
Subject: 2019 Levy Operating Budget

Report to: Budget Review Committee of the Whole

Report date: Thursday, February 14, 2019

Recommendations

1. That the 2019 net levy budget relating to the Niagara Regional Departments with a total of \$178,101,908 as consolidated in Appendix 1 **BE APPROVED** including the following:
 - a. That an increase of \$2,647,125 or 1.5% over the 2018 departmental operating budget **BE APPROVED** in accordance with Council approved guidance;
 - b. That an increase of an additional \$885,757 or 0.5% over the 2018 departmental operating budget, as detailed in Appendix 2, **BE APPROVED** in accordance with Council approved additional guidance;
2. That the Niagara Peninsula Conservation Authority differential reserve refund of \$1,284,237 **BE APPROVED** to fund one time initiatives as detailed in Appendix 2;
3. That an additional increase of \$7,975,215 or 2.3% over the 2018 consolidated levy **BE APPROVED** to fund service enhancements to the Niagara Regional Transit (NRT) program;
4. That an additional increase of \$900,000 or 0.3% over the 2018 consolidated levy **BE APPROVED** to provide sustainable funding for the continuation of the Waterfront Investment Program (WIP);
5. That an additional increase of \$250,000 or 0.1% over the 2018 consolidated levy **BE APPROVED** to provide sustainable funding for the continuation of the Niagara Investment in Culture (NIC) grant program;
6. That an additional 1.65% or \$5,705,155 of assessment growth **BE APPROVED** to fund an increase in Niagara Region Development Charge grants of \$3,525,308 and the Niagara Regional Police Services operating budget of \$2,179,847
7. That the 2019 net departmental tax levy of \$190,752,431 in addition to the ABCs of \$181,705,896 for a total tax levy of \$372,458,327 **BE APPROVED**
8. That the necessary by-law **BE PREPARED** and **PRESENTED** to Council for consideration

Key Facts

- The purpose of this report is to seek approval for the consolidated \$372,458,327 2019 levy operating budget, including a departmental request of \$190,752,431 and the ABC requests totalling \$181,705,896 as presented to BRCOTW on January 31.
- Departmental budgets have met guidance of 1.5% plus 0.5% discretionary, total 2% core CPI inflation target in accordance with policy C-F-002 Affordability Guidance and Council's guidance as approved by BRCOTW on June 14, 2018.
- The shortfall in development charge grant funding of \$5.8 million is recommended to be funded with the Departments' share of the 1.65% assessment growth for a net levy impact of zero.
- Council directed that the NPCA refund of \$1,284,237 be applied to the net levy impact after achieving guidance of 2.0%, however staff are recommending that the funding be utilized for a number of important one-time initiatives that cannot be accommodated within guidance for a net levy impact of zero.
- NRT service enhancements, WIP and NIC grants previously funded with unsustainable reserve contributions could not be accommodated within guidance, without impacting other service funding. Therefore support for the programs requires additional base budget increases of 2.3%, 0.3% and 0.1% respectively.
- If the NRPS had met guidance of 2% in addition to the departments meeting guidance the overall budget request inclusive of WIP, NIC and NRT, would be an increase of 4.7% (1.5% + 0.5% + 0.3% + 0.1% + 2.3%). The NRPS increase in excess of guidance is an addition 1.1% on the overall levy for a total increase of 5.8%.

Financial Considerations

Staff worked together to reach Council's guidance of 1.5% for Regional departments; the additional guidance of 0.5% was applied to priority programs required to continue operations as itemized in appendix 2. The 2019 budget was prepared based on corporate needs related to staffing and inflationary increases. Factors that are forecasted to contribute to the 2018 operating surplus/deficit as identified in the Q3 Financial Update were built into the 2019 budget. The detailed explanation of pressures and mitigation strategies is detailed in the Analysis section below.

