
Subject: Q3 2020 Financial Update
Report to: Corporate Services Committee
Report date: Wednesday, December 9, 2020

Recommendations

1. That the September 30, 2020, Q3 Financial Update of the Regional Municipality of Niagara ("the Region") **BE RECEIVED** for information.

Key Facts

- Quarterly financial 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 Q3 report provides the most recent comprehensive financial report of all Region operations in 2020 and consolidates all impacts, both COVID-19 related and non-COVID-19 related.
- Regional departments and General Government are projecting a surplus of \$19.5 million (3.51% of budget) at year-end. Levy-supported programs (Regional Departments consolidated with ABC's) are projecting a surplus of \$17.1 million (2.07% of budget) at year-end.
- Rate supported programs (Water and Wastewater Services and Waste Management Services) are projecting a surplus of \$2.0 million (1.09% of budget) at year-end.
- The above results include the Region's current estimate of the 2020 total gross cost related to the COVID-19 pandemic is \$48.6 million. Total regional gross cost (including all Local Area Municipalities, LAMS) is estimated at \$79 million.
- At the time of writing this report, the Region had submitted its application for additional Phase 2 funding through the Municipal Safe Re-start funding from the Province of Ontario based on the net COVID-19 related costs incurred, but have not received confirmation yet regarding eligibility.
- Sustainable variances identified through the quarterly reporting exercise have been considered in the development of the 2021 budget.
- The 2021 projected net budget pressure related to ongoing COVID-19 measures to date is \$19.5 million or 4.97 % for levy programs, \$0.1 million or 0.32% for waste

management, and a savings of \$0.1 million or 0.07% for water/wastewater programs. 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.

- 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.

Financial Considerations

Full analysis and explanation of the levy and rate-supported program forecasts can be found in the Q3 2020 Financial Update Report on the Region's website at the link below and in 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.

[Q3 2020 Financial Update](#)

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

Due to the COVID-19 emergency, the Region's results and forecasts 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 several 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 Q3 2020 Financial Update Report.

Table 1: Q3 2020 Results Summary

(in thousands)	Forecasted Surplus/(Deficit) after indirect allocations	Percent of Budget
Regional Departments and General Government	\$19,504	3.51%
NRPS	(3,103)	1.65%
NRH	1,130	1.71%
Court Services	(458)	5.64%
NPCA	0	0.00%
Total Levy Supported	\$17,073	2.07%
Water and Wastewater	\$1,649	1.24%
Waste Management	396	0.71%
Total Rate Supported	\$2,045	1.09%

Niagara Region's levy programs are operating at a forecasted surplus of \$17,073 after applying all known government funding announcements, including the Phase 1 Municipal Safe Re-start funding. Staff would recommend that all COVID-19 related funding received for 2020 be applied to 2020 COVID-19 related net costs, and that any surplus at year-end arising from strategic mitigation efforts and redeployments be allocated to the Taxpayer Relief Reserve, to then be utilized to offset 2021 budget pressures. Given unknowns around additional Public Health and Seniors Services funding, staff have prepared the following worst to best case scenarios for 2020 in Table 2 below. An application has been submitted for Phase 2 Municipal Safe Re-start funding; however, it currently unknown at the time of writing this report whether the Region will receive any additional funding.

Table 2: Levy Funding Available for 2021

(in thousands)	Worst Case	Likely Case	Best Case
2020 Levy Supported Programs Surplus	\$ 17,073	\$ 17,073	\$ 17,073
2020 Possible Public Health Funding	-	1,872	1,872
2020 Seniors Services Funding	-	1,711	1,711
2020 EMS Funding	-	-	2,499
Safe Restart Municipal Funding - Phase 2	-	-	Unknown
Funds available for 2021 Levy Budget	\$ 17,073	\$ 20,656	\$ 23,155

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

Analysis

The Q3 2020 financial results are being driven by many different factors, which are outlined below. Since our previous report CSD 69-2020 on October 22, 2020, information has been received and assumptions have been updated. The main changes between the October report and the current analysis are due to a comprehensive Q3 analysis, which resulted in refinement of many non-COVID related items, as well as application of the Phase 1 Municipal Safe Re-start funding in the forecast.

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

Regional Departments and General Government have a forecasted year-end surplus of \$19,504 (3.51% of budget). The forecasted surplus is driven in large part by Phase 1 Municipal Safe Re-start funding from the Province of Ontario that will offset some of the COVID-19 related costs that have been incurred since the start of the pandemic. In the absence of known external funding to support incremental costs such as investments in additional staff support and supplies in Community Services and Public Health to support the COVID-19 emergency, the Region worked to mitigate these increases 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 and deferring planned work. There was also a pandemic-related hold on recruitment for staffing vacancies and reduced health and dental benefit claims due to closures and restrictions, which generated savings in compensation costs.

