
Subject: Q2 2021 Financial Update

Report to: Corporate Services Committee

Report date: Wednesday, September 15, 2021

Recommendations

1. That the June 30, 2021, Q2 Financial Update of the Regional Municipality of Niagara ("the Region") **BE RECEIVED** for information.

Key Facts

- The purpose of this report is to provide an overview of forecasted operating variances to year-end based on actual results as of June 30, 2021, including a detailed financial report of COVID-19 related financial activities. 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.
- Regional departments and General Government are projecting a surplus of \$6.8 million (1.04% 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 (0.54% of budget) at year-end.
- Rate-supported programs (Water and Wastewater Services and Waste Management Services) are projecting an overall surplus of \$3.8 million (1.87 % of budget) at year-end.
- The above results include the Region's current estimate of 2021 financial impacts related to the COVID-19 pandemic, including total gross cost of \$53.7 million and confirmed COVID-19 external funding to date of \$52.4 million (see Appendix 5 to Report CSD 56-2021). 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 per CSD 39-2021). Staff are forecasting that this budgeted transfer from reserve will be reduced by \$16.4 million to \$2.6 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.

- 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

Full analysis and explanation of the levy and rate-supported program forecasts can be found in the Q2 2021 Financial Update Report on the Region's website at the link below and in Appendix 1 to Report CSD 56-2021. The report is compliant under the Accessibility for Ontarians with Disability Act. Hard copies of the report can be made available upon request.

Q2 2021 Financial Update

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

A high-level analysis of the financial results below is provided in the analysis section of the report. The results below are inclusive of COVID-19 financial impacts.

Table 1: Q2 2021 Results Summary

(in thousands)	Forecasted Surplus/(Deficit) after indirect allocations	Percent of Budget
Regional Departments and General Government	\$6,801	1.04%
NRPS	(1,869)	-0.97%
NRH	46	0.10%
Court Services	(106)	-1.29%
NPCA	0	0.00%
Total Levy-Supported	\$4,872	0.54%
Water and Wastewater	(\$678)	-0.48%
Waste Management	4,514	7.10%
Total Rate-Supported	\$3,836	1.87%

Recommendations to address final surpluses and/or deficits will be brought forward to Council as part of the 2021 Year-End Transfer report.

Analysis

The Q2 2021 financial results are being driven by many different factors, which are outlined below. Since our previous report CSD 39-2021 on June 16, 2021, information has been received and assumptions have been updated.

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

Niagara Region's levy programs are operating at a net forecasted surplus of \$4,872. The Region has continued to monitor and respond to the COVID-19 pandemic and make changes to service delivery to continue to meet the needs of Niagara residents.

The levy programs excluding agencies, boards and commissions are operating at a forecasted surplus of \$6,801 (1.04% of budget). This forecasted surplus is largely driven by corporate staff gapping of \$5,544 due to delays in filling vacancies as a result of the COVID-19 pandemic. The transit division has a favourable variance of \$3,721 due to pandemic-related reduced service levels, lower ridership and deferred service enhancements. In addition, there are savings across all departments due to pandemic-related reductions in costs such as travel and staff training and development. These favourable variances are offset by the allocation of investment income of \$3,411 to the rate reserves and deferred development charges at the average portfolio rate in accordance with the Reserve Policy.

Niagara Region's agencies, boards and commissions (ABCs) are operating at a forecasted net deficit of \$1,929 (0.76% of budget). This deficit is driven primarily by lost revenues in Court Services from fines that have not been collected due to COVID-19 and the allocation of a legal claim payment to the Niagara Region Police Services (NRPS).

Rate-Supported Programs (all amounts in thousands):

Water and Wastewater Services

Water and Wastewater Services has a forecasted net deficit at year-end of \$678 (0.48% of budget) at year-end, which consists of a deficit of \$366 in the Wastewater division and \$312 in the Water division.

The forecasted deficit is primarily attributable to an unfavourable variance in water sales of \$632 due to a wet spring and summer to date, combined with decreased water usage

as a result of the COVID-19 pandemic, in addition to unfavourable variances in sludge management and chemical costs of \$483 and \$153 respectively due to increased volumes. These unfavourable variances are offset by net utility savings of \$947 and the allocation of COVID-19 funding received from the Province to offset incremental costs incurred as a result of the pandemic.

Waste Management

Waste Management Services are operating at a forecasted surplus at year-end of \$4,514 (7.1% of budget).

The forecasted surplus is primarily a result of a favourable variance of \$4,820 from higher than anticipated net market revenues from the sale of recyclable commodities arising from increased commodity prices. This favourable variance is offset by unfavourable variances of \$158 due to increased organic processing costs arising from higher volumes and \$464 in reduced garbage bag tag revenue.

This surplus was not anticipated at the time of developing the 2022 budget strategy; therefore, it will be available to assist in mitigation of 2022 budget pressures.

