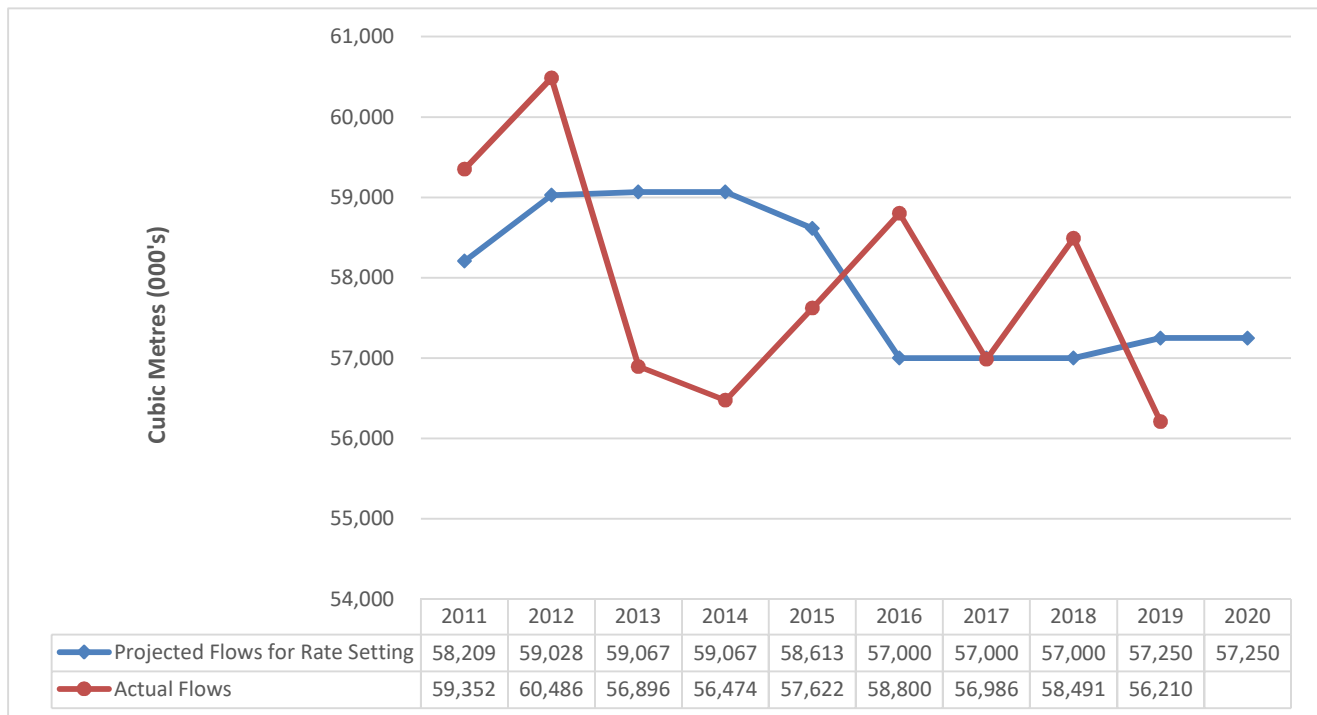
Table 1 - Water Flows by Municipality

Municipality	3-Year Avg. per 2019 By-law		3-Year Avg. per 2020 By-law	
	Megalitres	%	Megalitres	%
Fort Erie	4,686	8.06%	4,478	7.84%
Grimsby	3,258	5.60%	3,027	5.30%
Lincoln	2,315	3.98%	2,254	3.94%
Niagara Falls	15,424	26.53%	14,989	26.23%
Niagara-on-the-Lake	3,147	5.41%	3,105	5.43%
Pelham	1,266	2.18%	1,178	2.06%
Port Colborne	3,093	5.32%	3,037	5.31%
St. Catharines	15,350	26.41%	15,148	26.51%
Thorold	2,076	3.57%	2,127	3.72%
Welland	6,653	11.45%	6,932	12.13%
West Lincoln	862	1.48%	874	1.53%
Total	58,130	100%	57,148	100%

Table 2 - Fixed Water Requisition by Municipality

Municipality	Fixed Requisition			
	2019 (\$000)	2020 (\$000)	Difference	
			\$000s	%
Fort Erie	892	900	8	0.91%
Grimsby	620	608	(12)	-1.89%
Lincoln	440	453	12	2.80%
Niagara Falls	2,935	3,011	77	2.61%
Niagara-on-the-Lake	599	624	25	4.16%
Pelham	241	237	(4)	-1.81%
Port Colborne	588	610	22	3.66%
St. Catharines	2,920	3,043	123	4.19%
Thorold	395	427	32	8.14%
Welland	1,266	1,393	127	10.02%
West Lincoln	164	176	12	7.12%
Total	11,060	11,480	421	3.80%

Appendix 2 - Water Volume Analysis



The 2019 actual flows are estimate to finish the year approximately 1.82% lower than project flows. The forecasted water usage in 2019 is estimated to total to 56,210 ML.

The water volume forecast for 2020 has been prepared giving consideration to historical trends and input received from some local area municipalities.

The volume forecast for 2020 is above the 3-year calendar average of 57,229 ML and below the 5-year average of 57,622 ML. This includes 2015 and 2018 which were more typical summer weather years. 2016 experienced drought conditions during the summer. 2017 and 2019 experienced very wet summers. The 2020 estimate reflects no change over previous year's projections as a result of not meeting expected forecast for 2019.

Appendix 3 - Wastewater Flows and Fixed Requisition By Local Area Municipality

Table 1 - Wastewater Flows by Municipality

Municipality	3-Year Avg. per 2019 By-law		3-Year Avg. per 2020 By-law	
	Megalitres	%	Megalitres	%
Fort Erie	7,348	10.45%	7,931	10.44%
Grimsby	3,216	4.57%	3,688	4.86%
Lincoln	2,745	3.90%	2,907	3.83%
Niagara Falls	14,247	20.26%	14,901	19.62%
Niagara-on-the-Lake	2,864	4.07%	3,141	4.14%
Pelham	1,309	1.86%	1,360	1.79%
Port Colborne	3,944	5.61%	4,480	5.90%
St. Catharines	20,064	28.54%	21,608	28.45%
Thorold	3,420	4.86%	3,845	5.06%
Welland	10,025	14.26%	10,858	14.30%
West Lincoln	1,125	1.60%	1,220	1.61%
Total	70,306	100%	75,938	100%

Tables 2 - Fixed Wastewater Requisition by Municipality

Municipality	Fixed Requisition			
	2019 (\$000)	2020 (\$000)	Difference	
			\$000s	%
Fort Erie	7,596	8,044	448	5.90%
Grimsby	3,324	3,740	416	12.52%
Lincoln	2,837	2,949	112	3.94%
Niagara Falls	14,728	15,114	386	2.62%
Niagara-on-the-Lake	2,961	3,185	224	7.58%
Pelham	1,354	1,379	25	1.85%
Port Colborne	4,077	4,544	467	11.46%
St. Catharines	20,741	21,916	1,175	5.67%
Thorold	3,536	3,900	364	10.29%
Welland	10,363	11,012	649	6.27%
West Lincoln	1,163	1,238	75	6.41%
Total	72,680	77,021	4,341	5.97%

Appendix 4 - 2018 By-law Wastewater Reconciliation

Wastewater Flows (Mega Litres)		
Municipality	Prior 3-Yr Avg	2018 By-Law Period Actual Flows ¹
Fort Erie	7,159	7,737
Grimsby	3,143	3,571
Lincoln	2,575	2,885
Niagara Falls	14,018	14,770
Niagara-on-the-Lake	2,655	3,076
Pelham	1,299	1,349
Port Colborne	3,934	4,547
St. Catharines	19,583	22,246
Thorold	3,183	3,870
Welland	9,951	10,835
West Lincoln	1,072	1,254
Total	68,571	76,140

Wastewater Fixed Allocation Percentages			
Municipality	Prior 3-Yr Avg	2018 By-Law Period Actual Flows ¹	Difference
Fort Erie	10.4%	10.2%	-0.3%
Grimsby	4.6%	4.7%	0.1%
Lincoln	3.8%	3.8%	0.0%
Niagara Falls	20.4%	19.4%	-1.0%
Niagara-on-the-Lake	3.9%	4.0%	0.2%
Pelham	1.9%	1.8%	-0.1%
Port Colborne	5.7%	6.0%	0.2%
St. Catharines	28.6%	29.2%	0.7%
Thorold	4.6%	5.1%	0.4%
Welland	14.5%	14.2%	-0.3%
West Lincoln	1.6%	1.6%	0.1%
Total	100.0%	100.0%	0.0%

Wastewater Fixed Allocation charge (\$000)			
Municipality	2018 By-Law Charges ^{1,2}	Charges Based on Actual Flows ¹	Underpayment/ (Overpayment) ³
Fort Erie	\$ 7,114	\$ 6,925	\$ (190)
Grimsby	3,123	3,196	73
Lincoln	2,559	2,582	23
Niagara Falls	13,930	13,219	(711)
Niagara-on-the-Lake	2,639	2,753	115
Pelham	1,291	1,207	(84)
Port Colborne	3,910	4,070	160
St. Catharines	19,462	19,910	448
Thorold	3,163	3,464	301
Welland	9,890	9,697	(192)
West Lincoln	1,066	1,122	57
Total	\$ 68,146	\$ 68,146	\$ 0

Sum of Overpayment:	(1,177)
Percentage of Requisition	1.73%

Notes:

1. 2018 By-Law period consists of the 12 month period from January 2018 to December 2018
2. Charges paid excluded payments made/rebates received for 2017 reconciliation.
3. Underpayments/(Overpayments) based on comparing 2 difference allocation methodologies (3-yr average vs. actual flows during By-law period).

Appendix 5 - Fixed Wastewater Requisition Including Reconciliation by Municipality Comparison

Municipality	Requisition		Reconciliation Payment / (Refund)		Total Charge (Requisition + Reconciliation)			
	2019 By-Law	2020 By-Law	2019 (2017 Rec.)	2020 (2018 Rec.)	2019 By-Law	2020 By-Law	Difference	
	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	%
Fort Erie	7,596	8,044	328	(190)	7,924	7,854	(70)	-0.88%
Grimsby	3,324	3,740	165	73	3,489	3,813	324	9.29%
Lincoln	2,837	2,949	231	23	3,068	2,972	(96)	-3.13%
Niagara Falls	14,728	15,114	805	(711)	15,532	14,402	(1,130)	-7.28%
Niagara-on-the-Lake	2,961	3,185	338	115	3,299	3,300	1	0.04%
Pelham	1,354	1,379	(65)	(84)	1,289	1,295	7	0.54%
Port Colborne	4,077	4,544	(181)	160	3,896	4,704	808	20.75%
St. Catharines	20,741	21,916	(1,427)	448	19,314	22,364	3,050	15.79%
Thorold	3,536	3,900	179	301	3,715	4,200	486	13.08%
Welland	10,363	11,012	(404)	(192)	9,960	10,820	860	8.64%
West Lincoln	1,163	1,238	32	57	1,195	1,294	99	8.32%
Total	72,680	77,021	-	-	72,680	77,021	4,341	5.97%