Table 1 – Regional Departmental Budget

	2018 (in millions)	2019 (in millions)	\$ Change (in millions)	% Change
Gross Expenditure	554.0	569.8	15.8	2.86%
Business Support allocation	(17.0)	(18.9)	(1.9)	-11.18%
Gross Budget Total	537.0	550.9	13.9	2.59%
Revenues	(362.4)	(372.8)	(10.4)	-2.87%
Net Regional Department Budget	174.6	178.1	3.5	2.00%

The increase to the departmental budgets in addition to the ABCs, recommended use of the NPCA refund and growth dollars is 3.13%, with breakdown as follows.

Table 2 – Total Levy Budget Summary excluding Separate Levy Increases

	2018 (in millions)	2019 (in millions)	\$ Change (in millions)	% Change
Departmental Budget Guidance	\$174.6	\$177.2	\$2.6	1.50%
Additional Budget Guidance (Appendix 2)		0.9	0.9	0.50%
Net Regional Department Budget	174.6	178.1	3.5	2.00%
NRPS	138.4	147.4	9.1	6.54%
Courts Services (after indirect allocations)	(0.5)	(0.6)	(0.1)	-11.08%
NRH	27.4	27.8	0.4	1.50%
NPCA	7.0	7.1	0.1	1.78%
Net Base Budget	346.7	359.8	13.1	3.77%
NPCA Refund		(1.3)	(1.3)	-0.37%
One-time Initiatives (Appendix 2)		1.3	1.3	0.37%
DC Grants Funded by Growth		3.5	3.5	1.02%
Net levy budget	346.7	363.3	16.6	4.78%
Assessment Growth				-1.65%
Net Taxpayer Impact				3.13%

Other initiatives could not be accommodated within guidance. If Council wishes to continue with WIP and NIC (previously funded with reserves) and enhance services for transit, the impact of these is displayed below in table 3, and increase the budget request from 3.13% to 5.76%.

Table 3 – Total Levy Budget Summary

	2018 (in millions)	2019 (in millions)	\$ Change (in millions)	% Levy Increase
Net Taxpayer Impact (per Table 2)	346.7	363.3	16.6	3.13%
Niagara Regional Transit		8.0	8.0	2.30%
Waterfront Investment Program		0.9	0.9	0.26%
Niagara Investment in Culture		0.3	0.3	0.07%
Net Budget After Growth	346.7	372.5	25.7	5.76%

Analysis

The 2019 budget was built by departments to fund their program requirements; this initial request was in excess of Council's budget guidance. The Corporate Leadership Team prioritized areas in excess of guidance and considered the best use for the additional guidance as would best serve the corporation. The 2019 operating budget for Regional Departments includes \$2.6 million for base service increases and \$0.89 million for program enhancements within guidance. This is following a process of prioritization and mitigation.

Initial budget request was \$5.3 million increase which equates to 3.0% and included the following expense increases:

- \$3.15 million in compensation and benefits increases excluding subsidized programs
- \$1.34 million to finance capital
- \$0.39 million to fund 2021 Canada Summer Games legacy project
- \$0.96 million in ongoing WSIB cost pressures resulting from 2016 presumptive legislation relating to chronic mental stress for first responders
- \$0.78 million in fuel and utility price inflation
- \$0.48 million to replace reserve financing with sustainable funding
- \$0.30 million to eliminate 2018 draw on Police LTA reserve
- \$1.15 million for cost escalation on items including MPAC, software support and janitorial services
- \$0.89 million to align budget to historical cost trending on items including third party insurance payouts and winter control
- \$0.41 million in reduction of recovery of indirect allocations from rate programs
- Other cost increases including contractual and inflationary pressures
- Continued funding for Growth and District Plans of \$0.10 million (approved in 2016 for a three year pilot), and Team Niagara and the Niagara Foreign Trade Zone of \$0.50 million (approved in 2015 for a four year pilot).

