
Subject: 2020 Year-End Results and Transfer Report

Report to: Corporate Services Committee

Report date: Wednesday, March 10, 2021

Recommendations

1. That the unaudited summarized financial results of the Niagara Region as detailed in Appendix 1, **BE RECEIVED**;
2. That the 2020 year-end operating surplus for levy-supported programs including agencies, boards and commissions of \$37,306 thousand **BE TRANSFERRED** as follows:
 - \$69 thousand **BE TRANSFERRED** from the Accumulated Sick Leave Reserve as per NRPS recommendation to their Board in Appendix 8
 - \$2 thousand **BE TRANSFERRED** from the Ontario Police Video Training Alliance (OPTVA) Reserve as per NRPS recommendation to their Board in Appendix 8
 - \$6,600 thousand **BE TRANSFERRED** to the Hospital Contribution Reserve (to be formally established in CSD 19-2021) to fund the committed contribution to the new West Lincoln Hospital.
 - \$230 thousand related to the Niagara Foreign Trade Zone (NFTZ) and Foreign Direct Investment activities **BE TRANSFERRED** to the Taxpayer Relief Reserve to fund the 2021 NFTZ and investment attraction activities in collaboration with Team Niagara.
 - \$30,547 thousand **BE TRANSFERRED** to the Taxpayer Relief Reserve;
3. That the 2020 year-end operating surplus for rate-supported programs of \$4,222 thousand **BE TRANSFERRED** to reserves as follows:
 - \$1,493 thousand **BE TRANSFERRED** to the Waste Management Stabilization Reserve
 - \$1,863 thousand **BE TRANSFERRED** to the Wastewater Stabilization Reserve
 - \$500 thousand **BE TRANSFERRED** to the Water Capital Reserve
 - \$366 thousand **BE TRANSFERRED** to the Water Stabilization Reserve
4. That encumbrances of \$16,275 thousand (Appendix 2) **BE RECEIVED** for information and that the deferral of these expenditures be included in the 2021 operating budget; and
5. That the transfers of \$10,394 thousand from the capital variance projects to Capital Reserves **BE RECEIVED** for information.

Key Facts

- The unaudited results of Niagara's 2020 budget are a surplus of \$37,306 thousand in the levy-supported programs and a surplus of \$4,222 thousand in the rate-supported programs. These results include the Region's \$49 million in COVID-19 gross costs and additional COVID-19 funding of \$47.9 million (general Municipal Safe Restart funding of \$18.9 million and \$28.9 million in program-specific funding). As this funding was unknown until late in the year after the Region employed extensive mitigation, including the redeployment of staff resources and the re-prioritization of planned work at the start of the pandemic, it contributed largely to the year-end surplus. The COVID-19 funding is recommended in this report to be set aside in reserve to support COVID-19 costs as reported in the 2021 budget and 2022 forecast and as reflected in Table 2 of this report.

Table 1: Consolidated Surplus/Deficit Summary (in thousands)

	2020 Surplus/(Deficit) after indirect allocations	2020 Surplus/(Deficit) Percentage of Budgeted Gross Expenditures	2019 Surplus/(Deficit) Percentage of Budgeted Gross Expenditures
Regional Depts. & General Government	\$37,410	6.72%	0.16%
Court Services	(\$391)	(4.81%)	7.24%
NRH	\$655	0.99%	2.03%
NRPS	(\$368)	(0.20%)	0.44%
NPCA	\$0	0.0%	0.13%
Total Levy-Supported Surplus	\$37,306	4.52%	0.44%
Water	\$866	1.86%	(1.13%)
Wastewater	\$1,863	2.16%	(1.46%)
Waste Management	\$1,493	2.68%	(2.13%)
Total Rate-Supported Surplus	\$4,222	2.24%	(1.58%)

- The overall variances as a percentage of gross budgeted expenditure are higher than in the prior year as a result of funding announcements that came late in the year. A 5-year summary of the surplus/deficit can be found in Appendix 3.
- The recommendations included in this report have been guided by the Operating Surplus/Deficit Policy approved by Council in July 2018, which states that "year-

end surpluses will be allocated to those areas that have been identified as underfunded per the Reserve and Reserve Fund Policy and/or one-time funding needs as recommended by Council,” with funds allocated to stabilization reserves, capital reserves and to support key initiatives.