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	2018 Actual	2019		2020						
	Total	Q2 Forecast Total	Budget Total	Base Services	Base Variance	Base Variance %	Budget Total Program Changes	Total	Total Variance	Total Variance %
A_40000AB Compensation	22,214,973	23,254,127	23,739,732	24,852,445	1,112,713	4.7%	-	24,852,445	1,112,713	4.7%
A_41000AB Administrative	1,966,527	2,312,550	2,017,200	3,432,915	1,415,715	70.2%	-	3,432,915	1,415,715	70.2%
A_44000AB Operational & Supply	12,679,974	12,903,298	12,709,326	13,166,433	457,108	3.6%	-	13,166,433	457,108	3.6%
A_50000AB Occupancy & Infrastructure	16,059,319	18,134,584	17,950,464	17,699,503	(250,961)	(1.4%)	-	17,699,503	(250,961)	(1.4%)
A_52000AB Equipment, Vehicles,Technology	6,164,859	6,661,316	6,142,880	6,588,120	445,240	7.2%	-	6,588,120	445,240	7.3%
A_54000AB Community Assistance	153	965	-	-	-	-	-	-	-	-
A_56000AB Partnership, Rebate, Exemption	2,450,015	18,198,031	4,015,000	4,010,000	(5,000)	(0.1%)	-	4,010,000	(5,000)	(0.1%)
A_58000AB Financial Expenditures	9,053	31,302	-	-	-	-	-	-	-	-
A_75100AC Transfers To Funds	40,018,792	37,037,556	37,037,556	37,065,780	28,224	0.1%	3,682,938	40,748,718	3,711,162	10.0%
A_60000AC Allocation Between Departments	1,753,677	1,743,136	1,823,753	1,777,083	(46,669)	(2.6%)	-	1,777,083	(46,669)	(2.6%)
A_60260AC Allocation Within Departments	-	0	0	-	0	-	-	-	0	-
Gross Expenditure Subtotal	103,317,341	120,276,865	105,435,911	108,592,279	3,156,368	3.0%	3,682,938	112,275,217	6,839,306	6.5%
A_30000AB Taxation	(112,013,218)	(116,315,656)	(116,918,658)	(119,146,062)	(2,227,403)	1.9%	(3,795,589)	(122,941,651)	(6,022,993)	5.2%
A_32400AB By-Law Charges & Sales	(1,260,444)	(1,488,933)	(1,358,200)	(1,421,278)	(63,078)	4.6%	-	(1,421,278)	(63,078)	4.6%
A_34950AB Other Revenue	(1,275,273)	(7,293,962)	(2,481,106)	(3,161,957)	(680,851)	27.4%	-	(3,161,957)	(680,851)	27.4%
A_75000AC Transfers From Funds	(3,863,227)	(9,658,836)	-	(500,000)	(500,000)	-	-	(500,000)	(500,000)	-
Gross Revenue Subtotal	(118,412,163)	(134,757,387)	(120,757,964)	(124,229,297)	(3,471,333)	2.9%	(3,795,589)	(128,024,886)	(7,266,922)	6.0%
Net Expenditure (revenue) before indirect allocations	(15,094,821)	(14,480,522)	(15,322,053)	(15,637,017)	(314,964)	2.1%	(112,651)	(15,749,669)	(427,616)	2.8%
A_70000AC Indirect Allocation	3,602,252	4,254,855	4,366,304	4,709,867	343,564	7.9%	112,651	4,822,519	456,215	10.5%
A_70200AC Capital Financing Allocation	9,413,115	10,963,017	10,955,749	10,927,150	(28,600)	(0.3%)	-	10,927,150	(28,600)	(0.3%)
Allocation Subtotal	13,015,368	15,217,872	15,322,053	15,637,017	314,964	2.1%	112,651	15,749,669	427,616	2.8%
Net Expenditure (revenue) after indirect allocations	(2,079,454)	737,350	0	-	0	-	-	-	0	-
FTE - Reg			261.6	262.6	1.0		-	262.6	1.0	
FTE - Temp			4.5	7.0	2.5		-	7.0	2.5	

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	2018 Actual	2019		2020						
	Total	Q2 Forecast Total	Budget Total	Base Services	Base Variance	Base Variance %	Budget Total Program Changes	Total	Total Variance	Total Variance %
A_40000AB Compensation	7,120,433	7,570,603	7,810,164	7,954,489	144,325	1.8%	-	7,954,489	144,325	1.9%
A_41000AB Administrative	690,749	862,265	770,733	594,726	(176,007)	(22.8%)	-	594,726	(176,007)	(22.8%)
A_44000AB Operational & Supply	1,887,750	1,931,846	1,719,988	1,759,425	39,437	2.3%	-	1,759,425	39,437	2.3%
A_50000AB Occupancy & Infrastructure	5,064,546	5,283,782	6,125,436	5,639,309	(486,127)	(7.9%)	-	5,639,309	(486,127)	(7.9%)
A_52000AB Equipment, Vehicles,Technology	933,836	1,059,384	1,014,655	1,175,515	160,860	15.9%	-	1,175,515	160,860	15.9%
A_56000AB Partnership, Rebate, Exemption	10,000	(13,750)	15,000	10,000	(5,000)	(33.3%)	-	10,000	(5,000)	(33.3%)
A_58000AB Financial Expenditures	168	326	-	-	-	-	-	-	-	-
A_75100AC Transfers To Funds	18,414,458	18,425,078	18,425,078	18,435,757	10,679	0.1%	1,350,459	19,786,216	1,361,138	7.4%
A_60000AC Allocation Between Departments	594,720	595,713	605,396	629,912	24,516	4.0%	-	629,912	24,516	4.1%
A_60260AC Allocation Within Departments	3,986,249	3,836,537	3,842,500	4,164,914	322,414	8.4%	-	4,164,914	322,414	8.4%
Gross Expenditure Subtotal	38,702,909	39,551,784	40,328,950	40,364,047	35,097	0.1%	1,350,459	41,714,506	1,385,556	3.4%
A_30000AB Taxation	(43,867,547)	(43,635,898)	(44,238,899)	(44,518,840)	(279,940)	0.6%	(1,402,117)	(45,920,957)	(1,682,057)	3.8%
A_32400AB By-Law Charges & Sales	(11,943)	(10,649)	(5,000)	(12,000)	(7,000)	140.0%	-	(12,000)	(7,000)	140.0%
A_34950AB Other Revenue	(512,580)	(513,441)	(408,615)	(367,663)	40,952	(10.0%)	-	(367,663)	40,952	(10.0%)
A_75000AC Transfers From Funds	(29,108)	-	-	-	-	-	-	-	-	-
Gross Revenue Subtotal	(44,421,178)	(44,159,988)	(44,652,514)	(44,898,503)	(245,988)	0.6%	(1,402,117)	(46,300,620)	(1,648,105)	3.7%
Net Expenditure (revenue) before indirect allocations	(5,718,269)	(4,608,204)	(4,323,564)	(4,534,456)	(210,891)	4.9%	(51,658)	(4,586,114)	(262,550)	6.1%
A_70000AC Indirect Allocation	1,220,919	1,523,527	1,674,950	1,890,908	215,957	12.9%	51,658	1,942,566	267,616	16.0%
A_70200AC Capital Financing Allocation	2,047,974	2,637,521	2,648,614	2,643,548	(5,066)	(0.2%)	-	2,643,548	(5,066)	(0.2%)
Allocation Subtotal	3,268,893	4,161,048	4,323,564	4,534,456	210,892	4.9%	51,658	4,586,114	262,550	6.1%
Net Expenditure (revenue) after indirect allocations	(2,449,376)	(447,156)	0	-	0	-	-	-	0	-

FTE - Reg	82.0	81.0	(1.0)	-	81.0	(1.0)
FTE - Temp	2.0	2.0	-	-	2.0	-

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	2018 Actual	2019		2020						
	Total	Q2 Forecast Total	Budget Total	Base Services	Base Variance	Base Variance %	Budget Total Program Changes	Total	Total Variance	Total Variance %
A_40000AB Compensation	9,637,596	10,112,827	10,324,944	10,773,458	448,514	4.3%	-	10,773,458	448,514	4.3%
A_41000AB Administrative	824,074	936,355	934,994	742,955	(192,039)	(20.5%)	-	742,955	(192,039)	(20.5%)
A_44000AB Operational & Supply	10,512,270	10,617,090	10,386,744	10,854,079	467,335	4.5%	-	10,854,079	467,335	4.5%
A_50000AB Occupancy & Infrastructure	10,307,189	12,201,423	11,470,028	11,340,226	(129,802)	(1.1%)	-	11,340,226	(129,802)	(1.1%)
A_52000AB Equipment, Vehicles,Technology	3,019,774	3,569,019	3,088,313	3,301,033	212,720	6.9%	-	3,301,033	212,720	6.9%
A_54000AB Community Assistance	153	965	-	-	-	-	-	-	-	-
A_56000AB Partnership, Rebate, Exemption	2,440,015	18,211,781	4,000,000	4,000,000	-	-	-	4,000,000	-	-
A_58000AB Financial Expenditures	827	331	-	-	-	-	-	-	-	-
A_75100AC Transfers To Funds	21,604,334	18,612,478	18,612,478	18,630,023	17,545	0.1%	2,332,479	20,962,502	2,350,024	12.6%
A_60000AC Allocation Between Departments	854,035	865,676	893,415	862,801	(30,613)	(3.4%)	-	862,801	(30,613)	(3.4%)
A_60260AC Allocation Within Departments	5,864,550	5,608,971	5,396,046	6,503,657	1,107,611	20.5%	-	6,503,657	1,107,611	20.5%
Gross Expenditure Subtotal	65,064,815	80,736,917	65,106,961	67,008,233	1,901,272	2.9%	2,332,479	69,340,712	4,233,751	6.5%
A_30000AB Taxation	(68,145,671)	(72,679,758)	(72,679,759)	(74,627,222)	(1,947,463)	2.7%	(2,393,472)	(77,020,694)	(4,340,936)	6.0%
A_32400AB By-Law Charges & Sales	(1,244,048)	(1,475,126)	(1,353,200)	(1,409,278)	(56,078)	4.1%	-	(1,409,278)	(56,078)	4.1%
A_34950AB Other Revenue	(761,455)	(6,780,521)	(2,072,491)	(2,074,294)	(1,803)	0.1%	-	(2,074,294)	(1,803)	0.1%
A_75000AC Transfers From Funds	(3,834,119)	(9,658,836)	-	-	-	-	-	-	-	-
Gross Revenue Subtotal	(73,985,294)	(90,594,241)	(76,105,450)	(78,110,794)	(2,005,344)	2.6%	(2,393,472)	(80,504,266)	(4,398,817)	5.8%
Net Expenditure (revenue) before indirect allocations	(8,920,478)	(9,857,325)	(10,998,489)	(11,102,561)	(104,073)	0.9%	(60,993)	(11,163,555)	(165,066)	1.5%
A_70000AC Indirect Allocation	1,971,987	2,301,818	2,691,354	2,818,960	127,606	4.7%	60,993	2,879,953	188,599	7.0%
A_70200AC Capital Financing Allocation	7,318,414	8,288,210	8,307,135	8,283,602	(23,534)	(0.3%)	-	8,283,602	(23,534)	(0.3%)
Allocation Subtotal	9,290,401	10,590,029	10,998,489	11,102,561	104,073	0.9%	60,993	11,163,555	165,066	1.5%
Net Expenditure (revenue) after indirect allocations	369,923	732,704	-	-	-	-	-	-	-	-
FTE - Reg			115.6	116.6	1.0		-	116.6	1.0	
FTE - Temp			0.5	-	(0.5)		-	-	(0.5)	



NIAGARA REGION BUDGET

2020

Waste Management Operating Budget and Requisition

Budget Review Committee of the VWhole

November 28th, 2019



2020 Waste Management Operating Budget

Key Themes

New Budget Planning By-law

- Base budget increase (before impacts of new collection contract and negative revenue pressure) is within Council budget direction of 2%

Sustainability

- Recyclable material market price decline - adjusted revenue budget
- Collection contract price increases built into the expense budget

Transparency & Affordability

- Stabilization Reserve being used to smooth increases required over 3 yr period

2020 Waste Management Operating Budget & Requisition

What we're going to cover tonight:

- Operating Budget Summary
- Requisition
- Risks and Opportunities
- Next Steps

NIAGARA REGION BUDGET

2020 WASTE MANAGEMENT

3

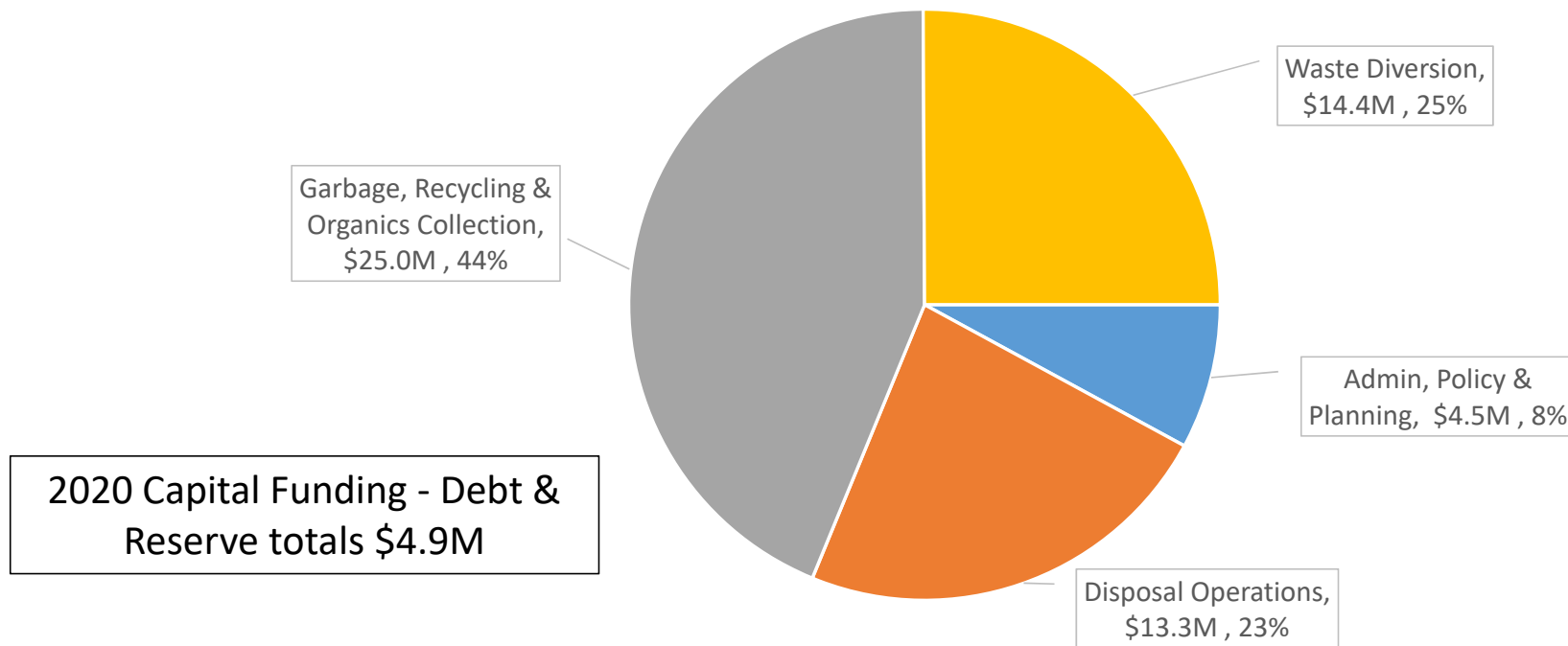


2020 Budget Process

- ✓ June 20 - Council established base budget direction of 2.00%
- ✓ Staff developed budget that supports:
 - Managing of existing service levels & contracts
 - Preparing and implementing new service levels & contracts
- ✓ Rate Workshop provided education and information
- ✓ BRC approval required

2020 Waste Management Operating Budget

Where does the money go? Gross Budget = \$57.2M



2020 Waste Management Operating Budget

Net Requisition of \$38.8M (\$3.5M Increase over 2019)

	2019	2020	2021	2022
Gross Budget	54,927	57,194	64,432	65,653
Less: Revenues	-19,019	-16,800	-17,326	-17,401
Net Budget Requisition - Before Reserve Transfers	35,908	40,394	47,106	48,252
Percentage Change		12.49%	16.62%	2.43%
Less: Reserve Transfers: One-time Mitigation:				
2019 Reserve Funding	-580	0	0	0
2020 Reserve Funding	0	-1,604	-4,514	-1,486
Net Budget Requisition – After Reserve Funding	35,328	38,790	42,592	46,766
Percentage Change		9.80%	9.80%	9.80%

2019 average cost per household is \$146.67
 2020 average cost per household is \$159.48
 Increase of \$12.81 per year

2020 Budget Pressures & Mitigations

Base Budget (Net \$76K Increase)

Expenditures:

- Current collection contract
 - One-time lump sum payment (Gross = \$0.26 million, Net = \$0 million)
 - Contractual increases including CPI, fuel and household count increases (\$0.57 million)
- Other contracts including disposal operations, landfill operation and attendants, drop-off depot and leachate collection & processing (\$0.43 million)

Revenue:

- Other Revenues (\$0.79 million) – Tipping fees & Bag tags
- Resource Productivity & Recovery Authority Funding/Blue box funding (\$0.7 million)

2020 Budget Pressures & Mitigations

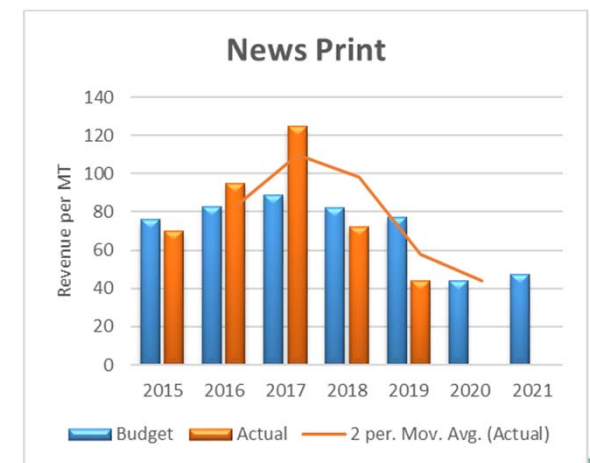
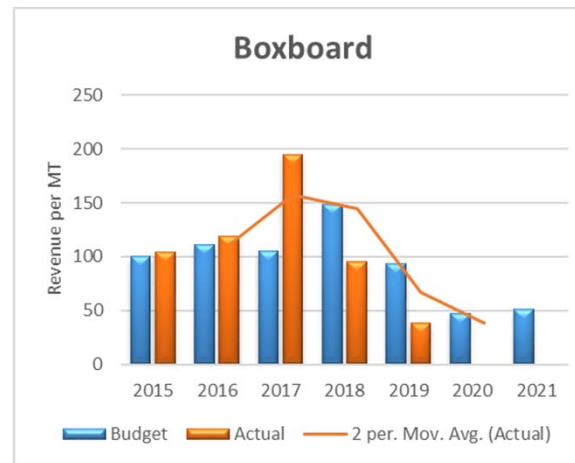
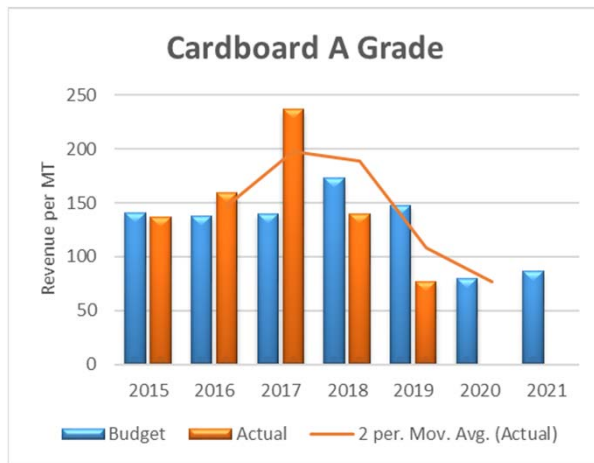
New Curbside Collection Contract

- Increased collection costs for new contract
 - Annual increase in contract costs – approximately 37.1%
 - Pressure for 2020 of \$2.2M (starting in October)
 - Pressure for 2021 of \$7.9M (full year of service)
- Propose use of Waste Management Stabilization reserve to smooth in increases over next three years
- Annual increase of 9.8% to 2022

2020 WM Budget Pressures & Mitigations

End Market Recycling Revenue (\$1.6M Decrease)

- \$2.05 million decrease
- Expect some recovery in 2021
- Proactively managing the one time reduction with stabilization reserves of \$450,000



NIAGARA REGION BUDGET

2020 WASTE MANAGEMENT

Historical Perspective

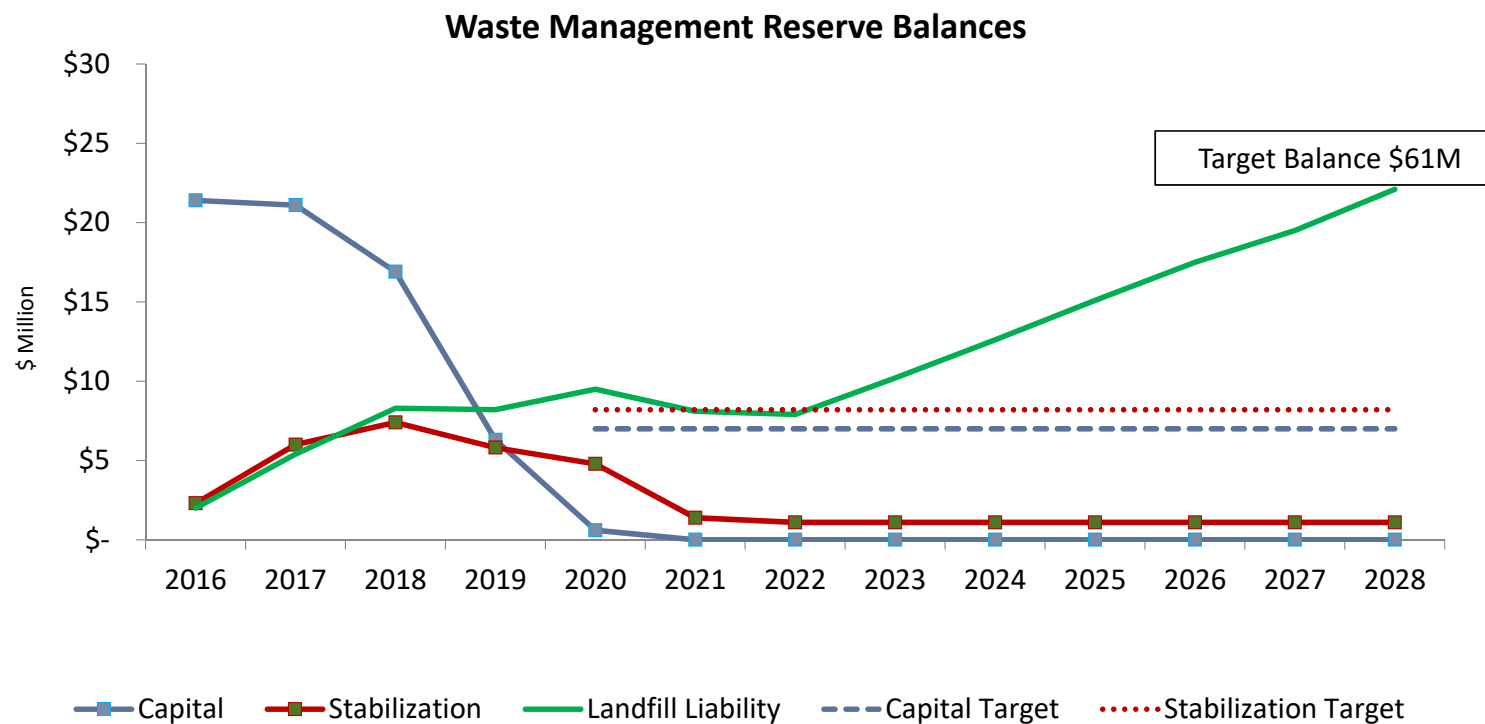
Benefit of Rising Market Recyclable Prices