The above expense increases were also offset by:

- \$0.32 million in savings from a reduction in the vacancy rebate program
- \$1.30 million in Provincial funding for Public Health and Emergency Services
- \$1.09 million increase in investment income from interest rate increases and prudent cash flow management
- \$0.56 million in net other taxation increases, including supplemental taxes, payments-in-lieu of taxes, net of tax write-off increases
- \$0.83 million in tax increment grants deferred due to timing of development
- \$0.21 million in transit fare revenue
- \$0.45 in other revenues, including secondment, rental, and planning fees revenues

The net pressures of \$5.3 million required consideration of mitigation of \$2.6 million for a net increase of \$2.7 million or 1.5% in accordance with guidance. The mitigation measures include more aggressive revenue assumptions regarding provincial grant funding for EMS WSIB costs, budget increases more in line with historical trends were scaled back, and other consulting, Smarter Niagara Incentive Program and student funding were removed which may impact service levels. All of these assumptions come with risks that could impact the actual operating results for 2019.

The 0.5% discretionary guidance was prioritized for the following strategic priorities and service enhancements totalling \$0.9 million:

- \$0.41 million in Asset Management Governance costs net of allocation to Water, Wastewater and Waste Management
- \$0.20 million increase to Councillor remuneration due to CRA changes (subject to 2019 report to Council)
- \$0.17 million for the net cost of new FTEs primarily in Transportation
- \$0.09 million for an Emergency Management internal notification system

Assessment Growth

Assessment growth is the result of physical changes to the Region's tax base during a year, providing 1.65% or \$5,721,350 in general levy from new taxpayers. Our Budget Guidance Policy recommends sharing these dollars between the Niagara Regional Police Service and Regional Departments. Increases to Tax Increment Grants (TIGs) are funded first, before apportionment, however there are no increases to TIGs anticipated this year due to timing of construction. The detailed calculation can be found in Appendix 3.

Exemptions approved within By-Law 2017-98 Development Charges are estimated to be \$11.0 million in 2019 (forecasted \$11.8 million for 2018) with approved base funding of only \$1.7 million. By using the whole departmental share of growth for Development Charge Exemptions grants the program will have funding of \$5.3 million. Further strategies to mitigate DC exemptions were approved in report CSD 05-2019 Development Charges Grant Exemptions Funding and will be funded as they occur.

Separate Levy Increases

The 2019 budget incorporates recommendations 3 through 5 as decision points for Council. All three programs cannot be funded through the base guidance and are as follows:

Niagara Regional Transit – 2.30%

Table 4 – Niagara Regional Transit Budget Strategy

	2018	2019	2020
Net operating costs	\$3.6	\$10.1	\$12.7
Debt financing		1.4	1.4
Total operating costs	3.6	11.5	14.1
Incremental cost (including debt)		7.9	2.6
Separate levy increase		2.3%	0.7%

The details of the program change are included in business case NRT-01 of the budget detail.

Waterfront Improvement Program – 0.26%

The Waterfront Improvement Program has been included in the operating budget since 2015 but has been funded by \$900 thousand annually from the Capital Levy reserve, which is an unsustainable source and limits funding available for Regional infrastructure renewal. In order to continue the program as per business case GEN-04 base budget dollars should be provided.

Niagara Investment in Culture – 0.07%

The Niagara Investment in Culture Program was included in the 2015 budget to be piloted for four years, ending 2018. To meet budgetary restrictions in 2018 sustainable funding was not available and replaced by \$250 thousand from the Taxpayer Relief reserve for a period of one year. In order to continue the program as per business case GEN-05 base budget dollars should be provided.

As additional background, a separate 1% levy increase (\$3,251,082) for infrastructure was approved in 2017 into perpetuity that was within the total increase of 2%. In 2018 Council approved a 0.38% levy increase (\$1,285,120) to fund the 2021 Canada Summer Games. This will be reduced to \$285,120 in 2022 as the operating grants expire and to zero when the debt is fully repaid ten years from issuance.

Staff Complement

The proposed 2019 Regional Department Operating Budget includes a full-time equivalent (FTE) staff complement, inclusive of program changes, of 2,359.2 permanent FTEs and 35.3 temporary FTEs. There is a net increase of 32.1 permanent FTEs, net cost of \$580,000, and 5 temporary FTEs requiring budget approval and as detailed 2019 FTE summary is in Appendix 4.

Multi-year Considerations

Only the current year budget is approved by Council annually, however a multi-year budget is included to forecast future pressures or initiatives.

