

Subject: Q2 2024 Financial Update

Report to: Corporate Services Committee

Report date: Wednesday, September 11, 2024

Recommendations

1. That the June 30, 2024, year to date actual results and forecast to December 31, 2024, representing the 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, 2024. 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.
- A separate quarterly achievements report which highlights progress on key initiatives across the organization has been provided to supplement the financial results.
- Regional departments and General Government are projecting a forecasted deficit of \$3.6 million (0.45% of budget) at year-end. Levy-supported programs (Regional Departments consolidated with Agencies, Boards and Commissions (“ABCs”)) are forecasting an overall deficit of \$4.8 million (0.44% of budget) at year-end.
- Rate-supported programs Water and Wastewater are projecting an overall forecasted deficit of \$1.9 million (1.12% of budget) at year-end. Niagara Transit Commission Special Levy is forecasting a surplus of \$0.4 million (0.50% of budget) and Waste Management Special Levy is projecting a forecasted surplus of \$1.2 million (2.19% of budget)
- Departments prepare forecasts using assumptions and estimates based on information available at the time of writing the quarterly financial updates. This report was compiled in early August 2024. All financial implications quantified in this report include estimates up to December 31, 2024 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 general levy, special levy and rate-supported program forecasts can be found in the Q2 2024 Financial Update Report on the Region’s website at the link below and in Appendix 1 to Report CSD 43-2024. The report is compliant under the Accessibility for Ontarians with Disability Act. Hard copies of the report can be made available upon request.

Q2 2024 Financial Update

(Report available upon request)

Table 1: Q2 2024 Results Summary

(in millions)	Forecasted Surplus/(Deficit) After Indirect Allocations	Percent of Gross Expense Budget
Regional Departments and General Government	(\$3.6)	(0.45%)
NRPS	(\$1.0)	(0.44%)
NRH	(\$0.1)	(0.40%)
Court Services	(\$0.1)	(0.22%)
NPCA	\$0	
Total General Levy	(\$4.8)	(0.44%)
Niagara Transit Commission	\$0.4	0.50%
Water and Wastewater	(\$1.9)	(1.12%)
Waste Management	\$1.2	2.19%

Recommendations to address final surpluses and/or deficits will be brought forward to Council as part of the 2024 Year-End Transfer report. Revenues and expenses that are driving the 2024 surplus/deficit are being considered in the preparation of the 2025 budget and any sustainable savings or ongoing pressures will be incorporated into the 2025 budget.

Analysis

New in 2024 is a complimentary report on the organizations 2024 achievements to date which can be found in Appendix 2 to this report. This achievements report is also posted on our website at the link below.

Q2 Achievements Report

[Growing Better Together: Council Strategic Priorities 2023-2026 - Niagara Region, Ontario](https://niagararegion.ca/priorities)

(<https://niagararegion.ca/priorities>)

The Q2 2024 financial results are being driven by many different factors, which are summarized below. Full details on the factors driving the results can be found in Appendix 1 to this report. High-level factors contributing to the results have been presented below.

Levy-Supported Programs:

Niagara Region's levy programs are operating at a net forecasted deficit of \$4.8 million.

The levy programs excluding agencies, boards and commissions (ABCs) are operating at a forecasted deficit of \$3.6 million. This forecasted deficit is driven by higher than anticipated Industrial DC grants and exemptions of \$5.7 million, an adjustment in methodology for recording interest for principal protected notes offset by interest rate variances and market condition gains totaling \$0.6 million. These unfavourable variances are offset by various net operating expenditure savings resulting from vacancies and changes in workplans.

Niagara Region's ABCs are operating at a forecasted net deficit of \$1.2 million. The net deficit is primarily driven by the forecasted deficit within Niagara Regional Police Service of \$1.0 million. The NRPS deficit is a result of a higher than expected insurance claims.

It is recommended that at year-end, the forecasted operating deficit of \$4.8 million be funded by the Taxpayer Relief Reserve, resulting in a net draw of \$4.8 million. The balance of the Taxpayer Relief reserve is forecasted to be \$23.0 million or 3.00%, which is below the minimum funding target of 10% to 15% of the annual budgeted operating expenditures, which is \$76.9 million to \$115.4 million.

Niagara Transit Commission:

Niagara Transit Commission is operating at a net forecasted surplus of \$0.4 million at year-end.

The forecasted surplus is a result of higher than anticipated fare revenue of \$1.7 million due to increased ridership, lower than budgeted fuel costs of \$0.4 million due to the budgeted actual average cost per litre based on our contract being less than the budget cost per litre, savings of \$0.9 million due to the timing of the comingled specialized service contract and higher than anticipated advertising revenues of \$0.3 million. These savings are partially offset by unfavourable labour related costs of \$2.9 million related to higher than budgeted benefit for unionized staff, overtime and a settlement related to collective bargaining.

It is recommended that at year-end, the forecasted operating surplus of \$0.4 million be transferred to the Niagara Transit Commission Stabilization Reserve resulting in a balance of \$2.5 million. The funding target of 10 to 15 percent of annual budgeted operating expenditures similar to other stabilization reserves, is \$8.1 million to \$12.1 million for the Niagara Transit Commission Stabilization Reserve. The reserve is below funding targets since it was newly established in 2023. Funding in this reserve will be considered annually through the budget process with the goal of developing and maintaining a long-term sustainable strategy.