- Annual surplus/(deficit) driven primarily by recycling revenue enabled modest budget decreases

	Year end surplus/(deficit) – ‘000s	Budget increase /(decrease) – ‘000s	Budget increase /(decrease) – %
2015	\$4,552	\$233	0.66%
2016	\$4,337	(\$278)	-0.78%
2017	\$5,682	(\$410)	-1.16%
2018	\$1,551	(\$289)	-0.83%
2019 Projected	(\$1,252)	\$726	2.10%

5 year Average including 2020 is 1.83%

2020 Waste Management Reserve Projections Inclusive of Uses Proposed in 2020 Budget



\$4.14M annual contributions to reserves will facilitate pay as you go capital and establish growth in Landfill Liability Reserve

Optional Services Not Accommodated

Due to pressure on Requisition

- Due to the recommended rate increase and lack of reserves
 - Optional services would be in addition to the 9.8% increase
- Diversion container subsidy:
 - Option 4 - \$225,000 (0.6% increase)
 - Option 5 - \$251,000 (0.7% increase)
- Weekly Diaper and Medical Waste Collection
 - See confidential report PW 69-2019

Waste Management Requisition

Methodology

In place since 2011 (PWA 55-2011 Waste Management Services Financing Study), reflects consultation with LAMs

1. Municipal requisition comprised of:
 1. Base services allocated on number of residential units in each municipality
 2. Enhanced services specific for requesting municipality
2. Each municipal requisition is used to determine Region's special levy tax rate for each municipality
 - Charged to property owners based on their property assessed values

Waste Management Requisition

Requisition for Typical Residential Property

Municipality (Avg CVA based on MPAC phased-in assessment)	2019 Final		2020 Draft (Based on 2019 tax policy)		Annual Increase/(Decrease)	
	CVA	WM taxes	CVA	WM taxes	\$	%
Fort Erie	210,015	\$ 138.97	214,712	\$ 151.03	\$ 12.06	8.68%
Grimsby	382,289	\$ 146.09	402,891	\$ 164.11	\$ 18.02	12.34%
Lincoln	354,651	\$ 150.61	370,494	\$ 162.34	\$ 11.73	7.79%
Niagara Falls	246,816	\$ 125.52	256,262	\$ 136.12	\$ 10.61	8.45%
Niagara-on-the-Lake	Based on fixed household amount determined by NOTL.					
Pelham	348,986	\$ 157.03	365,439	\$ 173.01	\$ 15.98	10.17%
Port Colborne	199,310	\$ 167.73	204,313	\$ 182.73	\$ 15.00	8.94%
St. Catharines	252,106	\$ 159.90	259,659	\$ 172.44	\$ 12.55	7.85%
Thorold	231,911	\$ 133.21	238,276	\$ 144.00	\$ 10.79	8.10%
Wainfleet	255,870	\$ 143.97	265,652	\$ 155.10	\$ 11.13	7.73%
Welland	208,841	\$ 157.09	214,538	\$ 166.06	\$ 8.98	5.71%
West Lincoln	300,968	\$ 133.22	315,157	\$ 142.29	\$ 9.07	6.81%

2019 annual cost per household ranges from \$126 to \$168

2020 annual cost per household ranges from \$136 to \$183

Increase ranges from \$8.98 to \$18.02 per year

Waste Management Requisition

Comparison to Prior Year

Municipality	2019 Requisition (\$000)	2020 Requisition (\$000)	Difference	
			Increase/ (Decrease) (\$000)	% Increase/ (Decrease)
Fort Erie	\$ 2,677	\$ 2,951	\$ 275	10.27%
Grimsby	\$ 1,850	\$ 2,119	\$ 269	14.56%
Lincoln	\$ 1,602	\$ 1,769	\$ 166	10.39%
Niagara Falls	\$ 6,930	\$ 7,610	\$ 679	9.80%
Niagara-on-the-Lake	\$ 1,545	\$ 1,681	\$ 136	8.81%
Pelham	\$ 1,205	\$ 1,342	\$ 137	11.36%
Port Colborne	\$ 1,771	\$ 1,945	\$ 174	9.80%
St. Catharines	\$ 10,873	\$ 11,807	\$ 934	8.59%
Thorold	\$ 1,476	\$ 1,641	\$ 165	11.22%
Wainfleet	\$ 547	\$ 600	\$ 53	9.64%
Welland	\$ 3,964	\$ 4,352	\$ 388	9.78%
West Lincoln	\$ 888	\$ 974	\$ 86	9.68%
Total	\$ 35,328	\$ 38,790	\$ 3,462	9.80%

2020 Waste Management Budget

Risks & Opportunities

Objective	Actions
Sustainability	The Niagara Region continues to explore opportunities for procurement of recyclable material processing for other municipalities.
Affordability	Stabilization reserve use for new collection contract mitigation.
Transparency	Reported revenue and expense budget drivers on a gross and net basis to provide full disclosure of impacts in the absence of stabilization reserves.
Risk Mitigation	The market for commodities does have significant risk based on market fluctuations. Reduced commodity pricing for 2019 projected to continue in 2020.
Compliance with legislation	Uncertainty around the Waste Free Ontario Act and the transition to extended producer responsibility and the impacts on the recycling facility. Anticipated transfer to producer responsibility starting 2023.
Health Equity	Strategies for piloting the reporting on health equity are in progress.

Next Steps

Approval and Requisition

- Discussion, review and approval of CSD 70-2019 today
- Council approval of budget and requisitions by-laws on December 12, 2019
- Communication of budget approval to LAMs
- Set 2020 Waste Management Tax Rates
 - Set for each LAM based on approved requisitions
 - Rates built on 2020 tax policy decisions as approved by Council (April 2020)



Subject: 2020 Budget-Waste Management Services Operating Budget and Requisition

Report to: Budget Review Committee of the Whole

Report date: Thursday, November 28, 2019

Recommendations

1. That the net 2020 Waste Management Services operating base budget increase of \$75,657 or 0.2% plus \$1,782,969 or 5.1% for the new curbside collection contract net of stabilization reserve funding **BE APPROVED**;
2. That an additional net increase of \$1,603,551 or 4.5% for the negative revenue pressures related to end market recyclables **BE APPROVED**;
3. That the total 2020 gross Waste Management Services operating budget of ~~\$57,279,626~~ **\$57,194,079** and net budget amount of \$38,790,490 as per Appendix 1, **BE APPROVED**;
4. That the net budget amount of \$38,790,490 **BE APPORTIONED** between the local municipalities in accordance with the methodology approved in PWA 55-2011 as per Appendix 2;
5. That the necessary by-laws **BE PREPARED** and **PRESENTED** to Council for consideration; and
6. That a copy of this Report **BE CIRCULATED** to the Local Area Municipalities (LAM) for information.

Key Facts

- The proposed net 2020 Waste Management Services (WMS) operating base budget before the new collection contract and negative revenue pressure is below Council's budget planning direction for 2020 of 2%.
- The net budget including the impacts of the start of the new collection contract and negative revenue pressures is proposed at an increase of \$3,462,177 or 9.8% over the approved 2019 net budget.
- Staff are recommending a 9.8% increase each year for the next three years, which includes significant use of the Waste Management Stabilization reserve funding over this same time period to mitigate the pressure associated with the new collection contract award; however, future years are subject to the availability of future year reserves and approval of Council.

-
- The draft budget does not include any of the Optional Collection Services as presented in PW 65-2019, with the exception of the delivery of roll-offs for special events recycling, or Diversion Container Distribution Options, as they are not recommended by staff.
 - The five-year average year-over-year net budget requisition change (2016 to 2020) represents an average annual change of 1.83%.
 - Assessment growth in aggregate for the Niagara Region is projected to be 1.42% for 2019, resulting in the net requisition changes by local area municipality as summarized in **Appendix 2** ranging from an estimated increase of ~~5.69% to 14.52%~~ **5.92% to 12.85%** (total net requisition after growth estimate equals 8.38%).
 - The net requisition amount has been allocated in accordance with the methodology approved in PWA 55-2011. The impacts by local area municipality is affected by the budget increase as well as growth in households and the enhanced services (as requested and selected by each LAM), and results in an increase/decrease for each municipality, as per **Appendix 3**.
 - **The municipal requisitions have been adjusted to reflect some further amendments to negotiated prices for enhanced municipal services with the offset being a benefit to the amount used from the reserve to mitigate the overall budget increase.**

Financial Considerations

Year over Year Budget Change

The gross budget proposed for 2020 totals ~~\$57.3 million~~ **\$57.2 million** with a net budget of \$38.8 million, which is \$3.5 million or a 9.8% increase over 2019 as outlined in Table 1.

As shown below, net base expenditures have increased by 0.2% over 2019 excluding the impacts of the new collection contract and negative end-market revenue pressures.

There are two main drivers of the additional annual increase, which includes decreased net end market recycling revenue of approximately 4.5% or \$1.6 million over the 2019 budget, and increased net collection contract costs of 5.1% or \$1.8 million associated with the new collection contract anticipated to start in October 2020, after stabilization reserve funding to partially mitigate the increases.

The proposed 2020 program increases the permanent staff resources from 32.0 FTEs to 34.0 FTEs through a business case that has been prepared to recommend that two temporary FTEs (Collection & Diversion Advisors) be made permanent starting 2020 to continue providing on-road collection contract support. The net impact of this change is \$0. The 2020 budget also proposes an increase in temporary staffing (1 FTE) and student interns (1.8 FTEs) for a one-year period to support service level changes anticipated under the new collection contract (discussed in detail under the Analysis

section). The temporary staffing is to be funded from the stabilization reserve as a one-time expenditure.

Table 1 – 2020 Waste Management Gross & Net Budget ('000)

-	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Total Operating Expenditures	48,431	50,707	59,047	60,264
Business Support	1,544	1,624	1,651	1,664
Capital Transfer to Reserve & Debt Charges	4,952	4,948	4,136	4,136
Gross Budget	54,927	57,280	64,834	66,063
Less: Revenues	-19,019	-16,800	-17,326	-17,401
Net Budget Requisition – Before Reserve Funding	35,908	40,480	47,508	48,662
Percentage Change	-	12.73%	17.36%	2.43%
Less: Reserve Transfers:	-	-	-	-
2019 Reserve Transfer	-580	-	-	-
Service Level Campaign	-	-485	-	-
Collection Contract One-time Payment	-	-259	-	-
Revenue Fluctuation Mitigation	-	-450	-	-
New Collection Contract Mitigation (2020)	-	-495	-4,916	-1,896
Net Budget Requisition – After Reserve Funding	35,328	38,790	42,592	46,766
Percentage Change	-	9.80%	9.80%	9.80%

Table 1 – 2020 Waste Management Gross & Net Budget ('000) - REVISED

	2019	2020	2021	2022
Total Operating Expenditures	48,431	50,622	58,646	59,854
Business Support	1,544	1,624	1,651	1,664
Capital Transfer to Reserve & Debt Charges	4,952	4,948	4,136	4,136
Gross Budget	54,927	57,194	64,432	65,653
Less: Revenues	-19,019	-16,800	-17,326	-17,401
Net Budget Requisition – Before Reserve Funding	35,908	40,394	47,106	48,252
Percentage Change		12.49%	16.62%	2.43%
Less: Reserve Transfers:				
2019 Reserve Transfer	-580	0	0	0
Service Level Campaign	0	-485		
Collection Contract One-time Payment	0	-259		
Revenue Fluctuation Mitigation	0	-450		
New Collection Contract Mitigation (2020)	0	-410	-4,514	-1,486
Net Budget Requisition – After Reserve Funding	35,328	38,790	42,592	46,766
Percentage Change		9.80%	9.80%	9.80%

A schedule providing the revenues and expenditures by object of expenditure for 2019 and 2020 is included as **Appendix 1**. This appendix includes the 2019 budget and the 2020 budget including program changes and the percentage change for comparison.