- Niagara Regional Transit – To continue the Dillon Report service enhancements to the NRT an additional 0.7% will be required in the 2020 budget
- Long-term Care long-term accommodations – Debt servicing costs for \$86.6 million in long-term care home redevelopment will require 1% increase in the levy
- Emergency Medical Services long-term accommodations – Debt servicing costs for 2021 forecasted debt is included for an EMS hub (\$47.1M) which will attract 50% subsidy for interest charges
- Brock LINC (Learn, Innovate, Network, and Commercialize)- a \$1.5 million request has been received from Brock University for partnership with the University. The LINC is part of the newly built Rankin Family Pavilion, a innovation complex that will provide much-needed space to nurture Niagara's growing culture of innovation. It will provide students with the space to experiment with entrepreneurship and will add a strategic asset within Niagara's innovation ecosystem that supports a greater number of research and development partnerships between Brock and Niagara's businesses and social organizations.
- Canada Summers Games – funding provided in 2018 and 2019 are for the capital and legacy projects as described in the bid document up to \$9.7 million. Should CSG be successful in attracting additional upper level government funding, the Region and partnering local area municipalities could potentially be requested additional funding.
- Airports – to date no funding has been incorporated into the budget forecast for consideration of any changes in governance.

Household Impact

Based on the 2019 cost for levy programs for the average household assessed at \$267,711 is estimated to increase from \$1,461 to \$1,545 in 2019.

Table 5 – Household Tax Impact

Budget Item	2019 Impact	Household Cost
2018 cost per typical household		1,461
2019 base budget increase (2.0%)	37	
NRT separate levy increase	34	
WIP separate levy increase	4	
NIC separate levy increase	1	
NRPS Increase in excess of guidance	17	
Development charge exemptions	15	
Assessment growth	(24)	84
2019 cost per typical household		1,545

The actual cost per household may change depending on tax policy decisions that are made in 2019. The impact on individual property owners will depend on the increase in assessment that they experience; those with an increase greater than the average property would experience a larger tax impact, while those with an increase less than the average property would experience a smaller tax impact.

Risks and Opportunities

Niagara Region budget is prepared based on information available at a point in time. Services and/or the actual operational costs can be impacted by the following:

- Inflation and economic conditions, such as utility, fuel costs and interest rates
- Potential policy changes in provincially funded programs
- Leveraging asset management to reduce repairs and maintenance
- A sustainability program review is underway that will identify programs and/or services that could be reprioritized
- Mitigation measures are based on aggressive assumptions and may result in in-year variances

Sinking Fund

As per the Municipal Act, Section 289, Niagara Region is required to prepare and adopt a budget including amounts to be raised for sinking funds. Additionally, as per Section 424, the Treasurer must prepare for Council, an annual statement of the amount to be raised for a sinking fund. This report will also serve to carry out Niagara Region's responsibilities as prescribed in the Municipal Act.

Niagara Region's sinking fund is a separate fund maintained for the purpose of providing the repayment of all sinking fund debt when it becomes due and payable. Proportionally, 88.05% of the fund relates to Niagara Region and the remaining 11.95% relates to the City of St. Catharines. The debt issued on June 30, 2010 subject to repayment through the sinking fund is \$78,079,000. This amount is repayable in full on June 30, 2040. The annual budget for Niagara Region's portion of the debt charges associated with the sinking fund is \$4,906,470 (\$1,331,695 principal, \$3,574,775 interest). This amount has been included in the 2019 budget, and subject to Niagara Region achieving the annual required rate of return of 3.50%, will remain in effect until the sinking fund matures on June 30, 2040. To date the Niagara Region has been able to invest in bonds yielding greater than the required rate of return.

Alternatives Reviewed

Given the constraints in the development of the 2019 budget mitigation efforts were required and items have not been included or have been deferred. Programs include mass external notification system, Transportation resources such as Integrated

Services manager and system analyst, noxious weed spraying, street light uploading, etc. These items would have increased the recommended budget in excess of guidance.

Relationship to Council Strategic Priorities

The 2019 levy budget supports all facets of the organization in their support of Council's priorities.

