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**Subject:** 2023 Year-End Results and Transfer Report

**Report To:** Corporate Services Committee

**Report date:** Wednesday, March 6, 2024

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## Recommendations

1. That the unaudited summarized financial results of the Niagara Region, as detailed in Appendix 1 to Report CSD 10-2024, **BE RECEIVED** for information;
2. That the 2023 year-end operating surplus for the General Tax Levy-supported programs of \$4,988 thousand **BE TRANSFERRED** to reserves as follows:
  - a) \$21 thousand to the Ontario Police Video Training Alliance (OPVTA) Reserve Fund as per NRPS recommendation to their Board (Appendix 5 to Report CSD 10-2024);
  - b) \$47 thousand to the Police Vehicle and Equipment Replacement Reserve Fund as per NRPS recommendation to their Board (Appendix 5 to Report CSD 10-2024);
  - c) \$1,910 thousand to the Police Contingency Reserve Fund as per NRPS recommendation to their Board (Appendix 5 to Report CSD 10-2024);
  - d) \$3,053 thousand to the Taxpayer Relief Reserve;
3. That the 2023 year-end operating deficit for the water and wastewater rate-supported programs of \$3,462 thousand **BE TRANSFERRED** from reserves as follows:
  - a) \$46 thousand from the Water Stabilization Reserve;
  - b) \$3,416 thousand from the Wastewater Stabilization Reserve;
4. That the 2023 year-end operating surplus for the Waste Management Special Tax Levy of \$3,534 thousand **BE TRANSFERRED** to the Waste Management Stabilization Reserve;
5. That the 2023 year-end operating surplus for the Transit Special Tax Levy of \$2,087 thousand **BE TRANSFERRED** to the Niagara Transit Commission Stabilization Reserve as per NTC recommendation to their Board (Appendix 7 to Report CSD 10-2024);
6. That the encumbrances of \$14,358 thousand (Appendix 2 to Report CSD 10-2024) **BE RECEIVED** for information, and that the deferral of these expenditures be included in the 2024 operating budget;
7. That the transfers of \$10,551 thousand from the capital variance projects to Capital Reserves **BE RECEIVED** for information, and that the balances as per Table 6 **BE APPROVED** to be held in the Capital Variance Projects; and

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8. That the \$5,590 thousand 2023 debt charge placeholder for the South Niagara Wastewater Treatment Solution Project **BE TRANSFERRED** to the South Niagara Wastewater Treatment Solution Project for substitution of approved but unissued long-term debt.

### Key Facts

- The purpose of this report is to provide an overview of the year-end operating variances, as well as to seek Council's approval of the 2023 year-end transfer recommendations for operating and capital.
- Regional departments including General Government have a surplus of \$810 thousand (0.10% of budgeted expenditures) at year-end. Levy-supported programs (Regional Departments consolidated with Agencies, Boards and Commissions ("ABCs")) have a surplus of \$4,988 thousand (0.47% of budgeted expenditures) at year-end. The rate supported programs of Water and Wastewater are operating a combined deficit of \$3,462 thousand (2.17% of budgeted expenditures) at year-end. The special levy services are both in a surplus position at year-end with \$3,534 thousand surplus in Waste Management (5.48% of budgeted expenditures) and \$2,087 thousand surplus in Niagara Transit Commission (2.70% of budgeted expenditures).
- 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".
- Funding of \$14,358 has been set aside in the encumbrance reserve to fund in year commitments as of December 31, 2023 (see Appendix 2 to Report CSD 10-2024).
- In accordance with the Budget Control By-Law, capital variance projects (CVP) are allocated surplus from capital projects and used for funding capital project shortfalls in the year. The CVP are maintained at a target minimum balance of \$1,000 thousand at the beginning of each year, per the principles of the Budget Control By-Law. Transfers of \$5,000 thousand to General Capital Levy Reserve and \$5,551 thousand to the Waste Management Capital Reserve were completed at year-end to support the 2024 Capital Budget, and staff are recommending that the amounts remaining in each CVP as per Table 6 be retained in light of continued inflationary pressures in the capital program.