Water and Wastewater Services:

Water and Wastewater Services are operating at a forecasted deficit of \$1.9 million at year-end, which consists of a \$1.1 million surplus within the Water division and a \$3.0 million deficit Wastewater division.

The forecasted surplus within the Water division is primarily attributable to lower than anticipated emergency equipment repairs of \$0.7 million as well as emergency watermain and water storage savings of \$0.2 million.

It is recommended that, at year-end, the forecasted surplus of \$1.1 million be transferred to the Water Stabilization Reserve. The funding target, of 10 to 15 percent of annual budgeted operating expenditures, is \$2.7 million to \$4.1 million. Including the forecasted surplus, the Water Stabilization Reserve is forecasted to have a balance of \$4.0 million, which is within the funding targets.

The forecasted deficit within the Wastewater division is driven by estimated external legal costs to support ongoing litigation associated with Wastewater infrastructure resulting in an unfavourable variance of \$2.3 million. Also driving the forecasted deficit

is an unfavourable variance in repairs and maintenance spending due to aging infrastructure and equipment of \$0.8 million.

It is recommended that there is a focus on mitigating pressure in Q3/Q4 to reduce the forecasted deficit while continuing to ensure critical repairs are completed. If the deficit is realized at year-end, it will be funded initially from the Wastewater Stabilization Reserve which will exhaust it. When exhausted any remaining pressure would be funded from the Wastewater Capital Reserve. The funding target, of 10 to 15 percent of annual budgeted operating expenditures, is \$7.0 million to \$10.4 million. Fully exhausting the Wastewater Stabilization Reserve limits the ability to address risks in the future. The 2025 budget will consider if a contribution to replenish this reserve is required.

Waste Management:

Waste Management Services are operating at a forecasted surplus of \$1.2 million at year-end.

The forecasted surplus is a result of lower than anticipated escalation costs in some contracts including \$0.3 million in the base collection contract, savings related to lower than anticipated purchases of blue/grey boxes and green bins of \$0.2 million, labour related savings due to salary gapping and delays in hiring vacant positions of \$0.3 million, and \$0.1 million in additional funding received for the Region's drop-off depots associated with temporary blue box funding during the transition period.

It is recommended that at year-end, the forecasted operating surplus of \$1.2 million be transferred to the Waste Management Stabilization Reserve. The funding targets of 10 to 15 percent of annual budgeted operating expenditures, is \$4.8 million to \$7.2 million. Including the forecasted surplus, the Waste Management Stabilization Reserve is forecasted to have a year-end balance of \$10.4 million, which is above the funding targets for the Reserve.

Reserve Impacts:

Table 2: Taxpayer Relief Reserve Forecast

(in millions)	2024 Budget	2024 Forecast	2025 Forecast
Opening Balance	\$36.6	\$36.6	\$23.1
Bill 23 Impacts	(\$0.6)	(\$0.6)	-
2024 Council Reserve Draw (Tax Mitigation strategy)	(\$3.9)	(\$4.0)	(\$5.0)
Homelessness 2024 Budget Pressure (One-time)	(\$2.4)	(\$2.4)	-
Other	0.1	0.1	\$0.1
Extra Working Day	(\$1.1)	(\$1.1)	-
One-time Transfers (net)	(\$0.8)	(\$0.7)	-
Forecasted 2024 Operating Deficit	-	(\$4.8)	-
Closing Balance	\$27.8	\$23.1	\$18.2

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.

Relationship to Council Strategic Priorities

Providing financial information is aligned to Effective Region, delivery of fiscally responsible and sustainable core services.

Other Pertinent Reports

[CSD 10-2023 Year-End Transfer Report](#)

(<https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=fe0bdbf0-4603-4222-a65b-f177e1166c5f&Agenda=Merged&lang=English>)

CSD 43-2023 2024 Capital Budget

(copy available upon request)

[CSD 48-2023 2024 Budget – Waste Management Services Operating Budget and Requisition](#)

(<https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=431b02cf-cee7-4ad3-86c9-a53d6d46bcda&Agenda=Merged&lang=English>)

[CSD 50-2023 2024 Budget – Water and Wastewater Operating](#)

(<https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=c8251eaf-d9f7-442d-8c69-f9a77bad5cf8&Agenda=Agenda&lang=English>)

[CSD 54-2024 General Levy Operating Budget](#)

(<https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=1018ecdf-0b7e-476b-a03f-955134c276e9&Agenda=Merged&lang=English>)

[BRC-C 14-2023 2024 Proposed Operating and Capital Budget Submission and Requisition – Niagara Transit Commission](#)

(<https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=431b02cf-cee7-4ad3-86c9-a53d6d46bcda&Agenda=Merged&lang=English>)

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This report was prepared in consultation with the Corporate Leadership Team.

Appendices

Appendix 1	2024 Q2 Financial Update
Appendix 2	2024 Q2 Achievements Report