
Subject: Q1 2021 Financial Update

Report to: Corporate Services Committee

Report date: Wednesday, June 16, 2021

Recommendations

1. That the March 31, 2021, Q1 Financial Update of the Regional Municipality of Niagara (“the Region”) **BE RECEIVED** for information; and
2. That a gross budget increase of \$13,596,268 for COVID-19 expenditures **BE APPROVED** and **BE FUNDED** with incremental external revenue (Appendix 3 to Report CSD 39-2021).

Key Facts

- The purpose of this report is to provide an overview of forecasted operating variances based on actual results as of March 31, 2021, including a detailed financial report of COVID-19 related financial activities. Quarterly financial updates are typically provided as of June, September and December each year. Given the significant financial implications associated with COVID-19 in the Region, staff are providing a hybrid Q1 report to Council through a fulsome forecast of COVID-19 financial implications to report on the impacts of the pandemic, and reporting of the non-COVID budget for known significant changes from the approved operating budget.
- The recommended gross budget increase of \$13,596,268 for COVID-19 expenditures will bring total gross expenditures to \$55,244,109 (see Appendix 3 to Report CSD 39-2021) and is recommended to be funded with COVID-19 incremental external revenue.
- As required in the Budget Control By-Law, staff are requesting that Council approve a gross budget adjustment for \$13.6 million in relation to confirmed external COVID-19 specific funding and related expenditures that were not known at the time the 2021 budget was approved.
- Total confirmed COVID-19 external funding is \$49.4 million (see Appendix 6 to Report CSD 39-2021 for a summary of the funding). Funding announcements that are anticipated but have not been confirmed have not been included in this forecast.
- The 2021 budget included a transfer from the Taxpayer Relief Reserve of \$19.0 million to fund COVID-19 related expenditures (\$18.8 million for Levy programs and

\$0.2 million for Rate programs). Staff are forecasting that this budgeted transfer from reserve will be reduced by \$13.4 million to \$5.6 million due to confirmed external COVID-19 funding. As these estimates are subject to change, staff will continue to monitor and provide updates quarterly on the actual Reserve funding required.

- Regional departments and General Government are projecting a surplus of \$6.3 million (1.05% of budget) at year-end. Levy-supported programs (Regional Departments consolidated with Agencies, Boards and Commissions (ABCs)) are projecting an overall surplus of \$4.9 million (0.55% of budget) at year-end.
- Rate-supported programs (Water and Wastewater Services and Waste Management Services) are projecting an overall surplus of \$1.8 million (0.86 % of budget) at year-end (Appendix 1 to Report CSD 39-2021).
- 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, 2021 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

COVID-19

COVID-19 expenditures of \$19.8 million were approved in the 2021 operating budget, funded with, \$0.8 million in levy funding and \$19.0 million in reserve funding. Additionally \$2.7 million was included in the base budget for Homelessness and Public Health and funded 100% with external funding. Council has approved two in-year budget adjustments related to COVID-19 totaling \$18.6 million gross and \$0 net (funded with external revenue). As part of this report, staff have forecasted and are requesting a further increase in gross COVID-19 expenditures of \$13.6 million gross and \$0 net (funded with external revenue), bringing total gross COVID-19 expenditures to \$55.2 million as per Table 1.

The 2021 budgeted transfer from the Taxpayer Relief reserve of \$19.0 million (\$18.8 million for Levy programs and \$0.2 million for Rate programs), is forecasted to be reduced by \$13.4 million to \$5.6 million through substitution with confirmed external COVID-19 funding (Appendix 3 to Report CSD 39-2021).

See Table 1 below for a summary of the COVID-related adjustments.

Table 1 – 2021 COVID-19 Budget Overview

<i>(in millions)</i>	<u>Gross Expenditures</u>	<u>External Funding</u>	<u>Levy Funding</u>	<u>Reserve Funding</u>
2021 COVID Expenses	\$19.8	\$0	\$(0.8)	\$(19.0)
2021 Base COVID Expenses	2.7	(2.7)	0	0
In-Year Budget Approval – Public Health COVID-19 Extraordinary Cost Funding (PHD 6-2021)	16.6	(16.6)	0	0
In-Year Budget Approval – Economic Development Niagara Tourism Adaption and Recovery (ED 4-2021)	2.0	(2.0)	0	0
Approved to Date	41.1	(21.3)	(0.8)	(19.0)
Q1 Financial Report - External Funding Implications	13.6	(28.1)	1.1	13.4
Q1 Financial Report – Levy Funding	0.5	0	(0.5)	0
Forecasted	55.2	(49.4)	(0.2)	(5.6)

Key drivers of the year to date COVID surplus are as follows:

Savings/Additional Funding:

- Transit (\$1.2 million) – lower than anticipated costs within Inter-Municipal Transit as a result of planned service reductions due to COVID-19. These savings are not being used to offset incremental COVID-19 pressures at this time and are

contributing to the overall levy surplus in alignment with the source of funding for the program.