## Financial Considerations

The recommendations in this report will fully allocate the 2023 General Tax Levy and Special Tax Levy year-end surpluses to reserves as well as fund the 2023 water/wastewater rate program deficit from reserves. Full explanations for the surpluses and deficits can be found in Appendix 4 to Report CSD 10-2024 and are summarized on the Consolidated Year-End Funding Surplus/(Deficit) Review in Appendix 1 to Report CSD 10-2024.

## Analysis

Full analysis and explanation of the rate, General Tax Levy and Special Tax Levy supported programs can be found in the Q4 Financial Update in Appendix 4 to Report CSD 10-2024 and on the Region's website. Quarterly financial updates are provided as of June, September and December each year and include actual and forecasted operating results; capital project reporting; reserves and deferred revenue; investments; debt; consolidated statement of financial position and accounts receivable.

The report is Accessibility for Ontarians with Disabilities Act compliant. Hard copies of the report can be made available upon request.

### Q4 2023 Financial Update

(<https://www.niagararegion.ca/government/budget/finance/default.aspx>)

A high-level analysis of the financial results below is provided in the analysis section of the report.

Table 1: Levy-Supported Surplus/(Deficit) Summary

(in thousands)	2023 Surplus/(Deficit) After Indirect Allocations	2023 Surplus/(Deficit) as Percentage of Budgeted Gross Expenditures	2022 Surplus/(Deficit) as Percentage of Budgeted Gross Expenditures
Regional Departments and General Government	\$810	0.10%	(0.22%)
Court Services	\$576	5.62%	(9.63%)
NRH	(\$285)	(0.75%)	(1.84%)

NRPS	\$3,848	1.79%	0.35%
NPCA	\$39	0.54%	0.00%
<b>Total Levy-Supported Surplus</b>	<b>\$4,988</b>	<b>0.47%</b>	<b>(0.23%)</b>

Table 2: Rate-Supported Surplus/(Deficit) Summary

(in thousands)	2023 Surplus/(Deficit) After Indirect Allocations	2023 Surplus/(Deficit) as Percentage of Budgeted Gross Expenditures	2022 Surplus/(Deficit) as Percentage of Budgeted Gross Expenditures
Water	(\$46)	(0.09%)	0.52%
Wastewater	(\$3,416)	(3.18%)	0.19%
<b>Total Rate-Supported Deficit</b>	<b>(\$3,462)</b>	<b>(2.17%)</b>	<b>0.30%</b>

Table 3: Special Levy Surplus/(Deficit) Summary

(in thousands)	2023 Surplus/(Deficit) After Indirect Allocations	2023 Surplus/(Deficit) as Percentage of Budgeted Gross Expenditures	2022 Surplus/(Deficit) as Percentage of Budgeted Gross Expenditures
Niagara Transit Commission	\$2,087	2.70%	N/A
Waste Management	\$3,534	5.48%	1.68%

The Q4 2023 financial results are being driven by many different factors, most of which have remained consistent throughout the year however the estimates have changed, which are summarized below:

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

Niagara Region's General Tax Levy programs realized a year-end surplus of \$4,988 (0.47% of budgeted expenditures). Full details on the factors driving the deficit can be found in Appendix 4 to Report CSD 10-2024. High-level summary of factors contributing to the surplus are:

- The departments and general government are operating at a year-end surplus of \$810. The surplus is driven by net corporate labour related gapping of \$3,839 due to delays in filling vacancies and recruitment challenges, a favourable variance in supplemental tax and payment-in-lieu revenue of \$1,187 and lower than budgeted legal claims against the Region of \$935. Also impacting the surplus is lower than anticipated usage of sand, salt, snow fence and organic de-icing materials due to a mild winter of \$643, as well as leveraging funding from other levels of government in Community Services which provided an opportunity to generate a surplus to the levy of \$798. The surplus is partially offset by higher than anticipated DC grants and exemptions of \$5,523, increased utilities pricing of \$624, high raw food and food supplements costs of \$630 due to inflationary pressures and market shortages.
- General levy ABCs are operating at a year-end surplus of \$4,178. The net surplus is primarily driven by the year-end surplus within Niagara Regional Police Service of \$3,848 mainly a result of labour related costs due to vacancies in key civilian positions and hiring lags of vacant positions of \$2,881 and fuel, maintenance, and vehicle lease savings of \$1,041. Court Services is operating at a year-end surplus of \$576 which is partially offset by the Niagara Regional Housing year-end deficit of \$285.