Analysis

Overview

The 2020 WMS budget represents an increase of 9.8% over the approved 2019 net operating budget. As discussed below, the main drivers of the annual increase are a result of decreased end market recycling revenue of approximately 4.5% and increased collection contract costs of 5.1% over the 2019 budget after reserve funding.

Trends over the last few years, as summarized in Table 2, show that historically the WMS net operating budget increase/decrease has been at or below previously established Council approved budget guidance. The five-year average year-over-year requisition change (including 2020) represents an average annual change of 1.83%.

Table 2 – Historical WMS Net Budget Increases / (Decreases) Summary (\$000)

<u>Year</u>	<u>Net Budget Requisition (\$)</u>	<u>\$ Change</u>	<u>% Change</u>
2016	35,301	(278)	-0.78%
2017	34,891	(410)	-1.16%
2018	34,602	(289)	-0.83%
2019	35,328	726	2.10%
2020 (Proposed)	38,790	3,462	9.80%
Average (5-yr)			1.83%

Approximately 39% of the gross budget is related to the waste collection and disposal program areas, followed by 18% for organics collection and processing, 34% for recycling collection and processing, with the remaining 9% of the budget for a range of other diversion programs, planning, and administration. As much of the program is delivered through partnerships with private service providers, 76% of the operating-related costs (before capital financing and cost allocation) are in the form of outsourced costs (alternative service delivery) and are subject to contract escalations and conditions.

Pressures

Expenditure pressures to the 2020 budget include:

- New Collection Contract (~~Gross = \$2.3 million, Net = \$1.8 million~~) (**Gross = \$2.2 million, Net = \$1.8 million**) – Staff are projecting an increase in the new collection contract annual amount above current collection costs as per the pricing submitted by the successful proponents in 2019-RFP-156 Request for Proposal for Niagara Region Curbside Collection, Haulage of Garbage, Recycling, and Organics. With the new collection contract anticipated to start October 2020, staff have included an estimate of anticipated collection costs under the new contract for the last 3 months of the year only. The full impact of a new contract will not be included until 2021. Staff have proposed a three-year mitigation plan to assist in phasing in the increased costs of the new collection contract. Under the proposed approach, staff are recommending reserve funding from the WM stabilization reserve over 2020, 2021 and 2022. The intent of the reserve funding is to limit the annual increase in the WM operating budget to 9.8% over the next three years. Please see impact on reserves in Table 3.
- One-time Lump Sum Collection Contract Payment (Gross = \$0.26 million, Net = \$0 million) – As per the Budget Planning By-law, staff are recommending that the one-time lump sum payment under the current collection contract (as identified in PW 35-2016) be funded from the waste management stabilization reserve for 2020.

-
- Contractual increases including CPI, fuel and household count increases (\$0.57 million) – the current curbside collection contract includes annual provisions for CPI increases for various operating expenditures as well as increases for updated household counts and fuel costs.
 - Service level marketing campaign (Gross = \$0.49 million, Net \$0 million) - As part of the 2020 operating budget, staff are recommending additional resources to assist with the transition between collection contractors, as well as for the transition to every-other-week garbage collection service and other changes that may occur with the new contract. As mentioned above, the annual impact amounts to \$0.49 million for 2020 which includes the addition of 1 FTE (temporary 1-year), 2 student interns for 2020 as well as program and education expenditures. As a result of the one-time nature of these expenditure, staff are recommending a one-time draw from the waste management stabilization reserve in the amount of \$0.49 million to offset these expenditures.
 - Other operational contracts including disposal operations, landfill operation and attendants, drop-off depot and leachate collection & processing (\$0.43 million).
 - Repairs and maintenance (\$0.16 million).
 - Operational supplies (\$0.16 million).
 - Mitigation efforts to reduce the impact of these pressures have included postponing the potential expansion of the Region's partnership with Links for Greener Learning, and elimination of subsidies and funding provided for public space recycling materials and recycling and organics carts.

Revenue pressures to the 2020 budget include:

- End Market Recycling Revenue (Gross = \$2.05 million, Net = \$1.60 million) - A significant pressure is on end market recycling revenues. The decreased revenue from end market recycling represents an increase in the 2020 WM operations budget due to forecasted decreases in end market recycling revenues for 2020 of \$2.05 million. Staff expect there to be an improvement in the end market revenue starting 2021. Reserve funding has been used to mitigate the temporary pressure seen in 2020.

Poor market conditions have existed throughout 2019 and are anticipated to continue into 2020. The revenue projections are based on 2019 rates received by the Region and are typically estimated using the previous year's actual rates and market trends. However, for the 2020 budget, revenues were developed based on the May and June 2019 rates as being representative of anticipated average rates and the market trend for 2020 because the rates have continued to further decrease since June. Rates per tonne of recycled goods are currently at an unprecedented low and are not anticipated to improve to the extent seen in previous years. Staff recognize a potential risk in the recycling revenue assumptions for 2020 as markets have continue to deteriorate further since the finalization of the budget and this trend may continue into 2020.

Niagara Region also has contracts to transport and process recyclable material from the Region of Waterloo and Haldimand County. With the current market conditions, Niagara's budgeted expenses for these purchases have decreased by approximately \$1.65 million in alignment with the decreased revenue rates. During 2019, Council approved initiation of Recycling Facility improvements (PW 48-2019). These improvements were to ensure the facility continues to operate efficiently and to improve the quality and marketability of the end market recyclable products. These improvements are anticipated to help mitigate additional decreases seen in end market revenues. Staff will continue to explore other options or process enhancements in 2020 with the goal of maximizing end market recycling revenues.

- Other revenues are forecasting to increase for 2020 when compared to 2019 of approximately \$0.79 million. This increase is primarily as a result of increases in landfill tipping fee revenues based on current tonnage trends (\$0.49 million) and garbage bag tag revenues (\$0.25 million). The increase in garbage bag tag revenue is a result of a combination of increased garbage tag user fee rates from \$2.00 per tag to \$2.50 per tag in April 2020, in order to fully recover the increasing costs of collection and disposal associated with additional garbage bags, as well as increased projected quantities based on 2019 actuals to date.
- Resource Productivity & Recovery Authority (RPRA) Blue Box program funding had decreased in 2019 as a result of higher than anticipated end market recycling revenue in 2017 (on which the 2019 funding RPRA amount is based). Accordingly, for 2019 Council approved a one-time draw from the WM stabilization reserve of \$0.23 million to offset the decreased RPRA funding. For the 2020 WM operating budget, staff are projecting that annual RPRA funding will normalize to historical levels meaning the draw on reserves that occurred in 2019 will not be required for 2020. Conversely, staff are projecting that the RPRA funding for 2020 will increase by \$0.7 million over 2019.

Reserve Management

As summarized in Table 3, the operating budget includes a \$4.14 million transfer to reserves consistent with CSD 70-2017 - Waste Management Reserve Strategy, which proposed a strategy to fund waste management capital needs, landfill liability for closure and post-closure care and operating budget risks. It proposed that the \$4.14 million base budget be reallocated into the three separate Waste Management reserves as follows:

- \$2.52 million to the Waste Capital Reserve – to fund open landfill site and MRF capital.
- \$1.39 million to the Landfill Liability Reserve – to fund the landfill liability related to existing closed landfill site capital, and Humberstone and NR12 post-closure operating and capital, estimated at \$61.4 million in 2018. This will provide for operating revenues currently generated from operation of the landfills to address

disposal costs in the future when the Region no longer has open landfills for this purpose and generating tipping fee revenue.

- \$0.23 million to the Waste Stabilization Reserve – to fund operating budget fluctuations, one-time items, contingencies, and risks such as those associated with pending regulations that may affect the recycling facility and operations.

Table 3 – WMS Forecasted Reserve Balances and Targets (\$M)

Reserve	Projected 2019 YE Balance	Projected 2020 YE Balance	Projected 2021 YE Balance	Projected 2022 YE Balance	Target Reserve Balance
Waste Capital Reserve	\$6.3	\$0.6	\$0.0	\$0.0	\$7.0
Landfill Liability Reserve	\$8.2	\$9.5	\$8.1	\$7.9	\$61.4
Waste Stabilization Reserve	\$5.9	\$4.7	\$0.9	\$0.2	\$5.5 to \$8.2
Total	\$20.4	\$14.8	\$9.0	\$8.1	\$74-77

Table 3 – WMS Forecasted Reserve Balances and Targets (\$M) - REVISED

Reserve	Projected 2019 YE Balance	Projected 2020 YE Balance	Projected 2021 YE Balance	Projected 2022 YE Balance	Target Reserve Balance
Waste Capital Reserve	\$6.3	\$0.6	\$0.0	\$0.0	\$7.0
Landfill Liability Reserve	\$8.2	\$9.5	\$8.1	\$7.9	\$61.4
Waste Stabilization Reserve	\$5.9	\$4.8	\$1.4	\$1.1	\$5.5 to \$8.2
Total	\$20.4	\$14.9	\$9.5	\$9.0	\$74-77

Report CSD 70-2017 - Waste Management Reserve Strategy when presented showed the WMS capital reserve in a positive position over the proceeding 10-year capital forecast period. Due to higher than anticipated capital program costs over the last 3 years, the reserve is projected to be at \$0 by the end of 2020. The main capital project that contributed to the utilization of the reserve was the Environmental Centre Expansion, which required reserve funding of \$7.9 million.

As noted in Table 3, the existing post-closure landfill liability is \$61.4 million. The projected balance of the Landfill Liability reserve for the end of 2019 is estimated at \$8.2 million, which is not adequate to address the future liability. As such, staff recommend that the contribution to the reserve continues as outlined above so that the Region is in a suitable position for the future.

As discussed under the Financial Considerations section of this report, staff are recommending funding from the WMS stabilization reserve totalling ~~\$1.69 million~~ **\$1.6 million** for 2020, which has been summarized below in Table 4. The reserve funding will assist in mitigating pressures from one-time expenditures and decreased recycling revenue. The reserve funding for the new collection contract mitigation is part of a three-year mitigation strategy, which will require reserve funding to be included in the 2020, 2021 and 2022 WMS operating budgets. As noted in Table 3, the proposed strategy to utilize the WM stabilization reserve to mitigate the impacts of the new collection contract will reduce the reserve to near zero by the end of 2022. This approach does generate operational risk, as there will be no stabilization funding available in the future to mitigate one-time pressures or in-year deficits, therefore contributions to the stabilization reserve will be evaluated each year. In the absence of reserve balances to fund year-end deficits, increases to future budgets will be required.

The following table summarizes the recommended use of stabilization reserve for the 2020 operating budget.

Table 4 – Recommended 2020 WMS Reserve Funding

Program/Item to be Funded	Amount (\$)
Service Level Campaign	\$485,000
Collection Contract One-time Payment	\$258,950
Revenue Fluctuation Mitigation	\$450,000
New Collection Contract Mitigation (2020)	\$495,250
Total	\$1,689,200

Table 4 – Recommended 2020 WMS Reserve Funding - REVISED

Program/Item to be Funded	Amount (\$)
Service Level Campaign	\$485,000
Collection Contract One-time Payment	\$258,950
Revenue Fluctuation Mitigation	\$450,000
New Collection Contract Mitigation (2020)	\$409,653
Total	\$1,603,603

2020 Waste Management Requisition

The net requisition amount will be allocated in accordance with the methodology approved in PWA 55-2011. As such, base WMS costs will be apportioned based on the 2018 percentage of residential units in each municipality, while the enhanced collection services and associated disposal costs will be apportioned to the requesting municipalities.