- Public Health wages (\$0.6 million) – Six permanent FTEs were budgeted with levy funding (\$0.6 million); however, staff have requested that the Ministry of Health fund these positions through the Annual Service Plan. If the Ministry approves the request, a further budget adjustment would be recommended to recognize the Ministry funding in the budget for these positions
- Federal & Provincial Grants (\$46.7 million) – incremental confirmed funding announcements, reducing requirement for funding from Reserves.

Pressures/Incremental Expenditures:

- Unbudgeted costs for Mass Immunization clinics – staffing (\$15.9 million) and medical supplies (\$2.2 million) (Budget adjustment was approved after Q1 reporting deadline)
- Homelessness agency-related costs (\$4.7 million)
- Childrens Emergency Child Care provider payments (\$2.4 million)
- Reduced water sales (\$0.5 million)
- NRPS lost Casino revenue for the full year versus budget of only one quarter (\$3.2 million)
- Reduction in transfer from Taxpayer Relief Reserve (\$13.4 million)

Non-COVID-19

Preliminary Non-COVID-19 financial results are for Regional departments and General Government are forecasted at a surplus before indirect allocations of \$3.4 million as of December 31, 2021 (Appendix 2 to Report CSD 39-2021). Key drivers of this forecasted surplus include cost savings within compensation due to gapping related to delays in filling vacant positions, particularly within Public Health as resources have been redirected to support the pandemic, and savings within transit as a result of lower than anticipated service costs.

The ABCs are forecasting a non-COVID surplus from regular operations before indirect allocations of \$1.2 million, mainly as a result of salary and benefit savings in NRPS due to delays in hiring of vacant positions within uniform and civilian salaries. The non-COVID savings within NRPS are forecasted to be used to partially mitigate the COVID-related costs that have been forecasted.

The forecasted non-COVID surplus before indirect allocations for the rate-supported programs, including Water and Wastewater Services and Waste Management Services, is \$1.5 million, mainly due to a significant increase in revenue from the sale of recyclable materials as a result of an increase in the commodity rates for these materials.

Staff caution that these are high-level estimates, as a fulsome forecast was not completed for Q1 reporting purposes.

Capital

The impacts of COVID-related claims regarding delays on capital projects have not been included in this report, as all of the funding that would be available to fund such claims has been allocated to operating costs at this time. Staff will continue to monitor this and incorporate it into the reporting as available in the future.

The Environmental Centre expansion project, approved but uninitiated with the 2019 capital budget with a budget of \$23.2 million, has been closed and the committed funds from the Water, Wastewater and Waste Management capital reserves have been released to fund other capital and infrastructure needs. Staff will revisit the need for the project through a future budget request.

Analysis

In order to better understand the financial impacts of COVID-19, staff continue to track costs directly related to the pandemic. Total gross cost related to the pandemic for 2021 is forecasted to be \$55.2 million, with a net regional contribution after program-specific and general corporate COVID-19 funding of \$0.2 million in levy funding and a forecasted transfer from reserve of \$5.6 million (see Appendix 3 to Report CSD 39-2021 for a detailed breakdown by department).

The Region has received confirmed external COVID-19 funding totalling \$49.4 million in support of the COVID-19 emergency (see Appendix 6 to Report CSD 39-2021 for details). The funding sources for program-specific funding will be fully utilized to the extent possible as outlined by each different agreement. Included in the funding total of \$49.4 million is \$9.0 million in general corporate COVID-19 funding (\$2.4 million in Safe Restart – Municipal Phase 2 funding and \$6.6 million in 2021 COVID-19 Recovery Funding for Municipalities), which is forecasted to be utilized as a funding source in place of the budgeted transfer from the Taxpayer Relief Reserve. Staff continue to

monitor and assess eligibility for transit-related program funding and will report on it when determined to be eligible.

Staff are recommending a budget adjustment to increase gross COVID-related expenditures by \$13.6 million based on the Q1 forecast using \$13.6 million in confirmed incremental funding. Funding was provided for expenditures such as Emergency Child Care payments to providers and payments to providers within Homelessness, which are incremental to the approved budget.

Due to the incremental external funding, a total of \$13.4 million will be used to substitute budgeted transfers from the Taxpayer Relief Reserve, leaving \$5.6 million remaining to be funded through the reserve. It should be noted that these are preliminary estimates of the forecasted costs for the year and are subject to change as the pandemic continues to evolve, potentially increasing COVID-related costs and requiring more than the forecasted reserve transfers.