**Water and Wastewater Services (all amounts in thousands of dollars):**

Water and Wastewater Services realized a deficit of \$3,461 (2.17% of budgeted expenditures) at year-end, which consists of deficits of \$45 (0.09% of budgeted expenditures) and \$3,416 (3.18% of budgeted expenditures) in the Water and Wastewater divisions respectively.

The deficit is primarily attributable to higher than budgeted chemical and biosolids collection costs of \$1,951. Also driving the deficit is an unfavourable variance in repairs and maintenance spending due to aging infrastructure and equipment of \$1,610 as well as property taxes paid on facilities due to MPAC assessment changes of \$520. These unfavourable variances are offset by a favourable variance in labour related costs of \$882 due to temporary staffing vacancies.

It is recommended that the Water Stabilization Reserve and the Wastewater Stabilization Reserve be used to fund the respective deficits.

**Niagara Transit Commission (all amounts in thousands of dollars):**

Niagara Transit Commission realized a net surplus of \$2,087 (2.70% of budgeted expenditures) at year-end.

The year-end surplus is a result of higher than anticipated fare revenue including Niagara College service and Brock Summer Service contracts of \$5,596, lower than anticipated shared service costs including insurance premium and claims of \$1,542 and special levy supplemental tax revenues from assessment growth in the Region (\$875). These favourable variances are partially offset by unfavourable variances of \$2,242 in labour related costs due to health benefit costs, salary correction for operator hours of work, as well as lower than anticipated WEGO service revenue to the City of Niagara Falls (\$799), higher than anticipated costs of diesel of \$1,069 and the strategy to not utilize the budgeted (\$1,614) Provincial Gas Tax for operations as NTC is in a surplus position.

It is recommended that the year-end operating surplus of \$2,087 be transferred to the Niagara Transit Commission Stabilization Reserve and would form the initial balance of the reserve.

**Waste Management (all amounts in thousands of dollars):**

Waste Management Services realized a surplus of \$3,534 (5.48% of budgeted expenditures) at year-end.

The surplus is driven by higher than anticipated Waste Diversion funding of \$886, savings of \$1,510 driven by the reduction in Material Recycling Facility (MRF) related expenditures due to the sale of the MRF as well as a reduction of recyclable purchase costs as a result of lower commodity rates. Also driving the surplus is \$374 of savings in labour related costs due to salary gapping and position vacancy management as well as supplemental taxes from assessment growth of \$832.

It is recommended that the operating surplus of \$3,534 be transferred to the Waste Management Stabilization Reserve.

### Reserve Impacts Based on Report Recommendations

The Reserve and Reserve Funds Policy indicates that stabilization reserve target balances should be 10% to 15% of gross operating expenditures (excluding reserve transfers and capital costs). The following table provides a summary of the stabilization reserve balances before and after the recommended transfers include in this report as well as the low (10%) and high (15%) target balances.

Table 4: Stabilization Reserve Balances and Targets (in millions)

Stabilization Reserve Description	Balance Before Recommended Transfer	Recommended Transfer / (Draw)	Balance After Recommended Transfers	Target Balance: Low (10%)	Target Balance: High (15%)
Taxpayer Relief	\$33.5	\$3.1	\$36.6	\$76.1	\$114.2
Transit Stabilization	\$0	\$2.1	\$2.1	\$7.1	\$10.7
Water Stabilization	\$3.7	(\$0.1)	\$3.6	\$2.6	\$3.9
Wastewater Stabilization	\$5.6	(\$3.4)	\$2.2	\$6.8	\$10.3
Waste Management Stabilization	\$4.3	\$3.5	\$7.8	\$6.4	\$9.7
Police Contingency	\$1.2	\$1.9	\$3.1	Note 1	Note 1
Police Services Board Contingency	\$0.2	\$0	\$0.2	Note 1	Note 1

Note 1 - NRPS is responsible for determining the target balances for the Police Contingency and the Police Services Board Contingency Reserves.

