

Subject: Q1 Financial Update

Report to: Budget Review Committee of the Whole

Report date: Thursday, June 20, 2019

Recommendations

That this report **BE RECEIVED** for information.

Key Facts

- The purpose of this report is to forecast operating variances to year-end based on actual results as of March 31, 2019 and to outline pressures resulting from both corporate activities and the 2019 Ontario Budget. Many of these pressures will continue to impact 2020 and the preparation of the 2020 Regional budget.
- This report provides an overview of changes to Provincial funding identified to date with estimated impacts to the 2019 Council approved budget ("levy") as well as anticipated impacts on the 2020 budget (appendix 1)
- Staff are forecasting an in year unfavorable levy variance ("pressure") of \$0.62 million as a result of the 2019 Ontario Budget (based on best available information received to date) in addition to other corporate levy in year pressures of \$8.83 million for a total 2019 forecasted levy pressure of \$9.45 million
- Staff are forecasting unfavourable variances of \$4.68 million for rate supported services (\$1.38 million for water and wastewater services and \$3.30 million for waste management)
- This report outlines mitigation strategies identified by staff

Financial Considerations

This report provides a financial update on the forecasted year-end financial position of the Niagara Region.

<i>(in millions)</i>	Surplus/ (Deficit)	% of Gross Budget Expenditures	<i>(in millions)</i>	Surplus/ (Deficit)	% of Gross Budget Expenditures
Departments & General Government	(9.28)	-1.85%	Water & Wastewater	(1.38)	-1.58%
NRPS	-	0.00%	Waste Management	(3.30)	-6.49%
Court Services	-	0.00%			
NRH	(0.17)	-0.30%			
NPCA	-	0.00%			
Levy Supported	(9.45)	-1.29%			

There are no immediate financial considerations, however in accordance with the Surplus/Deficit policy, actual year-end results are balanced to the Taxpayer Relief Reserve (levy supported services) and the Rate Stabilization Reserves (rate supported services).

Stabilization Reserves

Stabilization reserves are to be used to stabilize rate or levy requirements due to unanticipated changes in operational requirements (which would include uncertainty in provincial funding).

<i>in millions</i>	Balance as of 12/31/18	% of Gross Operating Expenditures	Target Balance as of 12/31/18*	% of Gross Operating Expenditures	Shortfall
Levy (Taxpayer Relief Reserve)	24.71	5%	73.80	15%	(49.09)
Water Stabilization Reserve	3.44	15%	3.44	15%	-
Wastewater Stabilization Reserve	2.98	5%	8.85	15%	(5.87)
Waste Management Stabilization Reserve	7.43	15%	7.43	15%	-

*Target balance = 15% of gross operating expenditures

Updates will be provided in conjunction with the second and third quarter financial reports. In addition, further information regarding the implications of the 2019 Ontario budget on programs and services will be brought forward to respective standing committees as appropriate.

Analysis

2019 Provincial Budget Pressure

Preliminary 2019 in year levy pressure as a result of the 2019 Ontario Budget is summarized in the chart below. As a result of the Province's deferral of the changes, staff are now estimating a reduction of the initial pressure related to the Provincial budget estimate from \$4.03 million to \$0.62 million. The full impact of these changes will remain a pressure on the 2020 operating budget. Details related to the proposed changes to the program funding models and impact to the levy are outlined in Appendix 1 of the report.

<i>(in millions)</i>			Estimated Pressure May 2019	Revised Estimated Pressure June 2019
Department	Division	Program		
Community Services	Childrens	Core Funding	1.25	-
	Seniors	Structural Compliance Funding		0.02
	SAEO	OW Admin Funding	0.60	0.60
Community Services Total			1.85	0.62
Public Health & Emergency Services	Public Health	Cost Sharing Formula for Mandatory and Related Programs	0.50	-
	EMS	Land Ambulance Grant	1.68	-
Public Health & Emergency Services Total			2.18	-
Total			4.03	0.62

Other Corporate Pressures

In addition to the \$0.62 million noted above, staff have identified in year corporate pressures estimated at \$8.83 million, key drivers are as follows –