- In alignment with the corporate strategies and the Operating Surplus/Deficit Policy, NRH made the recommendation to their Board to return the surplus to the Region to be addressed in this report. The NRPS deficit is being addressed with overall corporate surplus. See Appendix 8 and 9 for full the ABC reports.
- Funding of \$16,275 thousand has been set aside in the encumbrance reserve as of December 31, 2020. \$12,333 thousand (75.8%) of the total encumbrance amount is related to various incentive and grant programs such as the Combined Sewer Overflow (CSO) Program, Smarter Niagara Incentive Program (SNIP), Public Realm Investment Program (PRIP), Gateway Tax Increment Grant (TIG) and the Waterfront Investment Program (WIP). For the amounts encumbered, a spending obligation (in the form of a purchase order, contract or other legally binding commitment) has been made against the 2020 operating budget; however, the product or service has not been received in the year. The budgeted funds will be transferred back to the 2021 operating budget when the product or service is received and the related budgeted expense will be grossed up for the year.
- In accordance with the Budget Control By-Law, capital variance projects (CVP) are allocated surplus from capital projects and used for funding capital project deficits in the year. The CVP are maintained at a target balance of \$1 million at the beginning of each year, per the Capital Asset Management Policy. Balances greater than \$1 million are transferred to capital reserves at year-end. Transfers to the General Capital Levy of \$5,601 thousand, Wastewater capital of \$3,664 thousand, Water capital of \$347 thousand and Waste Management Capital of \$782 thousand were completed at year-end. The 2021 capital budget utilizes \$7 million of this funding.

Financial Considerations

The recommendations in this report will fully allocate the 2020 year-end operating surplus to reserves. Full explanations for the surpluses and deficits can be found in Appendix 4 and are summarized on the Consolidated Year-End Funding Surplus/ (Deficit) Review in Appendix 1.

Analysis

Full analysis and explanation of the rate and levy-supported programs can be found in the Annual Financial Update in Appendix 4 and on the Region's website. The report is Accessibility for Ontarians with Disabilities Act compliant. Hard copies of the report can be made available upon request.

[December 2020 Financial Update](#)

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

Reserve Impacts Based on Report Recommendations

The Niagara Region's Operating Surplus/Deficit Policy outlines how annual operating surpluses or deficits are addressed at year-end, giving consideration to affordability, sustainability and Niagara Region's credit rating. This Policy applies to all departments, agencies, boards and commissions consolidated within the Niagara Region.

The Policy states that year-end surpluses will be allocated to those areas that have been identified as underfunded per the Reserve and Reserve Funds Policy and/or one-time funding needs as recommended by Council. The Policy states that for corporate stabilization reserves, the minimum balance target is 10% to 15% of Operating Expenses.

The recommended allocations for the year-end surpluses include the following:

- \$6,600 thousand to a new Hospital Contribution Reserve (to be formally established by Council through future report CSD 19-2021). This contribution, in conjunction with the annual contribution of \$1.5 million established in the 2021 budget, will allow the Region to save the required \$12,600 thousand towards the funding commitment for the West Lincoln Hospital by 2024;
- \$230 thousand resulting from the return of surplus grant funding related to the Niagara Foreign Trade Zone (NFTZ) and Foreign Direct Investment activities to be used to fund the 2021 NFTZ and investment attraction activities in collaboration with Team Niagara through the Taxpayer Relief Reserve. The NFTZ established itself as a resource to exporters in Niagara and marketed the designation as a competitive advantage for Niagara in attracting investment. With this foundational work in place, it is planned that the operations of the NFTZ be brought back into the Region's Economic Development

department so that there could be closer alignment with investment attraction activities;

- \$71 thousand from Niagara Regional Police reserves, including the Police Accumulated Sick Leave Reserve (\$69 thousand) and the Ontario Police Video Training Alliance (OPTVA) Reserve (\$2 thousand), per the recommendations of the Niagara Police Service Board to fund related operational deficits during the year;
- The balance of the levy surplus of \$30,547 to the Taxpayer Relief Reserve, with the intention of using these funds to support COVID-19 related pressures as approved in future operating budgets, including funding of the pandemic division within Public Health for 2021 and 2022;
- \$500 thousand to the Water Capital Reserve to help fund capital infrastructure work, given that the Water Stabilization Reserve is within the funding targets; and
- The balance of the rate surpluses to the respective stabilization reserves, including \$366 to the Water Stabilization Reserve, \$1,863 to the Wastewater Stabilization Reserve and \$1,493 to the Waste Management Stabilization Reserve.

