
Subject: 2018 Year End Results and Transfer Report

Report to: Corporate Services Committee

Report date: Wednesday, March 20, 2019

Recommendations

1. That the unaudited summarized results of the Niagara Region as detailed in Appendix 2 of Report CSD 21-2019, **BE RECEIVED** as follows:

Levy Programs	(\$1.7) Million
Niagara Regional Police (NRPS)	\$0.5 Million
Niagara Regional Housing (NRH)	\$2.6 Million
Court Services	<u>\$0.4 Million</u>
Levy Supported Surplus	<u>\$1.8 Million</u>

2. That the 2018 year end operating surplus for levy supported programs of \$1.8 million **BE TRANSFERRED** to Taxpayer Relief Reserve;
3. That the 2018 year end operating surplus for rate supported programs of \$3.6 million **BE TRANSFERRED** to reserves as follows:
- \$1.0 million surplus related to Waste Management **BE TRANSFERRED** to the Waste Management Stabilization Reserve
 - \$0.5 million surplus related to Waste Management **BE TRANSFERRED** to the Waste Management Landfill Liability Reserve
 - \$0.4 million **BE TRANSFERRED** from the Wastewater Stabilization Reserve to offset the deficit incurred relating to Wastewater services
 - \$0.1 million surplus related to the water service **BE TRANSFERRED** to the Water Stabilization Reserve
 - \$2.4 million surplus related to the water service **BE TRANSFERRED** to the Water Capital Reserve; and
4. That encumbrances of \$19.5 million, Appendix 1 of Report CSD 21-2019, **BE APPROVED** and that the deferral of these expenditures be included in the 2019 operating budget.

Key Facts

- Overall, the unaudited results of Niagara Region's 2018 budget are \$1.8 million surplus in the levy supported programs and \$3.6 million surplus in rate supported programs.

- Levy supported Regional Departments & General Government realized a funding deficit of \$1.7 million or 0.35% of budgeted expenses.
 - Boards and Agencies realized a funding surplus after indirect allocations of \$3.5 million or 1.59% of their budgeted expenses.
 - Water and Wastewater realized a combined funding surplus of \$2.1 million or 2.54% of total budget.
 - Waste Management realized a funding surplus of \$1.5 million or 3.13% of total budget.
- The recommendations included in this report have been guided by the revised Operating Surplus/Deficit Policy approved by Council in July 2018 which states that “yearend 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”. Niagara Region staff did not evaluate risks of the underfunding of future liabilities related to NRH, the Courts and NRPS, these are determined by each governing body.
 - Funding of \$19.5 million has been set aside in the encumbrance reserve. The majority of the encumbrance amount of \$14.3 million (73%) is related to various incentive and grant programs such as Combined Sewer Overflow Program, Smarter Niagara Incentive Program, and Waterfront Investment Program. Since the spending obligation, in the form of a purchase order, contract or other legally binding commitment, has been made against the 2018 operating budget, however, the product or service has not been received in the year. The budget funds will be transferred back to 2019 operating budget when the product or service is received and the related budget expenses 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. Balances greater than \$1 million are transferred back to capital reserves at year end. Transfers back to the General Capital Levy of \$11 million, Wastewater capital of \$46 thousand and Water capital of \$0.8 million were completed at year end and utilized in the funding strategy for 2019 capital budget.

Financial Considerations

The recommendations in this report will fully allocate the 2018 year end surplus to reserves. Full explanations for the surplus/deficit can be found in Appendix 4 and are summarized on the “Consolidated Year End Funding Surplus/(Deficit) Review” in Appendix 2.

	Surplus/(Deficit) after indirect allocations (in millions)	Percentage of Budget (%)
Regional Depts & General Government	\$(1.7)	(0.35)
NRPS	\$0.5	0.34
Court Services	\$0.4	8.10
NRH	\$2.6	4.65
Levy Supported Surplus	\$1.8	0.26

Water, Wastewater and Waste Management year end positions are as follows and will be transferred to the applicable rate department reserves

	Surplus/(Deficit) after indirect allocations (in millions)	Percentage of Budget (%)
Water and Wastewater	\$2.1	2.54
Waste Management	\$1.5	3.13

Analysis

Full analysis and explanation of the rate and levy supporting programs can be found in the Annual Financial Update in Appendix 4 and on the Region’s website (<https://www.niagararegion.ca/business/finance/quarterly-reports/default.aspx>) which is Accessibility for Ontarians with Disabilities Act compliant. Hard copies of the report can be made available upon request.

