
Subject: Q2 2020 Financial Update
Report to: Corporate Services Committee
Report date: Wednesday, September 9, 2020

Recommendations

1. That the June 30, 2020 Q2 Financial Update of the Regional Municipality of Niagara (“the Region”) **BE RECEIVED** for information.

Key Facts

- Quarterly updates are provided as of June, September and December each year and include: forecasted operating results; capital project reporting; reserves and deferred revenue; investments; debt; consolidated statement of financial position and accounts receivable.
- Due to COVID-19, staff have been providing Council with monthly financial reports highlighting the potential impacts of the COVID-19 pandemic in the Region. This Q2 report is the first comprehensive financial report of all Region operations in 2020 and consolidates all impacts, both COVID-19 related and non-COVID-19 related.
- Departments prepare forecasts using assumptions and estimates based on information available at the time of writing the quarterly financial updates. All financial implications quantified in this report include estimates up to December 31, 2020 unless otherwise noted. Estimates in this report are fluid and changing, and as a result, the forecasts contain inherent risks and actual results may differ.
- The Region’s current estimate of the 2020 total gross cost related to the COVID-19 pandemic is \$55.3 million. Total regional gross cost (including all Local Area Municipalities, LAMS) is estimated at \$84 million. Total regional net deficit (including LAMS) is estimated at \$15.5 million. At the time of writing this report, the Region had received notice of its allocation of \$12.1 million in Phase 1 Municipal Safe Re-start funding from the Province of Ontario. This report incorporates options for applying this funding given the limited information available and assumptions made at Q2.
- Regional departments and General Government are projecting a deficit before Phase 1 Municipal Safe Re-start funding of \$6.1 million (1.09% of budget) at year-end. Levy supported programs (Regional Departments consolidated with ABC’s) are projecting a deficit of \$7.1 million (0.86% of budget) at year-end.
- Rate supported programs (Water and Wastewater Services and Waste Management Services) are projecting a deficit of \$561 thousand (0.30% of budget) at year-end.

- The 2021 projected net budget pressure related to ongoing COVID-19 measures to date is \$21.5 million or 5.48% for levy programs, \$0.1 million or 0.04% for water/wastewater programs, and \$0.1 million or 0.14% for waste management. These estimates will continue to be refined as new information is received. To date, limited 2021 funding announcements from upper levels of government have occurred and the estimates include only confirmed funding sources. Should additional funding sources be received, this would reduce the pressure identified.

Financial Considerations

Full analysis and explanation of the levy and rate supported program forecasts can be found in the Q2 2020 Financial Update Report on the Region's website at the link below and Appendix 1. The report is compliant under the Accessibility for Ontarians with Disability Act. Hard copies of the report can be made available upon request.

[2020 Q2 Financial Update](https://www.niagararegion.ca/business/finance/quarterly-reports/default.aspx)

(<https://www.niagararegion.ca/business/finance/quarterly-reports/default.aspx>)

Due to the COVID-19 emergency, the Region's results and forecast are continuously being updated for new information and changes in assumptions. At the time of writing this report, it still remained difficult to quantify the full financial impact as the Region is actively making decisions around its recovery plan and details of many funding announcements remain outstanding.

A high-level analysis of the financial results below is provided in the analysis section of the report. For additional details please reference the Q2 2020 Financial Update Report.

Table 1: Q2 2020 Results Summary

(in thousands)	Forecasted Surplus/(Deficit) (in thousands)	Percent of Budget
Regional Departments and General Government	\$(6,066)	1.09%
NRPS	(920)	0.49%
NRH	852	1.29%
Court Services	(935)	11.51%
NPCA	0	0.00%
Total Levy Supported	\$(7,069)	0.86%
Water and Wastewater	\$(854)	0.64%
Waste Management	293	0.53%
Total Rate Supported	\$(561)	0.30%

Niagara Region's levy programs are operating at a forecasted deficit of \$7,069 before applying \$12,185 in Phase 1 Municipal Safe Re-start funding allocated to the Niagara Region from the Province of Ontario.