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.

These cost savings have been partially offset by 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 and an allocation of investment income

to the rate reserves and deferred revenues that is higher than budgeted in alignment with the reserve and reserve fund policy.

The ABCs are forecasting a year-end deficit of \$2,431 (0.91% 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 surplus at year-end of \$1,649 (1.24% of budget), which is comprised of forecasted surpluses in the water division of \$730 and in the wastewater division of \$919.

The surplus is primarily driven by savings in labour-related costs arising from a pandemic-related hold on recruitment for staffing, as well as savings in preventative maintenance and repair work and Asset Management software implementation that have been deferred due to COVID-19.

These savings are partially offset by decreased water sales in the water division due to reduced water usage combined with a wet spring, and increased sludge management and chemical costs due to increased pricing.

Waste Management

Waste Management Services is forecasting a surplus at year-end of \$396 (0.71% 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 \$48.6 million, with a net cost after program-specific and Phase 1 Municipal Safe Re-start funding of \$17.8 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 manage the cost of the emergency, resulting in a total net estimated surplus of \$19.1 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	46,849	1,016	692	48,557
Less: Confirmed Funding Matched to Expenses	(30,798)	-	-	(30,798)
Net Cost to Region	16,051	1,016	692	17,759
Less: Strategic and Other Mitigations	(12,521)	(2,488)	(1,039)	(16,048)
Less: Redeployed resources	(20,603)	(177)	(49)	(20,829)
Net budget deficit/(surplus)	\$ (17,073)	\$ (1,649)	\$ (396)	\$ (19,118)

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 \$79 million.

Funding Announcements

The Region has received announcements of confirmed funding sources of \$37.8 million to support the COVID-19 emergency, as identified below. The funding sources will be utilized as outlined by each different agreement, with an estimated \$30.8 million (\$18.6 million in program-specific funding and \$12.2 million in Municipal Safe Re-start funding) being recognized in the 2020 operating results.

Table 4: Confirmed Funding Announcements

(in thousands)	Amount	2020 Operating	2021 Operating	Capital	To be allocated
Social Services Relief Fund - Phase 1 (Note 1)	\$ 2,408	\$ 1,859	\$ 549	\$ -	\$ -
Reaching Home Funding (Note 1)	1,253	852	401	-	-
Social Services Relief Fund - Phase 2 (Note 1)	3,014	465	548	2,000	-
Community Response Fund	63	63	-	-	-
Reaching Home Funding - Phase 2 (Note 1)	1,705	-	-	-	1,705
Childrens Services Fees Subsidy Funding Reallocation	720	720	-	-	-
School Focused Nursing Initiative (Note 2)	1,827	707	1,120	-	-
Case and contact management funding	32	11	21	-	-
Transit Bus Cleaning	27	27	-	-	-
Safe Restart - Transit Phase 1 Funding (Note 3)	-	-	-	-	-
Safe Restart - Child Care Funding	4,533	4,533	-	-	-
Long-term Care - Emergency Funding	3,071	3,071	-	-	-
Long-term Care - Infection Prevention & Control Funding	774	774	-	-	-
Long-term Care - PSW Wage Enhancement	1,297	648	648	-	-
Pandemic Pay (Note 4)	4,883	4,883	-	-	-
Sub-total of program specific funding	25,607	18,614	3,288	2,000	1,705
Safe Restart - Municipal Phase 1 Funding	12,185	12,185	-	-	-
Total	\$ 37,792	\$ 30,798	\$ 3,288	\$ 2,000	\$ 1,705

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

Note 2: Estimated based on 20 FTE notice provided.

Note 3: Funding allocation was \$609,693. Based on terms of funding and no net eligible expenditures, it will be returned.

Note 4: Pandemic payments from April 24 to August 13. Including payments to 3rd party agencies.

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 \$540 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. Monthly funding allocations have been received for April through September.
- 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.

- An additional \$250 million in federal-provincial funding through the COVID-19 Resilience Infrastructure Stream to support public infrastructure, defined as tangible capital assets, including temporary infrastructure related to pandemic response, primarily for public use and/or benefit. Niagara Region will be eligible for funding up to \$2.5 million, but will need to complete applications on eligible projects to receive the funding. Staff are currently working to identify eligible projects.
- Ontario Works has been closely monitoring caseload. It is not expecting to see increased caseload in 2020 but may see increase in 2021. If increased caseloads occur the Region would expect 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 and the Region has submitted reports to the province. No details on allocation have been provided yet.