COVID-19 Financial Impacts

Staff continue to track costs directly related to the pandemic and report on these impacts. These costs are incorporated into the comprehensive financial results discussed in this report.

As shown in Table 2 below, COVID-19 gross expenditures of \$53.7 million have been forecasted at Q2, a decrease of \$1.0 million over the Q1 estimates. These expenditures are funded with \$52.4 in external funding (see Appendix 5 to Report CSD 56-2021, for a detailed summary of funding announcements) and \$2.6 million in reserve funding, with a net levy surplus of \$1.3 million for savings not originally attributed to items funded through the reserve. See Appendix 2 to Report CSD 56-2021 for a summary of the COVID-19 financial impacts by department.

The 2021 budgeted transfer from the Taxpayer Relief reserve of \$19.0 million to fund COVID-related expenditures (\$18.8 million for Levy programs and \$0.2 million for Rate programs), is forecasted to be reduced by \$16.4 million through substitution with the confirmed external COVID-19 funding, leaving \$2.6 million remaining to be funded through the reserve (Appendix 2 to Report CSD 56-2021). The impact of this change on the Taxpayer Relief reserve forecasted balances is shown below in Table 3. It should be noted that these estimates of the forecasted costs for the year are subject to change as

the pandemic continues to evolve, potentially increasing COVID-related costs and requiring more than the forecasted reserve transfers.

Table 2 – 2021 COVID-19 Financial Overview

<i>(in thousands)</i>				
Program Area	Gross Expenditures	External Funding	Levy Funding	Reserve Funding
Regional Departments	\$47,487	\$(46,853)	\$1,942	\$(2,576)
ABCs	5,368	(4,701)	(667)	0
Total Levy-Supported	52,855	(51,554)	1,275	(2,576)
Total Rate-Supported	855	(855)	0	0
Total Niagara Region	53,710	(52,409)	1,275	(2,576)
Q1 Forecast	55,244	(49,354)	(247)	(5,643)
Change	\$(1,534)	\$(3,055)	\$1,522	\$3,067

In addition to the confirmed external COVID-19 funding, staff continue to monitor Provincial and Federal funding announcements and will communicate additional reserve substitutions in future quarterly reports to align with these announcements.

Table 3 outlines the impact of Q2 forecasted results on the Taxpayer Relief Reserve balance. The forecast does not yet incorporate any revised 2022 budget and 2023 forecast draws on reserve related to COVID-19 and other budget decisions, which will be recommended to Budget Review Committee of the Whole. Similar to the 2021 budget assumption, the Taxpayer Relief reserve will be utilized to fund any COVID-related costs until any incremental external funding is confirmed.

Table 3 – 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	\$49.1	\$41.1
Total Non-COVID Transfers	(6.6)	(6.7)	0.9	0.9
<u>COVID-19 Funding Requirements</u>				
2021 COVID-19 Regional Levy and General Government funding	(17.2)	(2.6)	(8.9)	0
2021 COVID-19 ABC funding	(1.6)	0	0	0
2021 COVID-19 Rate funding	(0.2)	0	0	0
Total COVID-19 Funding Transfers	(19.0)	(2.6)	(8.9)	0
Q2 Forecasted Surplus	0	4.9	0	0
Forecasted Reserve Balance	\$27.9	\$49.1	\$41.1	\$42.0

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

Public Health External Funding

The 2021 operating budget was adjusted in alignment with the 2021 Public Health Annual Service Plan submission. Staff have recently received the 2021 amending Public Health funding agreement from the Ministry of Health and the full amount of the COVID-19 funding requested was not confirmed. Staff have since had follow up dialogue with the Province and feel confident that the Province will fund 100% of our COVID-19 related costs. As such, staff are not recommending a change to the 2021 budget at this time and have forecasted COVID-19 related expenditures to be funded 100% with provincial funding. If the Province does not fund 100% of the COVID-19 related costs, any unfunded expenditures (estimated at a maximum amount of \$5.6 million) would be funded from the Taxpayer Relief Reserve through the year-end transfer report.

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

All estimates in the forecast analysis have been made up to December 31, 2021, unless otherwise noted in Appendix 3 to Report CSD 56-2021, showing further detail on the corporate assumptions and cost categories. A detailed breakdown by operating department can be found in Appendix 4 to Report CSD 56-2021.

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

- ED 4-2021 Tourism Adaption 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
- CSD 39-2021 Q1 2021 Financial Update

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Appendices

Appendix 1 Q2 2021 Financial Update

Appendix 2 COVID-19 Incremental Costs and Funding Sources

Appendix 3 COVID-19 2021 Total Cost Summary (inclusive of redeployed resources)

Appendix 4 COVID-19 Total Cost by Department

Appendix 5 Confirmed COVID-19 Funding Announcements