With the announcement of Phase 1 Municipal Safe Re-start funding, the Region no longer anticipates a 2020 deficit. Staff now expect funds to be available to help support the 2021 budget process. Given unknowns around additional Public Health funding, staff have prepared the following worst to best case scenarios for 2020. Details on the reporting requirements for the Municipal Safe Re-start funding and what costs the Province will deem as COVID-19 related will be essential in determining if the Region may be eligible for Phase 2 funding.

Table 2: 2020 Levy Funding Scenarios

(in thousands)	Worst Case	Likely Case	Best Case
2020 Levy Supported Programs Deficit	\$ (7,069)	\$ (7,069)	\$ (7,069)
2020 Possible Public Health Funding	-	5,934	5,934
2020 Possible Transit Funding	-	-	609
Safe Restart Municipal Funding - Phase 1	12,185	12,185	12,185
Safe Restart Municipal Funding - Phase 2	-	-	12,185
Funds available for 2021 Levy Budget	\$ 5,116	\$ 11,050	\$ 23,844

Staff would recommend that any excess Municipal Safe Re-start funding at December 31, 2020 be allocated to the Taxpayer Relief Reserve, to then be utilized to offset COVID-19 related pressures in the 2021 budget in accordance with the parameters of the funding.

Recommendations to address final surpluses and/or deficits will be brought forward to Council as part of the Year-End Transfer report.

Analysis

The Q2 2020 financial results are being driven by many different factors which are outlined below. Since our previous report CSD 51-2020 on August 13th, information has been received and assumptions have been updated. The main changes between the August report and the current analysis is the result of a comprehensive Q2 analysis which resulted in refinement of many non-COVID related items, as well as new funding announcements which impact the Region's recovery plan assumptions.

Levy Supported Programs (all amounts in thousands of dollars):

Regional Departments and General Government have a forecasted year-end deficit of \$6,066 (1.09% of budget). The forecasted deficit is driven mainly by investments in additional staff support and supplies in Community Services and Public Health to support the COVID-19 emergency. Some of these increased costs have been mitigated through the redeployment of existing staff resources from other departments in order to provide support to those areas in need of additional resources and re-prioritizing planned work. There is also a forecasted decrease in supplemental tax revenue resulting from lower than anticipated growth, as well as reduced investment income due to the reduced Bank of Canada rate.

These cost pressures have been partially offset by savings in compensation costs related to staffing vacancies arising from a pandemic-related hold on recruitment. In addition, there are forecasted savings related to reduced uptake in planning and economic development grants and development charge grants, as well as net savings resulting from reduced transit services costs in both Niagara Regional Transit and Niagara Specialized Transit as a result of lower ridership and schedule reductions, partially offset by corresponding reduced transit fare revenue.

The ABCs are forecasting a year-end deficit of \$1,003 (0.38% of budget) at year-end. This forecasted deficit is primarily driven by lost revenue in Niagara Regional Police

from reduced OLG payments through the City of Niagara Falls due to the closure of casino operations, as well as lost revenues from reduced fine payments, both as a result of the COVID-19 pandemic. These revenue reductions are partially offset by savings in labour and other related costs due to the pandemic.

Rate Supported Programs (all amounts in thousands):

Water and Wastewater Services

Water and Wastewater Services has a forecasted net deficit at year-end of \$854 (0.64% of budget), which is comprised of forecasted deficits in the water division of \$280 and in the wastewater division of \$574.

The deficit is primarily driven by decreased water sales in the water division due to decreased water usage as a result of the COVID-19 pandemic combined with a wet spring, and by increased sludge management costs in the wastewater division due to estimated price increases in the new bio-solids contract and anticipated increased use of the centrifuge at a higher cost. In addition, chemical costs are forecasted to be higher than anticipated as a result of new contract pricing and increased usage.