Based on the table above, the Taxpayer Relief, Transit Stabilization, and Wastewater Stabilization Reserves are all under target as they are not at the minimum target balance thresholds established. Reserve balances below the minimum target may impact the ability to manage future operational risks. The recommended transfer of NTC surplus of \$2.1 million to the Transit Stabilization Reserve would form the initial balance of the reserve. Funding in this reserve will be considered annually through the budget process with the goal of developing and maintaining a long-term sustainable strategy

The table below shows a summary of the Taxpayer Relief Stabilization Reserve balances after the recommended year-end transfers in this report and the utilization of the Reserve for related budget pressures as presented in the 2024 Budget and forecast.

Table 5: Forecast of Taxpayer Relief Reserve (in millions of dollars)

	2023 Budget	2023 Actual	2024 Budget	2025 Forecast
Opening balance	\$47.3	\$47.3	\$36.6	\$26.2
2022 Budget Funding	(\$4.0)	(\$4.0)	(\$4.0)	(\$2.0)
One-time Transfers (net)	(\$1.4)	(\$0.9)	(\$0.7)	-
Bill 23 Impacts	(\$19.3)	(\$11.1)	(\$0.6)	-
Homelessness 2024 Budget Pressure (One-time)	-	-	(\$4.1)	-
Other			\$0.1	\$0.1
Extra Working Day	-	-	(\$1.1)	-
Total COVID-19 Funding Transfers	(\$18.4)	(\$0.7)	-	-
2022 COVID-19 Recovery Seniors (One-time)		\$2.9	-	-
Year-End Levy Surplus	-	3.1	-	-
<b>Forecasted Closing Balance</b>	<b>\$4.2</b>	<b>\$36.6</b>	<b>\$26.2</b>	<b>\$24.3</b>



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**Unspent 2023 Budgeted Reserve Transfers (in thousands of dollars):**

Budgeted reserve transfers that are unspent during the year are returned to reserves in accordance with the Reserve and Reserve Fund Policy. In 2023, the following funds were returned to reserves:

- Unused funds of \$988 related to Niagara Falls and St. Catharines GO Stations not fully operational transferred back to the Capital Levy Reserve
- Unused funds of \$617 related to capital loan and grant program returned to Housing Services Reserve
- Unused funds of \$18 related to one-time consulting project funds returned to Water Stabilization Reserve
- Unused funds of \$32 related to one-time consulting project funds returned to Wastewater Stabilization Reserve
- Unused funds of \$108 related to one-time Waste Management Strategic Plan returned to Waste Management Stabilization Reserve
- Unused funds of \$17,694 returned to the Taxpayer Relief Reserve as a result of unbudgeted external funding received to fund 2023 budgeted COVID-19 related expenditures.
- Unused funds of \$8,180 returned to the Taxpayer Relief Reserve associated with Bill 23 impacts due to lower than expected payouts of phase-in and rental grants

The above transfers have been included in the Reserve Reconciliation of Appendix 4 to Report CSD 10-2024.

**Encumbrances**

Encumbrance accounting is a mechanism to facilitate the accounting of goods and services when 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 surpluses/(deficits) are encumbrances totalling \$14,358 thousand (see Appendix 2 to Report CSD 10-2024). The encumbrances identified will be transferred to the encumbrance reserve at December 31, 2023, and transferred back to the respective departments in 2024. Encumbrance balances that have been carried forward from a year prior to 2023 have also been identified in Appendix 2 to Report CSD 10- 2024.

In 2023, \$9,542 thousand (66.5%) (2022- \$13,799 (65.1%)) of the total encumbrance requests related to 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), Waterfront Investment Program (WIP) and the grant portion of Niagara Regional Housing's approved loan and grant program and can span multiple years.

### **Capital Variance Project**

In accordance with the Budget Control By-Law, capital variance projects (CVP) are allocated surplus from capital projects and used for funding capital project shortfalls in year. During 2023, a total of 79 projects were closed (compared to 71 projects in 2022 and 126 projects in 2021). As a result of project closures and budget reductions, a total of \$22,317 and \$17,619 thousand was returned to the CVP in 2023 and 2022 respectively.