The year-over-year increase in requisition amount by local area municipality before assessment growth equates to an increase ranging from ~~8.36% to 16.23%~~ **8.59% to 14.56%** with an average increase of 9.80%, as outlined in **Appendix 2**.

The net requisition changes by local area municipality after growth of 1.42% ranges from ~~5.69% to 14.52%~~ **5.92% to 12.85%**. This range is the result of the differences in household growth between local area municipalities as well as net assessment growth. The WM levy is collected as a special levy with the Region establishing the tax rates for each municipality (with the exception of NOTL). Note that these are average impacts and the actual impact will vary on each individual property based on year-over-year assessment change relative to the average assessment change.

Appendix 3 provides the impacts of the WMS requisition for 2020 in comparison to 2019 on a cost per typical residential unit basis by area municipality.

Staff are also recommending a review of the allocation methodology utilized for the WMS requisition between area municipalities. The current methodology was reaffirmed by Council in 2011 and has not been reviewed since that time. As part of the review, staff will engage the local area municipalities and review relevant legislation. Any changes that may occur based on this review will not impact the 2020 requisition.

Risks & Opportunities

The proposed budget, like any budget, has a number of risks, as well as opportunities, which include:

- Recycling Commodity Price Risk –The market for commodities does have significant risk based on market fluctuations. As noted in WMPSC-C 29-2019, staff have noted decreased in commodity pricing for 2019. This negative trend in pricing is projected to continue in 2020 but there is a further risk that the commodity prices could decrease more than what has been projected.
- Risk associated with the uncertainty around the Waste Free Ontario Act and the transition to extended producer responsibility and the impacts on the recycling facility.
- Other Price Risks – the collection contract with the private sector contains a number of contract adjustments related to fuel prices and CPI. If these factors exceed the forecast, that could have a material impact on the budget.
- Counterparty risk related to the waste collection contract for services that represents 44% of WMS's 2020 operating costs.
- Multi-year collection contract mitigation – staff are recommending to utilize the waste management stabilization reserve to help phase-in the pressures generated from the new collection contract start October 2020. As a result, the stabilization reserve is projected to decrease to a balance of \$0.2 million by the end of 2022. This may limit staff's ability to mitigate in-year budget pressures as they arise (i.e. decreased end-market revenues) and could therefore result in increased pressure on future year budgets.
- The Niagara Region continues to explore opportunities for procurement of recyclable material processing for other municipalities.

Alternatives Reviewed

The 2020 budget includes base and enhanced collection services as approved by Council and does not include additional Optional Collection Services (with the exception of the delivery of roll-offs for special events recycling, as outlined in Confidential PW 65-2019) which are **NOT RECOMMENDED** due to the significant budget pressure related to base services. Should these be considered, they would require an additional budget increase to be added to the recommended 9.8% budget increase.

The 2020 budget does not include the Diversion Container Distribution Options 4 or 5, which would be to maintain the existing distribution program but with a 50% subsidy for a period of six (6) months (Option 4) or twelve (12) months (Option 5), as presented to Public Works Committee on November 5. The incremental cost of Option 4 is \$225,000 and would change the budget increase from 9.8% to 10.4%. The incremental cost of Option 5 is \$251,000 and would change the budget increase from 9.8% to 10.5%. Staff are recommending the status quo service, which is to sell the containers to residents on a full-cost recovery basis through 13 different distribution locations throughout the Region, due to the significant budget pressure related to base services. Staff are also not recommending the use of the stabilization reserve for the one time expenditure as the reserve is already significantly depleted to mitigate the base budget to 9.8%.

Relationship to Council Strategic Priorities

The 2020 WMS budget supports responsible growth and infrastructure planning and supports Council's objective of environmental sustainability and stewardship.

Other Pertinent Reports

PWA 55-2011 – Waste Management Services Financing Study

CSD 70-2017 – Waste Management Reserve Strategy

WMPSC-C 33 – 2018 Waste Management Tipping Fees

PW 61-2019 – Base Level Service for Waste Management Collection Contract

PW 65-2019 – Confidential – Pricing of Successful Proponents and Review of Optional Services for WM Collection Contract

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Appendices

Appendix 1	Waste Management – Schedule of Revenues and Expenditures
Appendix 2	Proposed 2020 Requisition by Municipalities
Appendix 3	2020 WM Requisition for Typical Residential Property by Municipality

D_65000B

	2018	2019		2020						
	Actual	Q2 Forecast	Budget	Budget						
	Total	Total	Total	Base Services	Base Variance	Base Variance %	Total Program Changes	Total	Total Variance	Total Variance %
A_40000AB Compensation	3,287,740	3,550,334	3,688,358	3,865,070	176,712	4.8%	58,036	3,923,106	234,748	6.4%
A_41000AB Administrative	720,571	1,702,072	1,077,950	965,112	(112,838)	(10.5%)	331,000	1,296,112	218,162	20.2%
A_44000AB Operational & Supply	37,771,528	38,995,464	40,848,472	42,491,114	1,642,643	4.0%	11,143	42,502,257	1,653,786	4.1%
A_50000AB Occupancy & Infrastructure	1,455,001	1,425,989	1,438,380	1,453,183	14,804	1.0%	-	1,453,183	14,804	1.0%
A_52000AB Equipment, Vehicles, Technology	1,213,343	1,195,529	1,053,036	1,214,097	161,061	15.3%	-	1,214,097	161,061	15.3%
A_56000AB Partnership, Rebate, Exemption	166,821	182,167	195,700	188,906	(6,793)	(3.5%)	-	188,906	(6,793)	(3.5%)
A_58000AB Financial Expenditures	(28,415)	(946)	-	-	-	-	-	-	-	-
A_75100AC Transfers To Funds	5,066,955	4,135,500	4,135,500	4,135,500	-	-	-	4,135,500	-	-
A_60000AC Allocation Between Departments	145,879	127,778	128,626	129,808	1,183	0.9%	-	129,808	1,183	0.9%
Gross Expenditure Subtotal	49,799,423	51,313,887	52,566,021	54,442,792	1,876,770	3.6%	400,179	54,842,971	2,276,949	4.3%
A_30000AB Taxation	(34,602,337)	(35,328,318)	(35,328,312)	(38,758,812)	(3,430,500)	9.7%	(31,677)	(38,790,490)	(3,462,177)	9.8%
A_32400AB By-Law Charges & Sales	(13,743,584)	(11,128,925)	(14,588,064)	(11,609,056)	2,979,008	(20.4%)	-	(11,609,056)	2,979,008	(20.4%)
A_34950AB Other Revenue	(4,924,221)	(4,457,566)	(4,430,915)	(5,190,883)	(759,968)	17.2%	-	(5,190,883)	(759,968)	17.2%
A_75000AC Transfers From Funds	(521,831)	(1,511,455)	(580,000)	(1,289,021)	(709,021)	122.2%	(400,179)	(1,689,200)	(1,109,200)	191.2%
Gross Revenue Subtotal	(53,791,973)	(52,426,265)	(54,927,291)	(56,847,772)	(1,920,481)	3.5%	(431,856)	(57,279,628)	(2,352,337)	4.3%
Net Expenditure (revenue) before indirect allocations	(3,992,550)	(1,112,378)	(2,361,269)	(2,404,980)	(43,711)	1.9%	(31,677)	(2,436,657)	(75,388)	3.2%
A_70000AC Indirect Allocation	1,510,714	1,469,787	1,489,826	1,467,083	(22,743)	(1.5%)	31,677	1,498,760	8,934	0.6%
A_70200AC Capital Financing Allocation	931,063	901,325	871,443	937,897	66,454	7.6%	-	937,897	66,454	7.6%
Allocation Subtotal	2,441,776	2,371,112	2,361,269	2,404,980	43,711	1.9%	31,677	2,436,657	75,388	3.2%
Net Expenditure (revenue) after indirect allocations	(1,550,774)	1,258,734	-	0	0	-	-	0	0	-

FTE - Reg	32.0	32.0	-	2.0	34.0	2.0
FTE - Temp	2.2	3.2	1.0	(2.0)	1.2	(1.0)

D_65000B

	2018 Actual	2019		2020						
	Total	Q2 Forecast Total	Budget Total	Base Services	Base Variance	Base Variance %	Budget Total Program Changes	Total	Total Variance	Total Variance %
A_40000AB Compensation	3,287,740	3,550,334	3,688,358	3,865,070	176,712	4.8%	58,036	3,923,106	234,748	6.4%
A_41000AB Administrative	720,571	1,702,072	1,077,950	965,112	(112,838)	(10.5%)	331,000	1,296,112	218,162	20.2%
A_44000AB Operational & Supply	37,771,528	38,995,464	40,848,472	42,405,567	1,557,095	3.8%	11,143	42,416,710	1,568,238	3.8%
A_50000AB Occupancy & Infrastructure	1,455,001	1,425,989	1,438,380	1,453,183	14,804	1.0%	-	1,453,183	14,804	1.0%
A_52000AB Equipment, Vehicles, Technology	1,213,343	1,195,529	1,053,036	1,214,097	161,061	15.3%	-	1,214,097	161,061	15.3%
A_56000AB Partnership, Rebate, Exemption	166,821	182,167	195,700	188,906	(6,793)	(3.5%)	-	188,906	(6,793)	(3.5%)
A_58000AB Financial Expenditures	(28,415)	(946)	-	-	-	-	-	-	-	-
A_75100AC Transfers To Funds	5,066,955	4,135,500	4,135,500	4,135,500	-	-	-	4,135,500	-	-
A_60000AC Allocation Between Departments	145,879	127,778	128,626	129,808	1,183	0.9%	-	129,808	1,183	0.9%
Gross Expenditure Subtotal	49,799,423	51,313,887	52,566,021	54,357,244	1,791,223	3.4%	400,179	54,757,423	2,191,402	4.2%
A_30000AB Taxation	(34,602,337)	(35,328,318)	(35,328,312)	(38,758,812)	(3,430,499)	9.7%	(31,677)	(38,790,489)	(3,462,177)	9.8%
A_32400AB By-Law Charges & Sales	(13,743,584)	(11,128,925)	(14,588,064)	(11,609,056)	2,979,008	(20.4%)	-	(11,609,056)	2,979,008	(20.4%)
A_34950AB Other Revenue	(4,924,221)	(4,457,566)	(4,430,915)	(5,190,883)	(759,968)	17.2%	-	(5,190,883)	(759,968)	17.2%
A_75000AC Transfers From Funds	(521,831)	(1,511,455)	(580,000)	(1,203,474)	(623,474)	107.5%	(400,179)	(1,603,653)	(1,023,653)	176.5%
Gross Revenue Subtotal	(53,791,973)	(52,426,265)	(54,927,291)	(56,762,224)	(1,834,934)	3.3%	(431,856)	(57,194,080)	(2,266,790)	4.1%
Net Expenditure (revenue) before indirect allocations	(3,992,550)	(1,112,378)	(2,361,269)	(2,404,980)	(43,711)	1.9%	(31,677)	(2,436,657)	(75,388)	3.2%
A_70000AC Indirect Allocation	1,510,714	1,469,787	1,489,826	1,467,083	(22,743)	(1.5%)	31,677	1,498,760	8,934	0.6%
A_70200AC Capital Financing Allocation	931,063	901,325	871,443	937,897	66,454	7.6%	-	937,897	66,454	7.6%
Allocation Subtotal	2,441,776	2,371,112	2,361,269	2,404,980	43,711	1.9%	31,677	2,436,657	75,388	3.2%
Net Expenditure (revenue) after indirect allocations	(1,550,774)	1,258,734	-	0	0	-	-	0	0	-