These deficits are partially offset by savings in labour related costs driven by a pandemic-related hold on recruitment for staffing vacancies.

Waste Management

Waste Management Services is forecasting a surplus at year-end of \$293 (0.53% of budget). Savings related to staffing vacancies and reduced labour costs at the Material Recycling Facility, in addition to reduced contract costs for environmental monitoring and collection contract adjustments, are the main drivers of the forecasted surplus.

These surpluses are partially offset by lower than anticipated recycling market revenues for the sale of recyclable commodities, as well as reduced tipping fees due to temporarily limiting non-essential trips to the drop-off depots and the waiving of tipping fees for large household items, and reduced commercial shredding and recycling revenue due to business closures as a result of the COVID-19 pandemic.

COVID-19 Financial Impacts Summary

In order to better understand the financial results as they relate to the COVID-19 emergency, staff continue to track costs directly related to the emergency. Total gross cost related to the emergency is \$55.3 million, with a net cost after program-specific funding of \$38.6 million as outlined in the table below. This has been incorporated in the comprehensive financial results discussed above. The table below also considers strategic and other mitigations (offset by additional non-COVID pressures) that the Region has been able to put in place to help managed the cost of the emergency, resulting in a total net estimated deficit of \$7.6 million. All estimates in the analysis have been made up to December 31, 2020 unless otherwise noted in Appendix 2.

Table 3: 2020 COVID-19 Financial Impact Summary

(in thousand)	Levy	Water/ Wastewater	Waste Management	Total
Total Gross Cost	53,489	1,099	717	55,305
Less: Confirmed Funding Matched to Expenses	(16,754)	-	-	(16,754)
Net Cost to Region	36,735	1,099	717	38,551
Less: Strategic and Other Mitigations	(11,395)	(98)	(960)	(12,453)
Less: Cost supported by our approved base budget	(18,271)	(147)	(50)	(18,468)
Net budget deficit/(surplus)	\$ 7,069	\$ 854	\$ (293)	\$ 7,630

Further detail on the corporate assumptions and cost categories can be found in Appendix 2. Also, a more detailed breakdown by operating department can be found in Appendix 3.

The Region has also been coordinating with local area municipalities to consolidate the full impact to Niagara residents. While all municipalities have been reporting to their Council using different estimates, assumptions and reporting schedules, the estimated consolidated (Region and LAMs) total gross cost is \$84 million and net deficit of \$15.5 million.

Funding Announcements

The Region has received announcements of confirmed funding sources of \$34.3 million to support COVID-19 emergency identified below. The funding sources will be utilized as outlined by each different agreement, with an estimated \$23.8 million (\$16.7 million in program-specific funding and \$7.1 million in Municipal Safe Re-start funding) being recognized in the 2020 operating results.

Table 4: COVID-19 Confirmed Funding Announcements

(in thousands)	Amount	2020 Operating	2021 Operating	To be allocated
Community Homelessness Prevention Initiative (Note 1)	\$ 2,409	\$ 1,672	\$ 737	\$ -
Reaching Home Funding (Note 1)	1,253	1,253	-	-
Social Services Relief Funding (Note 1 & 2)	3,014	-	-	3,014
Community Response Fund	63	63	-	-
Childrens Services Fees Subsidy Funding Reallocation	862	862	-	-
School Focused Nursing Initiative (Note 3)	2,200	550	1,650	-
Transit Bus Cleaning	27	27	-	-
Safe Restart - Transit Phase 1 Funding	610	610	-	-
Safe Restart - Child Care Funding	4,533	4,533	-	-
Long-term Care Emergency Funding	2,611	2,611	-	-
Pandemic Pay (Note 4)	4,573	4,573	-	-
Sub-total of program specific funding	22,155	16,754	2,387	3,014
Safe Restart - Municipal Phase 1 Funding	12,185	7,069	5,115	-
Total	\$34,340	\$ 23,823	\$ 7,502	\$ 3,014

Note 1: Incremental funding to cover full fiscal year of April 1, 2020 to March 31, 2021

Note 2: Subject to business case proposals by Niagara to MMAH. Funding is available for operating or capital needs.