Other Pertinent Reports

CSD 35-2018	2019 Budget Planning
CSD 01-2019	2019 Capital Budget

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Appendices

Appendix 1	Niagara Region Departments Budget
Appendix 2	Proposed Program Change Enhancements
Appendix 3	Guidance Apportionment
Appendix 4	Full-time Equivalents Summaries

Niagara Region Departments Budget

Object of Expenditure	2018 Budget	2019 Budget	\$ Variance	% Variance	Note
Compensation	225,716,835	234,471,496	8,754,661	3.88%	(1)
Administrative	21,875,000	21,355,874	(519,126)	-2.37%	
Operational & Supply	28,315,049	29,932,569	1,617,520	5.71%	
Occupancy & Infrastructure	12,318,818	12,512,911	194,093	1.58%	
Equipment, Vehicles, Technology	7,341,310	8,390,952	1,049,642	14.30%	
Community Assistance	167,884,936	168,844,231	959,295	0.57%	
Partnership, Rebate, Exemption	13,239,796	7,527,014	(5,712,782)	-43.15%	(2)
Financial Expenditures	56,086,461	64,885,600	8,799,139	15.69%	(3)
Transfers To Funds	21,990,640	22,755,030	764,390	3.48%	
Expense Allocations To Capital	(130,000)	(140,000)	(10,000)	7.69%	
Allocation Between Departments	(632,187)	(703,983)	(71,796)	11.36%	
Total Expenditure before Indirect Allocations	554,006,658	569,831,694	15,825,036	2.86%	
Indirect Allocation to Rate and Courts	(5,985,882)	(6,555,391)	(569,509)	9.51%	(4)
Capital Financing Allocation to Rate and Courts	(11,045,346)	(12,379,731)	(1,334,385)	12.08%	(5)
Total Expenditure	536,975,430	550,896,572	13,921,142	2.59%	
Taxation	(13,057,173)	(15,267,076)	(2,209,903)	16.92%	
Federal & Provincial Grants	(291,104,611)	(297,616,093)	(6,511,482)	2.24%	
By-Law Charges & Sales	(8,796,617)	(10,311,335)	(1,514,718)	17.22%	
Other Revenue	(39,533,657)	(40,281,825)	(748,168)	1.89%	
Transfers From Funds	(9,914,348)	(9,318,335)	596,013	-6.01%	
Total Revenue	(362,406,406)	(372,794,664)	(10,388,258)	2.87%	
Net Levy Budget	174,569,024	178,101,907	3,532,883	2.00%	(6)

Notes:

1. Compensation includes staff wages and benefits and reflect changes to staff complement as per appendix 4
2. Reduction in one-time DC grant funding, tax increment grant delays, phasing out of vacancy rebates, and WIP and NIC funding
3. Financial expenditures increase due to debt servicing costs and debt balloon payment being refinanced in year
4. Program support costs recovered from Courts Services and Rate programs
5. Debt charges recovered from Courts Services and Rate programs
6. The net levy budget presented does not take into account separate levy increases in recommendations 3 through 5

Proposed Program Enhancements

Funded through base budget guidance

Department	Business Case Name	Gross	Net	Other Funding Sources
Governance	Council Remuneration	198,000	198,000	
Corporate Services	Business Licensing (+5 perm FTEs)	623,700	-	Licensing fees
Corporate Services	eLearning	25,000	22,348	Allocation to Rate programs
Enterprise Resource Management Services	Asset Management Governance (+7 perm FTEs)	853,653	408,988	Allocation to Rate programs
Community Services	Additional Seniors Front-line staff (+14.1 perm FTEs)	1,011,027	-	Provincial subsidy
Public Health and Emergency Services	Fleet Equipment Custodian (+1 perm FTE)	-	-	
Public Health and Emergency Services	Internal Notification System	85,000	85,000	
Transportation Services	Surveys and Mapping Analyst (+1 perm FTE, -1 temp FTE)	-	-	
Transportation Services	Contract Administrators & Inspector (+3 perm FTEs)	268,041	80,412	Allocation to Capital program
Transportation Services	Engineering Technician (+1 perm FTE, -1 temp FTE)	1,459	1,459	
Transportation Services	Permits Technologist (+1 perm FTE)	89,550	89,550	
Total		3,155,430	885,757	