FTE - Reg	32.0	32.0	-	2.0	34.0	2.0
FTE - Temp	2.2	3.2	1.0	(2.0)	1.2	(1.0)

Appendix 2

Proposed 2020 Requisition by Municipality

Municipality	2019 Charges (\$000)	2020 Requisition (\$000)	Difference		Growth Impact %	
			Increase/ (Decrease) (\$000)	% Increase/ (Decrease)	Taxable Assessment Growth (%)	Net Increase/ (Decrease) (%)
Fort Erie	\$ 2,677	\$ 2,946	\$ 269	10.05%	1.48%	8.57%
Grimsby	\$ 1,850	\$ 2,150	\$ 300	16.23%	1.72%	14.52%
Lincoln	\$ 1,602	\$ 1,765	\$ 163	10.18%	2.44%	7.73%
Niagara Falls	\$ 6,930	\$ 7,595	\$ 664	9.59%	1.13%	8.45%
Niagara-on-the-Lake*	\$ 1,545	\$ 1,678	\$ 133	8.60%	1.00%	7.60%
Pelham	\$ 1,205	\$ 1,368	\$ 164	13.59%	2.70%	10.89%
Port Colborne	\$ 1,771	\$ 1,941	\$ 170	9.58%	0.59%	8.99%
St. Catharines	\$ 10,873	\$ 11,782	\$ 909	8.36%	0.12%	8.24%
Thorold	\$ 1,476	\$ 1,651	\$ 175	11.89%	2.74%	9.15%
Wainfleet	\$ 547	\$ 599	\$ 52	9.42%	1.32%	8.10%
Welland	\$ 3,964	\$ 4,343	\$ 379	9.55%	3.86%	5.69%
West Lincoln	\$ 888	\$ 973	\$ 85	9.55%	2.60%	6.96%
Total	\$ 35,328	\$ 38,790	\$ 3,462	9.80%	1.42%	8.38%

* NOTL assessment growth value on increase in residential units NOT CVA (as per NOTL requisition methodology).

* Total taxable assessment growth percentage of 1.42% represents Niagara forecasted growth for 2019 as of November 6, 2019

Change in Residential Units 2020 Budget over 2019 Budget

Municipality	Residential Units 2019 Budget	Residential Units 2020 Budget	Difference	
			Increase/ (Decrease)	% Increase/ (Decrease)
Fort Erie	15,588	15,697	109	0.70%
Grimsby	10,676	11,175	499	4.67%
Lincoln	9,224	9,305	81	0.88%
Niagara Falls	37,916	38,306	390	1.03%
Niagara-on-the-Lake	8,520	8,605	85	1.00%
Pelham	6,945	7,064	119	1.71%
Port Colborne	10,285	10,304	19	0.18%
St. Catharines	59,709	59,879	170	0.28%
Thorold	8,406	8,510	104	1.24%
Wainfleet	3,204	3,220	16	0.50%
Welland	23,176	23,293	117	0.50%
West Lincoln	5,342	5,399	57	1.07%
Total	198,991	200,757	1,766	0.89%

Appendix 2 - REVISED

Proposed 2020 Requisition by Municipality

Municipality	2019 Charges (\$000)	2020 Requisition (\$000)	Difference		Growth Impact %	
			Increase/ (Decrease) (\$000)	% Increase/ (Decrease)	Taxable Assessment Growth (%)	Net Increase/ (Decrease) (%)
Fort Erie	\$ 2,677	\$ 2,951	\$ 275	10.27%	1.48%	8.79%
Grimsby	\$ 1,850	\$ 2,119	\$ 269	14.56%	1.72%	12.85%
Lincoln	\$ 1,602	\$ 1,769	\$ 166	10.39%	2.44%	7.95%
Niagara Falls	\$ 6,930	\$ 7,610	\$ 679	9.80%	1.13%	8.67%
Niagara-on-the-Lake*	\$ 1,545	\$ 1,681	\$ 136	8.81%	1.00%	7.81%
Pelham	\$ 1,205	\$ 1,342	\$ 137	11.36%	2.70%	8.66%
Port Colborne	\$ 1,771	\$ 1,945	\$ 174	9.80%	0.59%	9.21%
St. Catharines	\$ 10,873	\$ 11,807	\$ 934	8.59%	0.12%	8.47%
Thorold	\$ 1,476	\$ 1,641	\$ 165	11.22%	2.74%	8.48%
Wainfleet	\$ 547	\$ 600	\$ 53	9.64%	1.32%	8.32%
Welland	\$ 3,964	\$ 4,352	\$ 388	9.78%	3.86%	5.92%
West Lincoln	\$ 888	\$ 974	\$ 86	9.68%	2.60%	7.08%
Total	\$ 35,328	\$ 38,790	\$ 3,462	9.80%	1.42%	8.38%

* NOTL assessment growth value on increase in residential units NOT CVA (as per NOTL requisition methodology).

* Total taxable assessment growth percentage of 1.42% represents Niagara forecasted growth for 2019 as of November 6, 2019

Change in Residential Units - 2020 Budget over 2019 Budget

Municipality	Residential Units 2019 Budget	Residential Units 2020 Budget	Difference	
			Increase/ (Decrease)	% Increase/ (Decrease)
Fort Erie	15,588	15,697	109	0.70%
Grimsby	10,676	11,175	499	4.67%
Lincoln	9,224	9,305	81	0.88%
Niagara Falls	37,916	38,306	390	1.03%
Niagara-on-the-Lake	8,520	8,605	85	1.00%
Pelham	6,945	7,064	119	1.71%
Port Colborne	10,285	10,304	19	0.18%
St. Catharines	59,709	59,879	170	0.28%
Thorold	8,406	8,510	104	1.24%
Wainfleet	3,204	3,220	16	0.50%
Welland	23,176	23,293	117	0.50%
West Lincoln	5,342	5,399	57	1.07%
Total	198,991	200,757	1,766	0.89%

Appendix 3 – 2020 WM Requisition For Typical Residential Property by Municipality

Municipality	2019 Final		2020 Draft ¹		Annual Increase/(Decrease)		Monthly
	CVA ³	WM taxes	CVA ³	WM taxes	\$	%	\$
Fort Erie	210,015	\$ 138.97	214,712	\$ 150.73	\$ 11.76	8.46%	\$ 0.98
Grimsby	382,289	\$ 146.09	402,891	\$ 166.50	\$ 20.41	13.97%	\$ 1.70
Lincoln	354,651	\$ 150.61	370,494	\$ 162.02	\$ 11.41	7.58%	\$ 0.95
Niagara Falls	246,816	\$ 125.52	256,262	\$ 135.85	\$ 10.34	8.24%	\$ 0.86
Niagara-on-the-Lake ²							
Pelham	348,986	\$ 157.03	365,439	\$ 176.47	\$ 19.44	12.38%	\$ 1.62
Port Colborne	199,310	\$ 167.73	204,313	\$ 182.37	\$ 14.64	8.73%	\$ 1.22
St. Catharines	252,106	\$ 159.90	259,659	\$ 172.44	\$ 12.55	7.85%	\$ 1.05
Thorold	231,911	\$ 133.21	238,276	\$ 144.88	\$ 11.67	8.76%	\$ 0.97
Wainfleet	255,870	\$ 143.97	265,652	\$ 154.80	\$ 10.82	7.52%	\$ 0.90
Welland	208,841	\$ 157.09	214,538	\$ 165.72	\$ 8.63	5.49%	\$ 0.72
West Lincoln	300,968	\$ 133.22	315,157	\$ 142.13	\$ 8.91	6.69%	\$ 0.74

¹ 2020 draft WM rates based on 2019 tax policy and 2020 draft requisition amounts.

² NOTL charge to residents based on fixed household amount.

³ 2019 and 2020 average CVA based on MPAC phased-in assessment increase for the municipality.

Appendix 3 - 2020 WM Requisition For Typical Residential Property by Municipality - REVISED

Municipality	2019 Final		2020 Draft ¹		Annual Increase/(Decrease)		Monthly
	CVA ³	WM taxes	CVA ³	WM taxes	\$	%	\$
Fort Erie	210,015	\$ 138.97	214,712	\$ 151.03	\$ 12.06	8.68%	\$ 1.00
Grimsby	382,289	\$ 146.09	402,891	\$ 164.11	\$ 18.02	12.34%	\$ 1.50
Lincoln	354,651	\$ 150.61	370,494	\$ 162.34	\$ 11.73	7.79%	\$ 0.98
Niagara Falls	246,816	\$ 125.52	256,262	\$ 136.12	\$ 10.61	8.45%	\$ 0.88
Niagara-on-the-Lake ²							
Pelham	348,986	\$ 157.03	365,439	\$ 173.01	\$ 15.98	10.17%	\$ 1.33
Port Colborne	199,310	\$ 167.73	204,313	\$ 182.73	\$ 15.00	8.94%	\$ 1.25
St. Catharines	252,106	\$ 159.90	259,659	\$ 172.44	\$ 12.55	7.85%	\$ 1.05
Thorold	231,911	\$ 133.21	238,276	\$ 144.00	\$ 10.79	8.10%	\$ 0.90
Wainfleet	255,870	\$ 143.97	265,652	\$ 155.10	\$ 11.13	7.73%	\$ 0.93
Welland	208,841	\$ 157.09	214,538	\$ 166.06	\$ 8.98	5.71%	\$ 0.75
West Lincoln	300,968	\$ 133.22	315,157	\$ 142.29	\$ 9.07	6.81%	\$ 0.76

¹ 2020 draft WM rates based on 2019 tax policy and 2020 draft requisition amounts.

² NOTL charge to residents based on fixed household amount.

³ 2019 and 2020 average CVA based on MPAC phased-in assessment increase for the municipality.

MEMORANDUM

BRC-C 10-2019

**Subject: Councillor Information Requests October 10, 2019 Budget Review
Committee of the Whole**

Date: November 28, 2019

To: Budget Review Committee of the Whole

**From: Helen Chamberlain, Director, Financial Management & Planning /
Deputy Treasurer**

This memo is in response to Councillor Information Requests at BRCOTW on October 10, 2019 as follows:

- 1. Provide information for a budget scenario that would assume maximum allowable debt of \$320 million (120% of source revenue) that considers the amount of expenditures allowed, the deferred projects that could be included, the amount of the annual repayment limit and impacts to the operating budget. (Councillor Easton)*
- 2. Scope reduction of the Dain City Pump Station Forcemain Replacement project (Councillor Villella)*
- 3. Methodology on vehicles replacement (Councillor Insinna)*
- 4. Provide an updated Total Asset Consumption Ratio Table using the Regions of London, Windsor/Essex and Kitchener/Waterloo as comparators and information on the local area municipal rate increases. (Councillor Heit)*

Council may direct staff and make motions based on the following information and staff will endeavor to bring back any amended or additional material to the following Budget Review Committee of the Whole (BRCOTW) to support council decisions.