Unspent Budgeted Reserve Transfers

The operating surplus for the 2018 Levy Supported Program of \$1.8 million, and operating surpluses relating to Water Wastewater and Waste Management of \$2.1 million and \$1.5 million respectively are after unspent budgeted “Transfers from Reserves” which are returned to their originating reserves in accordance with the Reserve and Reserve Funds Policy. Unspent budgeted reserve transfers totaling \$522 thousand are related to:

- \$26 thousand transferred back to the Ambulance Communication Reserve resulting from unused funds for a software contract.
- \$92 thousand transferred back to the General Capital Levy Reserve as a result of lower than budgeted expenditures for drainage assessment grants.
- \$154 thousand transferred back to the General Capital Levy Reserve as a result of lower than budgeted expenditures for bike lane program funding for Local Area Municipalities.
- \$250 thousand transferred back to the Capital Levy Reserve as a result of lower than budgeted awards for the Waterfront Investment Program.

Encumbrances

Encumbrance accounting is a mechanism to facilitate the accounting of goods and services where an obligation to purchase has occurred 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 commitment. Funds are requested to be set aside in the encumbrance reserve for use in the following year and are subject to Council approval.

Incorporated in the year end operating funding surpluses are encumbrances totaling \$19.3 million (see Appendix 1). 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, 2018 and transferred back to their respective operating departments in 2019. Encumbrance balances that have been carried forward from 2017 have also been identified in Appendix 1.

The majority of encumbrance requests in 2018 relate to various incentive and grant programs which are in partnership with the Local Municipalities and span multiple years. The largest amounts are related to the Combined Sewer Overflow Program for \$9.7 million, Smarter Niagara Incentive Program of \$1.9 million, Tax Increment Grants of \$885 thousand, and Waterfront Investment Program for \$1.3 million and \$892 thousand encumbered for an Emergency Medical Services (EMS) Redesign.

A summary of encumbrances is provided in Appendix 1 and the surplus/deficit by department inclusive of encumbrances is provided in Appendix 2.

Reserve Impacts Based on Report Recommendations

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

The recommendation to transfer the levy supported surplus of \$1.8 million to the Taxpayer Relief Reserve is being made as this Reserve is currently underfunded per the Reserve and Reserve Fund Policy. The current balance of this Reserve is below the balance target of 10-15% of gross operating expenditures. After the recommended net transfer of \$1.8 million, the Taxpayer Relief Reserve balance will be \$26.5 million, or 5.02% of gross operating expenditures which remains below the minimum balance target of \$49.2 million to \$73.8 million respectfully.

Council has requested a report related to reserves and reserve policy which will be forthcoming later in the year.

Waste Management Reserves

It is recommended that the Waste Management surplus of \$1.5 million be transferred to Waste Management Reserves. In accordance with the recommendations outlined in the Waste Management Reserve Strategy (CSD 70-2017), it is recommended that \$1.0 million of the surplus be transferred to the Waste Management Stabilization Reserve. After the transfer, the Waste Management Stabilization balance will be \$7.4 million, with a funding target of \$4.9 million to \$7.4 million. The remaining \$0.5 million of the surplus will be transferred to the Waste Management Landfill Liability Reserve which will then have a balance of \$8.3 million, with a funding target of \$24.6 million by the end of 2027 as outlined in the reserve strategy.

Water and Wastewater Reserves

It is recommended that the Wastewater deficit of \$0.4 million be transferred from the Wastewater Stabilization Reserve. After the transfer, the Wastewater Stabilization Reserve balance will be \$3.0 million, with a minimum balance target of \$5.9 million to \$8.8 million.

It is recommended that \$0.1 million of the Water surplus (\$2.5 million) be transferred to the Water Stabilization Reserve. After the transfer, the Water Stabilization Reserve will be \$3.4 million, with a minimum balance target of \$2.3 million to \$3.4 million. It is recommended that the remaining surplus of \$2.4 million be transferred to the Water Capital Reserve as the Water Stabilization Reserve balance is at the target balance as per the Policy.

ABC program specific funding requirements

As the Surplus/Deficit Policy applies to all departments, agencies, boards and commissions the recommendation to transfer the levy supported surplus of \$1.8 million to the Taxpayer Relief Reserve is preferred in consideration of the Niagara Regions' sustainability and credit rating.

In February 2019, the NRPS Board received the year end report with a year end surplus before indirect allocations of \$0.3 million, which the NRPS Staff recommend to the Board be used to mitigate the overall levy deficit which is consistent with Regional staff recommendations in this report.

In February 2019, the NRH Board received the year end report with a year end surplus before indirect allocations of \$2.7 million, which the NRH staff recommended to the Board be allocated to NRH specific reserves (\$2.6 million transferred to NRH Reserve to fund future housing provider capital costs, \$0.1 million transferred to NRH Owned Units Reserve to fund annual capital requirements and \$6 thousand transferred to NRH Rent Supplement Reserve to funding continuing in-situ rent supplements). Given the deficit in the levy supported Regional Departments and General Departments, Regional staff is recommending the levy surplus be used to fund the levy supported deficit.