2021 Budget Pressures

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.

At this time staff have been working 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 drive many of the budget impacts. At the time of this report staff have identified 2021 net budget pressures related to COVID-19 as \$19.5 million, which are summarized by program area below. In the spirit of Council's priority to minimize tax increases, staff have developed a 2021 funding strategy for COVID-19

related pressures that leverages phase 1 Safe Restart, 2020 surplus, assessment growth allocation and stabilization reserves. This will be presented to Council through the levy budget presentations in January and will ensure no increase to the tax levy for COVID-19 in 2021.

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

(in thousands)	Amount	Increase %
General Government & Corporate	\$ 1,008	0.26%
Corporate Administration	57	0.01%
Corporate Services	1,434	0.37%
Court Services	39	0.01%
Niagara Regional Housing	605	0.15%
NRPS	1,050	0.27%
Transportation	(74)	-0.02%
Public Health		
Public Health	5,615	1.43%
Emergency Medical Services	788	0.20%
Community Services		
Seniors Services	7,487	1.91%
SAEO	-	0.00%
Childrens Services	267	0.07%
Homelessness	1,230	0.31%
Levy Budget Pressure	19,506	4.97%
Water & Wastewater Services Pressure	(92)	-0.07%
Waste Management Pressure	\$ 126	0.32%
Total	\$ 19,540	4.98%

To better understand the components, a summary of items by category is provided below. The following is of note:

- The most significant pressure relates to required incremental staffing across the corporation and the creation of a pandemic division within public health.
- No new funding sources (outside of the homelessness program, which has identified funding until the end of its fiscal year of March 31, 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.
- The costs assume the Region will end current redeployment between departments 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.

- We have excluded the cost of the COVID-19 vaccination program in the 2021 proposed budget. Once we have a better understanding of the cost and funding model for this program, a report will be written to Council outlining the financial implications and requesting a budget adjustment as required. Should costs for the program be incurred in advance of funding, staff will ensure they are tracked separately and can be reported on. The Region would rely on its current working capital to cash flow program purchases as required. If external funding is not sufficient to cover the costs of the program, staff would recommend drawing on the Taxpayer Relief Reserve through the 2021 year-end transfer report per the Operating Surplus/Deficit Policy C-F-022.

Table 6: 2021 COVID Related Budget Pressure by Category

(in thousands)	Amount	Increase %
Staffing	\$ 7,789	
Pandemic Division	5,465	
Personal Protective Equipment	1,919	
Cleaning & Sanitation	1,914	
Equipment	116	
Shelter	2,440	
Agency Support	244	
Vaccination Program	Not included	
Rent Subsidy	192	
Lost Revenue - Transit	3,462	
Lost Revenue - NRPS OLG	1,050	
Lost Revenue - Taxes	1,008	
Lost Revenue - Other	303	
Cost Savings - Transit	(3,623)	
Cost Savings - Other	(284)	
Other	164	
Total Gross Cost	22,159	
Confirmed Funding	2,619	
Total Net Cost	\$ 19,540	4.98%

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, and therefore the increase in rates would create a shift in the burden to the residential sector if business closures continue into 2021. The current strategy will be to maintain volumes

in the 2021 budget to minimize impact on the water/wastewater rate due to COVID-19. Should actual volumes be below budget, staff will recommend drawing on the taxpayer relief reserve in 2021 through the year-end transfer report to fund the water sales deficit.

Alternatives Reviewed

Forecasts for the year are provided using the best information and estimates based on circumstances known at the time of the financial update.

Staff are working with both the area municipality treasurers within Niagara Region and with colleagues across the province (through the Ontario Regional and Single-Tier Treasurers group) to share ideas and strategies to respond to the financial and operational impacts of this pandemic.

Relationship to Council Strategic Priorities

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

Supporting the COVID-19 emergency response directly supports Council's 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)
- CSD 56-2020 Q2 2020 Financial Update (CSC September 9, 2020)
- CSD 57-2020 COVID-19 Cash Flow Update (September 17, 2020)

- CSD 63-2020 COVID-19 Cash Flow Update (October 22, 2020)
- CSD 69-2020 COVID-19 Financial Impact Update (October 22, 2020)

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Appendices

Appendix 1	Q3 2020 Financial Update
Appendix 2	COVID-19 2020 Financial Impact Summary
Appendix 3	COVID-19 2020 Financial Impact by Department