- Development Charge Exemptions- \$5 million
- Legal Claim - \$1 million
- Emergency Medical Services – Staff Overtime & WSIB - \$0.7 million
- Transportation – External Signal Revenue - \$0.5 million
- Seniors – Staff Overtime & 2019 Case Mix Index (CMI) results - \$0.62 million
- NRH – Carlton Street Rent Revenue - \$0.17 million
- Public Health – Suicide Prevention Initiative - \$0.12 million

Mitigation Strategies

The combined pressures for 2019 are estimated at \$9.45 million for which staff have identified mitigation strategies estimated at \$9.45 million, key drivers are as follows –

- Utilization of the DC reserve payback to fund Development Charge Exemptions (per CSD 5-2019) - \$5 million
- Legal – 2018 legal claim payouts less than anticipated - \$1.53 million
- Identified Salary Gapping - \$1.0 million
- Investment Income - \$0.3 million
- Transportation – Delay of Street Lighting Program - \$0.3 million
- Seniors – Increased Accommodation Revenue - \$0.26 million
- Consulting Deferral - \$0.26 million
- NRH Provider Subsidy - \$0.17 million
- Other - \$.63 million

Risks to 2019 Levy Budget

In addition to the pressures disclosed in this report there are number of items that pose further risk to our 2019 levy. These items have not been confirmed and/or are not easily quantifiable, as such have not been included in the financial analysis.

- The Province is introducing a stronger approach to negotiating outcomes targets with delivery partners. 2018 actuals for the employment outcomes will be the forecasted baseline for 2019. Negotiated employment targets must be set at a minimum of 3% higher than the baseline. Underperforming may result in financial recoveries. The maximum recovery is 15% of the total upload funding, which would equate to an estimated \$1.2M for Niagara
- Changes to Ontario Works benefits (elimination of Transitional Child Benefit, changes to earnings exemption). Although no direct impact on levy, this changes could result in an impact on our clients/the community/agencies/shelters/etc. Further analysis is being prepared and will be provided in a report to PHSSC in July

Impacts on 2020 Levy Budget

Many of the 2019 Provincial budget pressures noted in this report will also impact 2020 (see appendix 1). In addition to the Provincial budget pressures the majority of the 2019 corporate pressures will also need to be incorporated into the 2020 budget, along with any incremental impacts which are not included in the table below. Impacts and strategies related to funding these estimated pressures will be brought forward to Council as part of the 2020 budget process in CSD 40-2019 2020 Budget Planning Report.

<i>(in millions)</i>	Pressures	
	2019	2020
Provincial Budget	0.62	0.62
Other Corporate	8.83	7.15
Total	9.45	7.77

Rate Supported Services

Staff are forecasting unfavourable variances of \$4.68 million for rate supported services (\$1.38 million for water and wastewater services and \$3.30 million for waste management). Budget pressures are driven by the volatility in the recycling commodity end market (\$3.30 million), water and wastewater chemical costs (\$0.38 million) and emergency wastewater repairs in Dain City (\$1.0 million). In addition to the pressures noted, there is additional risk that the 2019 repairs and maintenance budget might not be sufficient to cover anticipated costs. Mitigation options include anticipated reduction in the cost of end market material (\$1.13 million), salary gapping and reducing consultant spending by delaying projects. The net pressure is estimated at \$2.77

million (\$1.7 million for Waste Management and \$1.07 million for Water and Wastewater).

Any pressure that is not mitigated in year would be addressed through the year end transfer report, in alignment with the Surplus/Deficit policy, with the recommendation that the deficit be funded from the applicable Rate Stabilization Reserves.

Alternatives Reviewed

This report provides an update on the forecasted financial position of the Niagara Region and therefore alternatives were not required.

Relationship to Council Strategic Priorities

N/A - pending the development of Council Strategic Priorities.

Other Pertinent Reports

CSD 40-2019	2020 Budget Planning Report.
PDS 26-2019	Implications of Bill 108 "More Homes, More Choice Act, 2019

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This report was prepared in consultation with department program financial specialists and the corporate leadership team.

Appendices

Appendix 1	2019 Provincial Budget Implications
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