In addition to the confirmed external COVID-19 funding staff continue to monitor Provincial and Federal funding announcements and will further recommend budget adjustments and communicate additional reserve substitutions in future quarterly reports to align with these announcements. Since the time this forecast was completed, the Ministry of Health and Long-Term Care has confirmed additional emergency funding for April to June 2021 and the Ministry of Health has confirmed that the School-Focused Nurse Program has been extended from July 31, 2021 to December 31, 2021. In addition, the Province of Ontario introduced three paid sick days for full-time and part-time qualified workers where there is no current contractual obligation, which will result in the Region being able to recover our costs as they relate to this announcement. The costs and funding related to these announcements will be reflected in the Q2 Quarterly Financial Update.

All estimates in the forecast analysis have been made up to December 31, 2021, unless otherwise noted in Appendix 4 to Report CSD 39-2021 showing further detail on the corporate assumptions and cost categories. A detailed breakdown by operating department can be found in Appendix 5 to Report CSD 39-2021.

Taxpayer Relief Reserve

The 2021 budget included a transfer from the Taxpayer Relief Reserve of \$19.0 million to fund COVID-19 related expenditures (\$18.8 million for Levy programs and \$0.3 million for Rate programs). Staff are forecasting that this budgeted transfer from reserve

will be reduced by \$13.4 million to \$5.6 million, through substitution with confirmed external COVID-19 funding (Appendix 3 to Report CSD 39-2021) as discussed above.

Table 2 outlines the impact of Q1 forecasted results on the Taxpayer Relief Reserve balance. The forecast assumes no change to the 2022 or 2023 budgets from what was presented in the multi-year budget in 2021, in that all incremental costs related to COVID-19 have been forecasted as being funded from the reserve.

Table 2 – Taxpayer Relief Reserve 3-Year Forecast

<i>(in millions)</i>	<u>2021 Budget</u>	<u>2021 Forecast</u>	<u>2022 Forecast</u>	<u>2023 Forecast</u>
Opening Balance (1)	\$53.5	\$53.5	\$42.3	\$24.2
<u>Non-COVID Transfers</u>				
Annual Contribution	0.9	0.9	0.9	0
Transfer for one-time operations	(2.0)	(2.0)	0	0
Mitigation of 2021	(4.3)	(4.3)	0	0
Community Services/Homelessness Project	(1.0)	0	0	0
Niagara Foreign Trade Zone Transfer (1)	(0.2)	(0.2)	0	0
Total Non-COVID Transfers	(6.6)	(5.6)	0.9	0
<u>COVID-19 Funding Requirements</u>				
2021 COVID-19 Regional Levy and General Government funding	(17.2)	(5.6)	(17.2)	0
2021 COVID-19 ABC funding	(1.6)	0	(1.6)	0
2021 COVID-19 Rate funding	(0.2)	0	(0.2)	0
Total COVID-19 Funding Transfers	(19.0)	(5.6)	(19.0)	0

<i>(in millions)</i>	<u>2021</u> <u>Budget</u>	<u>2021</u> <u>Forecast</u>	<u>2022</u> <u>Forecast</u>	<u>2023</u> <u>Forecast</u>
Closing Balance	\$27.9	\$42.3	\$24.2	\$24.2

(1) The 2021 budgeted balance has been adjusted to reflect 2020 year-end results and approved transfers.

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.

Council approval of a budget adjustment is recommended to ensure COVID program-specific funding and general corporate funding is applied in accordance with funding requirements; therefore, no alternatives are provided at this time.

Council may recommend that surpluses experienced due to the pandemic be utilized to offset direct COVID pressures; however, the net effect at year-end is the same and the current method of presentation provides for greater transparency.

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

- ED 4-2021 Tourism Adaptation and Recover Fund Budget Adjustment
- PHD 6-2021 Public Health and 2021 Annual Service Plan and Budget Submission
- CSD 17-2021 2020 Year-End Results and Transfer Report

- CSD 5-2021 2021 Levy Operating Budget

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Appendices

Appendix 1	Summary of Consolidated Operating Surplus/(Deficit)
Appendix 2	Summary of Non-COVID and COVID Surplus/(Deficit)
Appendix 3	COVID-19 Incremental Costs and Funding Sources
Appendix 4 resources)	COVID-19 2021 Total Cost Summary (inclusive of redeployed

Appendix 5 COVID-19 2021 Total Cost by Department

Appendix 6 Confirmed COVID-19 Funding Announcements