Note 3: Estimated based on 16 FTE notice provided. Should continue into 2021.

Note 4: Estimate to support pandemic payments from April 24 to August 13. Final amount to be determined based on actual payments.

In addition to the confirmed funding announcements above, the Region is monitoring the following announcements. The timing and allocation to Niagara Region of these funding announcements is uncertain at this time.

- An additional \$9.2 million of provincial funding for continued prevention and containment of COVID-19 (for example, screening staff, additional staff, and personal protective equipment) in long-term care homes. The total funding originally announced was \$88.3 million, and \$34.8 million and \$44.3 million were allocated in May and June respectively.
- The federal-provincial governments will provide \$4 billion to Ontario municipalities to help fund a "safe re-start" of the economy. Phase 1 funding has been confirmed. Phased 2 funding availability will be based on reporting and need.

- This funding announcement includes a \$777 million contribution from the federal government and \$1.22 billion from the Province. The provincial amount includes the previously announced \$350 million social services and \$100 million public health funding. This investment amounts to \$2 billion directly supporting municipalities and addressing operating shortfalls and relief related to COVID-19.
- A funding deal for public transit was reached as part of the federal-provincial agreement. It was announced that up to \$2 billion will be shared equally between the Province and federal government. This funding will assist transit operators address revenue losses and help maintain operations in a safe manner as the economy re-starts and begins its recovery.
- Ontario Works expects to see increased funding to support an increase in subsidy claim payments to Ontario Works clients.
- The Province has indicated that it plans to work with municipal service managers to support Children's Services operations to minimize shortfalls.
- The Province has announced that it plans to defer further reductions to the public health funding formula in 2021.
- The Province has issued a memorandum to Public Health saying they plan to help support incremental costs, but no details have been provided yet.

2021 Budget Pressures & Long-term Considerations

On June 25, Council endorsed a budget planning strategy for 2021. This strategy includes identifying and quantifying separately all COVID-19 related budget considerations. Additionally, Council expressed interest in being informed on a more regular basis of the other base service delivery pressures so that both the COVID-19 and these base pressures could be understood collectively. To that end, as the budget process has now begun, we will provide in this report each month a brief summary of the status of the consolidated operating budget inclusive of normal business costs as well as COVID-19 where possible.

At this time staff have only begun efforts to identify and quantify the COVID-19 operating budget pressures. The Region's recovery planning activities are currently underway and the decisions of this plan will drive many of the budget impacts. While there is still a lot of work to be done on these items, at the time of this report staff have identified 2021 net budget pressures related to COVID-19 as \$21.6 million and is

summarized by program area below. It is important to note that no new funding sources (outside of the homelessness program, which has identified funding until the end of its fiscal year of March 31st 2021 and specific school-funded nurses) have been identified from other levels of government. Should additional funding sources be received, this would reduce the pressure identified.

Table 5: 2021 Net COVID-19 Related Budget Pressure by Department

(in thousands)	Amount	Increase %
General Government & Corporate	TBD	TBD
Corporate Services	\$ 1,287	0.33%
Niagara Regional Housing	302	0.08%
Transportation	59	0.02%
Public Health	-	
Public Health	9,819	2.50%
Emergency Medical Services	688	0.18%
Community Services	-	
Seniors Services	8,089	2.06%
SAEO	50	0.01%
Homelessness	1,210	0.31%
Levy Budget Pressure	\$ 21,504	5.48%
Water & Wastewater Services Pressure	\$ 55	0.04%
Waste Management Pressure	\$ 56	0.14%

Recognizing that the levy is most impacted and to better understand the components, a summary of levy items by category is provided below. The most significant pressure relates to required incremental staffing in public health and community services. The costs below assume the Region will end current redeployment and acquire incremental staffing to support the needs of these departments. It is anticipated these resources would be secured on a temporary basis until long-term clarity on sustainable funding is received.