The Court Services net surplus of has been equally distributed between the Region and local area municipalities as per the Niagara Region Courts Inter-municipal Agreement and is reflected in the attached financial update. Staff recommends that the Region's portion of the revenue surplus in the Court Services program, before indirect allocations, in 2018 be used to offset the deficit in the levy supported Regional Departments and General Government.

Transfers back to Capital Levy 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 2018, a total of 197 projects were closed compared to 126 projects in 2017. As a result of the project closures, a total of \$16.8 million and \$7.6 million were returned to the CV in 2018 and 2017 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). Due to a number of capital projects being identified as in need of funding in Q1 of 2019, higher CVP balances will be retained at year end to facilitate the project funding as noted in the table below. Subsequently, the CVP balances may fall below \$1 million limiting flexibility in funding

capital levy project deficits. Project variances will need to be reviewed on a project-by-project basis to determine if there is sufficient room in the CVP to fund the variance.

The following is a summary of the amounts being transferred back to reserve from each CVP and the balances as of December 31, 2018:

	CVP Balance Before Transfer to Reserve (in thousands)	Transfer to Reserve (in thousands)	CVP Balance After Transfer to Reserve (in thousands)	Note
Levy Programs	\$15,422	\$10,987	\$4,435	1
Waste Management	\$1,421	\$0	\$1,421	2
Wastewater	\$2,124	\$46	\$2,078	3
Water	\$1,837	\$837	\$1,000	
Total	\$20,804	\$11,870	\$8,934	

Note 1 - \$4.2 million of this balance has been committed for Council priority projects

Note 2 - \$570 thousand of this balance has been committed for Council priority projects

Note 3 - \$1.0 million of this balance has been committed for Council priority projects

Alternatives Reviewed

Council may direct staff to consider alternative options for the net surplus position of \$1.8 million. Some of the potential alternatives may include:

Alternative 1 – Support the recommendation of the NRH Board.

	Year end Surplus / (Deficit) (in millions)
Net Surplus	\$1.8
Less: NRH Year end Surplus*	(2.7)
Net deficit to be funded from Development Charges	(\$0.9)

* - before indirect allocations

Incorporated into the year end operating results is \$13.0 million in mandatory and discretionary DC grants/exemption expense for 2018 which contributes \$8.8 million to the corporate deficit. The grants include; \$324 thousand in brownfield grants; \$3.7 million in phase-in costs; \$275 thousand in hotel grants; \$5.4 million in agriculture grants, \$1.1 million grants related to affordable housing and approximately \$2.2 million in other mandatory and discretionary exemptions. As per the Development Charges Act, 1997 (as amended), development charge by-law exemptions or reductions for a specific type of development, phase in of development charges, or for a type of development to have a lower development charge than is allowed, are required to be

funded from another funding source and cannot be made up through higher development charges.

As per CSD 5-2019 approved by Corporate Service Committee on January 9, 2019, the shortfall in DC grant/exemption is recommended to be funded by a transfer from the DC Reserve as part of this report after the actual year end operating surplus/deficit is taken into consideration. Therefore this alternative would result in a transfer from the DC Reserve fund of \$0.9 million leaving a balance in the reserve of \$84 million as well as transfers to the NRH reserve totalling \$2.7 million in accordance with the Board approved motion.

Alternative 2 – Provide NRH / NRPS reserves with a portion of their total surplus after funding of corporate deficit.

As an alternative, Council may direct staff to share the corporate year end surplus with NRH and NRPS, apportioned using their respective year end surplus as detailed below.

	Year end surplus before indirect allocations (in millions)	Amount as % of total surplus	Apportionment of total surplus (in millions)
NRPS	\$0.3	10.7%	\$0.2
NRH	\$2.7	89.30%	\$1.6
Total	\$3.0	100.0%	\$1.8

If alternative 2 is recommended by Council, then the NRPS reserves would be allocated \$0.2 million and NRH reserves would be allocated \$1.6 million with no transfer to the Taxpayer Relief Reserve.

Relationship to Council Strategic Priorities

The 2018 budget was applied to advance Council's Strategic Priorities Moving People and Goods; Fostering Growth; Building a Labour-Ready Workforce; Positioning Niagara Globally; Doing Business Differently; and Advancing Organizational Excellence.

Other Pertinent Reports

- September 2018 Quarterly Financial Update
<https://www.niagararegion.ca/business/finance/quarterly-reports/pdf/sep-2018-quarterly-finance-report.pdf>
- June 2018 Quarterly Financial Update
<https://www.niagararegion.ca/business/finance/quarterly-reports/pdf/jun-2018-quarterly-finance-report.pdf>

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Appendices

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