The chart below shows a summary of the stabilization reserve balances after the transfers recommended in this report and uses of the reserve included in the multi-year budget requirements for the COVID-19 related costs as presented in the 2021 Budget and 2022 forecast.

Table 2: 2020 to 2023 Stabilization Reserve Projection (in thousands)

Reserve Description	Actual Reserve Balance at December 31, 2020	Forecasted Reserve Balance at December 31, 2021	Forecasted Reserve Balance at December 31, 2022	Forecasted Reserve Balance at December 31, 2023
Stabilization Reserves				
Taxpayer Relief	\$53,509	\$27,718	\$20,117	\$20,962
Water Stabilization	\$3,431	\$3,438	\$3,445	\$3,452
Wastewater Stabilization	\$3,254	\$3,271	\$3,288	\$3,305
Waste Management Stabilization	\$6,365	\$2,942	\$2,064	\$2,688
Police Contingency	\$704	\$954	\$954	\$954
Police Services Board Contingency	\$242	\$242	\$242	\$242

The following shows the forecasted balance of the stabilization reserves at December 31, 2023 after the recommended transfers included in this report relative to the minimum target balances as outline in the Reserve and Reserve Funds Policy.

Table 3: Stabilization Reserve Targets (in thousands)

Reserve Description	Reserve Balance After Transfers at December 31, 2023	Target Balance	Target Balance
		Low (10%)	High (15%)
Taxpayer Relief	\$20,962	\$57,263	\$85,895
Water Stabilization	\$3,452	\$2,387	\$3,581
Wastewater Stabilization	\$3,305	\$6,476	\$9,715
Waste Management Stabilization	\$2,688	\$5,296	\$7,944
Police Contingency	\$954	Determined by NRPS	Determined by NRPS
Policy Services Board Contingency	\$242	Determined by NRPS	Determined by NRPS

Based on the table above, the following stabilization reserves are underfunded, as they are not meeting the minimum target balance thresholds established:

- Taxpayer Relief
- Wastewater Stabilization
- Waste Management Stabilization

Reserve balances below the minimum target may impact the ability to manage future operational risks.

Unspent 2020 Budgeted Reserve Transfers

Budgeted reserve transfers that are unspent during the year are returned to their originating reserves in accordance with the Reserve and Reserve Fund Policy. In 2020, the following funds were returned to reserves:

- Unused drainage assessment funding by local area municipalities of \$9 thousand
- Unused active transportation/bike lane funding by local area municipalities of \$23 thousand
- Unused funds for Niagara Falls and St. Catharines GO Stations not fully operational of \$719 thousand
- Unused funds for ICOPS division reorganization of \$29 thousand
- Unused Waste Management service level campaign funding of \$64 thousand
- Unused funds for sick leave payouts of \$51 thousand
- Unused funding for Human Resources Information Systems project of \$830 thousand

- Unused funding for Community Benefit Charge Study of \$150 thousand
- Unused funding for Niagara Airports of \$144 thousand
- Unused funding for the 50th anniversary of the Niagara Region of \$39 thousand

Encumbrances

Encumbrance accounting is a mechanism to facilitate the accounting of goods and services where an obligation to purchase has occurred in the year but the goods or services have not been received by year-end. An obligation to purchase can be in the form of a purchase order, contract or other legally binding commitments. Funds are requested to be set aside in the encumbrance reserve for use in the following year.

Incorporated in the year-end operating funding surpluses are encumbrances totalling \$16,275 thousand (see Appendix 2). As part of the year-end reporting process, the Financial Management and Planning division has reviewed each encumbrance request with the originating department. The encumbrances identified will be transferred to the encumbrance reserve at December 31, 2020 and transferred back to the respective departments in 2021. Encumbrance balances that have been carried forward from a year prior to 2020 have also been identified in Appendix 2.