Table 6: 2021 Levy COVID Related Budget Pressure by Category

(in thousands)	Amount	Increase %
Staffing	\$ 18,241	
Personal Protective Equipment	975	
Cleaning & Sanitation	1,828	
Shelter	1,733	
Agency Support	214	
Vaccination Program	900	
Total Gross Levy Cost	23,891	
Confirmed Funding	(2,387)	
Net Levy Cost	\$ 21,504	5.48%

In addition to the items above, the Region and local area municipalities have been monitoring water and wastewater flow data. Reduction in water usage does not change the total water/wastewater budget; however, it can put increased pressure on the volumetric rates used by both the Region and the local area municipalities or it could result in a shortfall in revenues. The current decline in water usage is generally driven by the business/commercial sector due to mandatory COVID-19 closures, therefore the increase in rates would create a shift in the burden to the residential sector if business closures continue into 2021. The need to incorporate changes in water volumes into the 2021 budget will be assessed in alignment with the economic recovery permitted by the Provincial reopening orders.

With the announcement of Phase 1 Safe Re-start funding from the Province of Ontario, staff have prepared the following worst to best case scenarios for 2021 based on information currently available and the 2020 estimated results.

Table 7: 2021 Levy Funding Scenarios

(in thousands)	Worst Case	Likely Case	Best Case
2021 Pressure Identified	\$ (21,504)	\$ (21,504)	\$ (21,504)
2021 Possible Public Health Funding		9,819	9,819
2020 Funds available for 2021 Budget	5,116	11,050	23,844
2021 Net funding surplus/(deficit)	\$ (16,388)	\$ (635)	\$ 12,159

Alternatives Reviewed

The actual year end results may vary based on ongoing funding information from upper levels of government and the Region's recovery planning activities.

Relationship to Council Strategic Priorities

Forecasting financial results and providing formal reporting to Council and the public supports Sustainable and Engaging Government.

Supporting the COVID-19 emergency response directly supports Councils strategic priority of a Healthy and Vibrant Community.

Other Pertinent Reports

- CSD 30-2020 COVID-19 Preliminary Overview of Financial Impacts (April 23, 2020)
- CSD 31-2020 Concessions to Local Area Municipalities regarding Taxes and Water Wastewater Billings (April 23, 2020)
- CSD 34-2020 COVID Cash Flow Update (May 21, 2020)
- CSD 35-2020 COVID-19 Financial Impact Update (May 21, 2020)
- CSD 39-2020 COVID Cash Flow Update (June 25, 2020)
- CSD 40-2020 COVID-19 Financial Impact Update (June 25, 2020)
- CSD 46-2020 COVID Cash Flow Update (July 23, 2020)
- CSD 47-2020 COVID-19 Financial Impact Update (July 23, 2020)
- CSD 50-2020 COVID Cash Flow Update (August 13, 2020)
- CSD 51-2020 COVID-19 Financial Impact Update (August 13, 2020)

Prepared by:

Melanie Steele, MBA CPA CA
Associate Director, Reporting & Analysis
Corporate Services

Recommended by:

Todd Harrison, CPA, CMA
Commissioner/Treasurer
Corporate Service

Submitted by:

Ron Tripp, P.Eng.
Acting Chief Administrative Officer

This report was prepared in consultation with Corporate Leadership Team and consolidated ABC's and reviewed by Helen Chamberlain, Director, Financial Management & Planning/Deputy Treasurer.

Appendices

Appendix 1	Q2 2020 Financial Update
Appendix 2	COVID-19 2020 Financial Impact Summary
Appendix 3	COVID-19 2020 Financial Impact by Department