Funded through NPCA differential refund

Department	Business Case Name	Gross	Net	Other Funding Sources
General Government	Council Priority Funding	228,237	228,237	
Corporate Services	Business Licensing	225,000	225,000	
Public Health and Emergency Services	Psychological Resources	256,000	256,000	
Planning and Development	Stormwater Management and Hydrology	175,000	175,000	
Transportation Services	Complete Streets Consulting	400,000	400,000	
Total		1,284,237	1,284,237	

Funded through assessment growth

Department	Business Case Name	Gross	Net	Other Funding Sources
General Government	Development Charge Exemption Grants	3,525,308	3,525,308	

Guidance Apportionment

Description	Levy Amount	Levy Increase	Percentage
2018 Tax Levy	346,748,489		
2018 Net revenue budget	15,495,359		
2018 Net levy - before net revenue	362,243,848		
1.5% Budget Guidance		5,201,227	1.50%
Departments and other ABCs	223,875,676	3,214,487	1.44%
Niagara Regional Police Services	138,368,172	1,986,740	1.44%
0.5% Additional Guidance		1,733,742	0.50%
Departments and other ABCs	223,875,676	1,071,496	0.48%
Niagara Regional Police Services	138,368,172	662,246	0.48%
Assessment Growth		5,705,155	1.65%
Departments and other ABCs	223,875,676	3,525,927	1.58%
Niagara Regional Police Services	138,368,172	2,179,228	1.58%
Total Guidance		12,640,124	3.65%
Departments and other ABCs	223,875,676	7,811,910	3.49%
Niagara Regional Police Services	138,368,172	4,828,214	3.49%

Full-time Equivalent Summaries

Permanent FTEs

Item	FTE	Comments
2018 Adjusted FTEs	2,327.0	
2019 Base Budget Changes		
Corporate Services	(1.0)	Reduction of vacant Human Resources position
Corporate Services	5.0	Business Licensing
Enterprise Resource Management Services	7.0	Asset Management Office
Community Services	14.1	Seniors Services front-line staff
Public Health and Emergency Services	1.0	Fleet Equipment Custodians*
Transportation Services	2.0	Contract Administrators
Transportation Services	1.0	Contract Inspector
Transportation Services	1.0	Engineering Technician*
Transportation Services	1.0	Surveys and Mapping Analyst*
Transportation Services	1.0	Permits Technologist
Subtotal of Changes	32.1	
2019 Proposed FTEs	2,359.2	

*offset with a reduction in temporary FTEs in following table

Net cost of FTEs is \$580,000

Temporary FTEs

Item	FTE	Comments
2018 Council Approved FTEs	30.3	
2019 Base Budget Changes		
Corporate Administration	(0.3)	Foreign Trade Zone Coordinator
Corporate Services	0.8	Customer Services Project Manager from part year in 2018 to full year in 2019
Public Health and Emergency Services	1.5	System Support Controller Trainees
Public Health and Emergency Services	1.0	Two part-time Fleet Equipment Custodians
Public Health and Emergency Services	1.0	Health, Wellness and Culture Coordinator
Public Health and Emergency Services	1.0	Health, Wellness and Culture Advisor
Public Health and Emergency Services	(1.0)	Fleet Equipment Custodians*
Planning and Development	1.0	Wet Weather Specialist to support the Rate program~
Transportation Services	(1.0)	Engineering Technician*
Transportation Services	(1.0)	Surveys and Mapping Analyst*
Subtotal of Base Budget Changes	3.0	
Separate Levy Increase Changes		
Transportation Services	1.0	Transit Operations Supervisor
Transportation Services	1.0	Transit Operations Administrative Support
Subtotal Separate Levy Increase Changes	2.0	
2019 Proposed FTEs	35.3	

*offsets an increase in permanent FTEs in preceding table

~FTE transferred from Rate