The majority of the encumbrance requests in 2020 relate to various incentive and grant programs, which are in partnership with the local area municipalities (LAMs) and can span multiple years.

Capital Variance Project Transfer to Capital Reserve

Throughout the year, project variances are transferred to or from the Capital Variance Project (CVP) to be used in-year in accordance with the Budget Control By-Law.

During 2020, a total of 92 projects were closed (compared to 117 projects in 2019). As a result of the project closures and budget reductions, a total of \$16,095 thousand and \$15,727 thousand were returned to the CVP in 2020 and 2019 respectively.

At the end of the year, the balance of the CVPs are reviewed and the amount in excess of \$1 million is transferred to the appropriate capital reserve (see *Capital Variance Project Summary* in Appendix 4 for more detail).

The following is a summary of the amounts transferred to the respective capital reserve from each CVP and the balances remaining in the CVP as of December 31, 2020.

Table 4: 2020 Capital Variance Project Transfers to Reserve (in thousands)

CVP Description	CVP Balance Before Transfer to Reserve	Transfer to Reserve	CVP Balance After Transfer to Reserve
Levy Programs	\$6,601	\$5,601*	\$1,000
Waste Management	\$1,782	\$782	\$1,000
Wastewater	\$4,664	\$3,000**	\$1,000
Water	\$1,347	\$347	\$1,000
Total	\$14,394	\$10,394	\$4,000

* \$4,000 of the amount transferred to reserve has been committed to the approved 2021 capital budget

** \$3,000 of the amount transferred to reserve has been committed to the approved 2021 capital budget

COVID-19 Financial Impacts Summary

Staff tracked costs directly related to the emergency throughout the year which have been incorporated in the comprehensive financial results above. Total gross COVID cost related to the emergency is \$49 million, with a net COVID cost of \$1.1 million after applying confirmed program-specific and Municipal Safe Re-start funding to support the COVID-19 emergency and be utilized as per each funding agreement.

The table below also includes strategic and other mitigations (offset by additional non-COVID pressures) that the Region was able to put in place to help manage the cost of the emergency, resulting in the total net surplus of \$41.5 million.

Table 5: 2020 COVID-19 Financial Impacts

(in thousands)	Levy	Water/ Wastewater	Waste Management	Total
Total COVID Gross Cost	\$ 47,421	\$ 1,117	\$ 448	\$ 48,987
Less: Confirmed Funding Matched to Expenses	(47,911)	-	-	(47,911)
Net COVID Cost to Region	(490)	1,117	448	1,076
Less: Strategic and Other Mitigations	(16,261)	(3,671)	(1,892)	(21,824)
Less: Redeployed resources	(20,555)	(175)	(49)	(20,780)
Net Budget Surplus	\$ (37,306)	\$ (2,729)	\$ (1,493)	\$ (41,528)

Further detail on the corporate assumptions and cost categories can be found in Appendix 5, a more detailed breakdown by operating department in Appendix 6 and a summary of the confirmed funding announcements in Appendix 7.

Alternatives Reviewed

Council may direct staff to consider alternative options for the consolidated net surplus position of \$41,528 thousand however this is not recommended as the report recommendations have been made in accordance with policies and 2021 and 2022 budget commitments.

Relationship to Council Strategic Priorities

Providing formal financial 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)
- CSD 76-2020 Q3 2020 Financial Update (CSC December 9, 2020)

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

Appendices

Appendix 1	Consolidated Year-End Funding Surplus/(Deficit)
Appendix 2	Detailed Summary of Encumbrances by Department
Appendix 3	5 Year Funding Surplus/(Deficit) Analysis
Appendix 4	Q4 2020 Financial Update
Appendix 5	COVID-19 2020 Financial Impact Summary
Appendix 6	COVID-19 Financial Impact by Department
Appendix 7	Confirmed COVID-19 Funding Announcements
Appendix 8	NRPS Financial Variance Overview for the Year Ending December 31, 2020
Appendix 9	NRH 2020 Year-End transfer Report (NRH 3-2021)