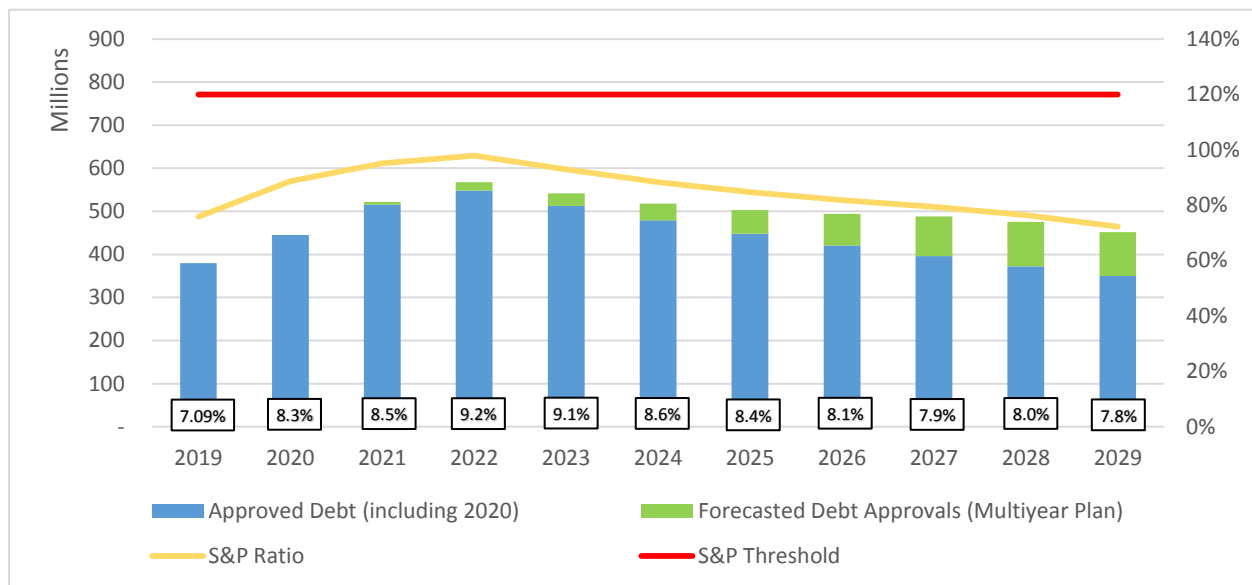
- 1. Provide information for a budget scenario that would assume maximum allowable debt of \$320 million (120% of source revenue) that considers the amount of expenditures allowed, the deferred projects that could be included, the amount of the annual repayment limit and impacts to the operating budget.**

The graph below provides the debt scenario proposed in CSD 53-2019 noting the following for the recommended capital budget as well as relative to two alternative scenarios below:

- Debt outstanding based on 2020 proposed and prior approval (blue bars)
- Forecast debt outstanding inclusive of new approvals (green bars)
- Maximum debt outstanding as a percentage of own source revenue at 120% (red line)

- Debt outstanding as a percentage of own source revenue (yellow line)
- Annual repayment limit relative to Provincial maximum of 25% (in box)

a) Budget



Assumptions:

- Capital financing budget remains constant through the multiyear horizon
- New and past debenture issues are forecasted to be issued when projects are complete as estimated based on historical trend of timing of approval.

Pros	Cons
<ul style="list-style-type: none"> • S&P and ARL debt ratios remain within limits which mitigates the risk of increased cost of borrowing. • No increases on the tax levy with the exception of the 1.54% for Long Term Care redevelopment. 	<ul style="list-style-type: none"> • Requires deferral of \$1.2B in capital projects over the 10 year forecast; does not resolve the funding gap. • Risk of potential asset failure and reduced level of service. • Requires separate levy increases in the forecast period as identified in CSD 51-2019

b) Maximizing the use of debt to where the Region reaches the 120% S&P threshold.

The Region reaches the 120% S&P threshold with an additional \$310M of debt. This strategy is not recommended based on the analysis below.

Pros	Cons
<ul style="list-style-type: none"> • ARL debt ratio remains within limits, peaking at 14.7% in 2022 • The Region can expedite approximately \$310M of projects which reduces the funding gap • Would allow the Region to lock in historically-low interest rates 	<ul style="list-style-type: none"> • Additional debt will have a 10.06% impact on the 2020 tax levy • S&P debt ratio breaches 120% in 2020 which may increase the cost of borrowing • Project resources (staff/time) may be inadequate to support the additional capital works in 2020 • Issuing debt in advance would incur interest costs for debt not yet required • Issuing debt in advance commits funding to project cost estimates, which may be higher than actual costs • Any new debt approvals will be limited to debt retirement • Debt would be utilized to fund for state of good repair/renewal projects which is not in line with the Capital Financing Policy • Could limit the ability for Local Area Municipalities to issue debt

c) Utilize additional debt to add back into the budget the 2020 deferred capital projects with debt funding.

The original 2020 deferred projects totaled \$150M however have been reduced to a need of \$79.3 million , with debt funding of \$71 million for levy and \$8.3 million for rate due to the following:

- Phased funding approach to be used for the Port Dalhousie WWTP Upgrade project (\$14M)
- Project extension granted for the Niagara Falls WWTP Secondary Treatment

- Upgrade (\$58M)

Pros	Cons
<ul style="list-style-type: none"> • S&P and ARL debt ratios remain within limits which mitigates the risk of increased cost of borrowing, both ratios peak in 2022 (S&P 105% and ARL 10.5%). • The Region can consider adding back into 2020 previously deferred projects 	<ul style="list-style-type: none"> • Additional debt will have a 2.3% impact to the 2020 tax levy and 0.4% impact on the 2020 rate budget • Funding gap still exists in the future years. • Debt would be utilized to fund for state of good repair/renewal projects which is not in line with the Capital Financing Policy.

2. Scope reduction of the Dain City Pump Station Forcemain Replacement project

The scope reduction of the project as described by the project manager:

Extensive approvals are required from the Ministry of Transportation (MTO) and other various permitting agencies to construct the multiple phases of the forcemain. The funds were deferred due to the anticipated duration required to obtain the necessary permits and background studies. Should the required approvals be granted in 2020 and remaining budget allows, construction within the MTO property limits will be undertaken in current year.

3. Methodology on vehicles replacement

Currently, there are a total of 556 licensed vehicles & unlicensed equipment inventoried on the Public Works M5 AssetWorks Fleet Management System:

220 (40%) are licensed vehicles:

- 28 (5%) Heavy Duty Commercial Vehicles:
 - Special Purpose Vacuum/Aerial Trucks, Dump Trucks;
- 93 (17%) Heavy Duty Trucks & Cargo Vans:
 - Ford F250-F550, GMC Sierra/Chevy Silverado 2500-3500;
- 58 (10.5%) Light Duty Trucks:
 - Ford F150, GMC Sierra/Chevy Silverado 1500, Dodge Ram 1500;
- 41 (7.5%) Minivans & SUVs:
 - Ford Escape/Ranger, Nissan Frontier, Dodge Caravan/Promaster.

336 (60%) are unlicensed equipment:

- Loaders, Backhoes, Trailers, Mowers, Trimmers, Saws.

Fleet Replacement Methodology adheres to the current Vehicle & Equipment Policy (PW5.FO1.0), which applies to all Regional vehicles and equipment that: i) are inventoried on the Public Works M5 AssetWorks Fleet Management System (M5); and ii) contribute monthly rental internal chargeback. This policy currently identifies Fleet Management's responsibility in recommending which vehicles & equipment should be replaced. The measurable criteria include:

- functional usefulness;
- overall operating costs; and
- costs of refurbishing existing equipment (to provide an extended useful and economic term of life).

The majority of vehicles applicable to this policy are located in Public Works division with a limited number of vehicles in Corporate Services (Facilities), Corporate Admin (Courier Services) and Community Services (Senior Services) divisions.

This policy does not apply to Niagara Region Police nor Emergency Medical Services vehicles which are not inventoried on the M5 System. In addition, Public Health vehicles on the M5 System (five vehicles for Tobacco Enforcement and one mobile Dental Bus), also do not contribute rental internal chargeback. This segregation exists as these vehicles are partially funded by other levels of government or have different legislative requirements/guidelines.

There is ongoing work reviewing the current Region vehicle and equipment compliment and identifying and communicating with customers on current applications and future needs. However, the Vehicle & Equipment Policy is currently in review as has not been recently updated for additional measurable criteria.

Current Fleet Replacement Methodology takes into account the policy stated above and recommendations provided in the Fleet Value For Money Audit (VFMA), completed in Fall 2016, which emphasized repurposing Regional vehicles to extend useful life when cost effective to do so. All vehicles and equipment are evaluated for repurposing to extend their useful life, however the greatest opportunities for redeployment across other departments are primarily limited to only 18% (99 vehicles) of the existing inventory. On average, 10% of these 99 vehicles are considered for replacement in any given year.

Currently, Fleet has redeployed 19 vehicles in Public Works and Corporate Services that were due for replacement in previous budget years and reallocated these vehicles on a short-term (6-12 months) basis in these departments where a temporary need exists to support incremental temporary staff (i.e. during summer months). The reallocation on a short-term basis allows oversight on ongoing repairs and maintenance, which tend to increase as vehicles age. In addition, repurposing fully depreciated vehicles may result in reductions to resale values and incremental operating costs

combined that are greater than the annual debt payment for a new vehicle. These costs (ongoing maintenance, repairs and lost resale value) need to be balanced in conjunction with all other criteria to inform an optimal retirement and replacement year, which minimizes the overall financial impact to the Region. Following the VFMA, the Capital Replacement Model was enhanced to include the recommendations contained in the VFMA providing better analysis and capital forecasts, which drive least cost solutions to the Region.

Niagara Region utilizes Government pricing (15% to 25% off retail) when purchasing new Base to Midgrade Fleet vehicles & equipment.

Fleet Replacement Considerations

1. *Age & Usage of Vehicles*
 - a. Useful life/age normally attained 8 to 12 years at standard depreciation
 - b. Usage includes kms or hours of heavy duty use
 2. *Reliability & Safety*
 - a. As a regional vehicle or equipment, reliability to perform duties for Public Works (e.g. special purpose vehicles, heavy duty trucks, backhoes)
 - b. Warranty expiration after 3 to 6 years on new vehicles
 - c. higher maintenance & repairs after warranty expires (increasing age and utilization drives increased repairs & maintenance costs)
 3. *Image*
 - a. Overall image we are required to maintain for Regional vehicles
 - b. Mandatory legislative requirements to maintain licensed vehicles
 - c. Discretion with unlicensed equipment; this does not include safety related items which are required
 4. *Price at Auction – Good Salvage Value*
 - a. Age/Usage of vehicle
 - b. Condition of vehicle
 - c. Market demand
- 4. Provide an updated Total Asset Consumption Ratio Table using the Regions of London, Windsor/Essex and Kitchener/Waterloo as comparators and information on the local area municipal rate increases.**
- a) The following table includes the 2013-2017 Total Asset Consumption Ratio from BMA Management Consulting's latest municipal study. Niagara Region is above the average consumption ratios of the sample of municipalities requested which

indicates that relative to the other municipalities, Niagara Region assets are older.

<i>Total Asset Consumption Ratio Trend</i>					
Municipalities	2013	2014	2015	2016	2017
London	33.9%	34.6%	35.3%	35.9%	36.2%
Windsor	38.9%	39.2%	41.0%	42.3%	43.0%
Kitchener	33.8%	33.9%	30.7%	30.4%	31.4%
Waterloo	35.1%	35.9%	36.9%	38.1%	38.9%
Average	35.4%	35.9%	35.9%	36.6%	37.4%
Region Niagara	42.4%	42.7%	43.2%	41.6%	42.5%

- b) The local area municipal rate increases for 2019 have been included in the following table. The increases were provided by Areas Treasurers meeting from May 2019. 2020 Rates are still in the process of being finalized.

Municipality	2019 Water Increase	2019 Wastewater Increase
<i>Niagara Region</i>	<i>2.77%</i>	<i>6.65%</i>
Fort Erie	1.39%	6.22%
Grimsby	2.90%	4.90%
Lincoln	3.10%	2.00%
Niagara Falls	Fixed 2.48% Volumetric 5.74%	Fixed 7.88% Volumetric 3.65%
Niagara on the Lake	6.94%	17%
Pelham	7.5%	9.5%
Port Colborne	2.79%	5.03%
St. Catharines	5.28%	5.28%
Thorold	1.86%	8.7%
Welland	7.71%	6.75%
West Lincoln	5%	5%

Respectfully submitted and signed by

Helen Chamberlain, CPA, CA
Director, Financial Management & Planning/Deputy Treasurer