Each CVP is typically maintained at a target balance of \$1 million at the beginning of each year, with balances greater than \$1 million transferred to capital reserves at year-end. At December 31, 2023, there is a cumulative total of \$32,865 thousand in four CVP. Staff have returned a cumulative total of \$10,551 thousand to Capital Reserves to make the funding available for future budget cycles, while still maintaining balances above the \$1 million minimum target to provide more flexibility to address inflationary cost pressures. This will result in CVP balances being greater than \$1 million as outlined in Table 6 below to support potential inflationary pressures. In accordance with policy Council approval is required for any transfer from CVP to capital projects in excess of \$250 thousand. Staff will continue to monitor and any surplus will be utilized in the 2025 capital budget.

The following table summarizes the activity in the CVPs during the year and the balances remaining in each CVP as of December 31, 2023.

Table 6: 2023 CVP Activity and Year-End Balances (in thousands)

	Levy	Waste Management	Wastewater	Water	Total
Balance at Dec 31, 2022	\$5,649	\$5,260	\$4,172	\$7,185	\$22,266
Transfer to Capital	(\$5,054)	(\$488)	(\$1,896)	(\$4,280)	(\$11,718)
Budget Reductions and Transfers from capital	\$10,104	\$1,779	\$1,985	\$8,449	\$22,317
<b>Net</b>	<b>\$10,699</b>	<b>\$6,551</b>	<b>\$4,261</b>	<b>\$11,354</b>	<b>\$32,865</b>
Transfer to Capital Reserves	(\$5,000) *	(\$5,551)	\$0	\$0	(\$10,551)
<b>Uncommitted balance at December 31, 2023</b>	<b>\$5,699</b>	<b>\$1,000</b>	<b>\$4,261</b>	<b>\$11,354</b>	<b>\$22,314</b>

\* The \$5,000 transferred to reserve has been committed to the approved 2024 capital budget

### Debt Substitution

Council approved debt of \$253,018 thousand for the South Niagara Wastewater Treatment Solution Project with \$75,571 thousand to be funded from the Wastewater rates and the balance from Development Charges (DC's). In accordance with Budget Policy, the 2023 budget included a debt charge placeholder of \$5.6 million which staff is recommending be used to substitute the rate supported debt for project number 20000724.

This recommendation was supported through the approval of the 2024 rate budget (CSD 50-2023), to reduce reliance on rate supported debt financing. Continuing this annual strategy until debentures are issued in approximately 2028 will reduce the rate supported debt from original \$75,571 thousand to approximately \$50,000 thousand by 2028. As well, this strategy will allow previously initiated funding for the project of \$38,722 thousand to be largely funded with reserves as a risk mitigation measure to the reliance on outstanding Federal and Provincial contributions required to move construction forward. The debt substitution will also help to manage overall Regional debt capacity and will reduce future debt charges providing greater operating budget flexibility.

### **Alternatives Reviewed**

- Council may direct staff to consider alternative reserve allocations for the various year-end surplus and deficit amounts, however this is not recommended as the report recommendations have been made in accordance with Regional financial policies and 2024 budget commitments.
- Staff have made recommendations regarding the CVP to provide for inflationary budget pressures on Regional capital projects. However, Council may wish to direct staff to transfer more to capital reserves at this time rather than wait. Use of capital reserves would require a budget amendment and use of CVP provides greater flexibility to Council.

### **Relationship to Council Strategic Priorities**

Providing financial information to Council and the public supports the Council Strategic Priority of Sustainable and Engaging Government.

### **Other Pertinent Reports**

- CSD 20-2023 2022 Year-End Results and Transfer Report
- CSD 39-2023 Q2 2023 Financial Update
- CSD 50-2023 2024 Budget – Water and Wastewater Operating Budget, Rate Setting and Requisition
- CSD 53-2023 Q3 2023 Financial Update

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This report was prepared in consultation with Corporate Leadership Team and consolidated ABCs and reviewed by Helen Furtado, 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	Five Year Funding Surplus/(Deficit) Analysis
Appendix 4	Q4 2023 Financial Update
Appendix 5	NRPS Financial Variance Overview for the Year End December 31, 2023
Appendix 6	NRH 2023 Year-End Transfer Report
Appendix 7	NTC 2023 Year-End Transfer Report