

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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Appendix 1 – 2019 Provincial Budget Implications

Area Impacted	Provincial Announcement	Description of Announcement and Financial Implications	Tax Levy Pressure (Funding) (in millions)	
			2019	2020
Public Health 2019 budget Gross: \$32.9 Net: \$8.9	Changes to the Provincial/Municipal Public Health Cost-Sharing Formula for Mandatory and Related Programs	<ul style="list-style-type: none"> The provincial funding for many public health programs will be moving to 70% of provincially approved expenditures for 2020-2021. Previously programs were funded at either 75% or 100% provincially. It is anticipated that the provincial funding will be reduced to 60% starting in 2021-2022, however it is not clear the impacts to Niagara as it will be consolidated into a new health unit (see next row). The Province stated that despite the provincial-municipal cost-sharing funding formula, health units are expected to maintain current service levels and accountabilities under the Ontario Public Health Standards. 	No impact anticipated	\$0.94
Public Health 2019 budget Gross: \$32.9 Net: \$8.9	Establishment of Regional Public Health Entities	<ul style="list-style-type: none"> The Province, as part of its commitment to "modernizing public health" also stated in the Budget that they will be establishing 10 regional public health entities (down from the current 35), and 10 	To be determined pending further information from Province	To be determined pending further information from Province

Area Impacted	Provincial Announcement	Description of Announcement and Financial Implications	Tax Levy Pressure (Funding) (in millions)	
			2019	2020
		new regional boards of health with one governance model by 2020-21.		
Land Ambulance (NEMS) 2019 budget Gross: \$44.5 Net: \$20.6	Provincial Funding Freeze – Land Ambulance Grants	<ul style="list-style-type: none"> On April 26, 2019, the Ministry of Health and Long-Term Care (MOHLTC) advised Niagara of its land ambulance grant funding for 2019-20. MOHLTC advised that the Niagara Region will receive the same funding grant as in 2018-19, however the funding will not include a Cost of Living Allowance increase. Niagara Regions Paramedic Services estimate that having no Cost of Living Allowance increase in this year's Land Ambulance Grant would result in a cost pressure in 2020 to the Niagara Region of \$1.7 million Given the announced deferral of the funding reduction, impacts to Niagara are not clear for 2019 or 2020 	No impact anticipated (pending further information from Province)	Approx. \$1.68 (pending further information from Province)
Land Ambulance (NEMS) 2019 budget Gross: \$44.5	Regionalization of Ambulance Service	<ul style="list-style-type: none"> The Province has announced its intention to merge all local ambulance services into 10 regional providers. The objective of this amalgamation is to achieve potential efficiencies, however this 	To be determined pending further information from Province	To be determined pending further information

Area Impacted	Provincial Announcement	Description of Announcement and Financial Implications	Tax Levy Pressure (Funding) (in millions)	
			2019	2020
Net: \$20.6		is also anticipated to impact cost sharing of municipalities in the designated regions.		from Province
Children's Services 2019 budget Gross:\$59.6 Net: \$8.4	Child Care Municipal Cost Sharing Changes	<ul style="list-style-type: none"> It is anticipated in 2020 that: The new provincial funding model will expand expectation of an 80:20 cost share to other funding lines. All administration costs will be required to be cost shared at 50:50 to a cap of 5% of funding allocation in compared to 10% in prior years, however Niagara's practice already aligns with the 5% cap. 	No impact anticipated	To be determined pending further information from Province
Children's Services 2019 budget Gross:\$59.6 Net: \$8.4	Childcare Access and Relief from Expenses (CARE) Tax Credit	<ul style="list-style-type: none"> The Provincial government is planning to implement a change in policy in the way fee subsidy is being delivered and introduced a new CARE tax credit In 2018, approximately \$15.5 million was issued to fee subsidy families. Details regarding the implementation and transition of the CARE tax credit have not been released. Community Services will be providing a more fulsome report on 	No impact anticipated	To be determined pending further information from Province

Area Impacted	Provincial Announcement	Description of Announcement and Financial Implications	Tax Levy Pressure (Funding) (in millions)	
			2019	2020
		system impacts and mitigation strategies		
Senior's Services 2019 budget Gross:\$100.2 Net: \$18.2	Level-of-Care, or Per Diem, Rate Increase	<ul style="list-style-type: none"> A global per diem increase to the level-of-care per diem funding is provided to LTC homes to enhance direct care services as well as to support other operating costs within any of the four envelopes. Effective April 1, 2019 - The Level of Care Per Diem will increase by \$1.77 per resident per day, the increase is non-CMI adjusted. Senior's services plans to expend this additional funding in 2019 and 2020 to address resident acuity 	(\$0.47) <u>\$0.47</u> \$0.00	(\$0.62) <u>\$0.62</u> \$0.00
Senior's Services 2019 budget Gross:\$100.2 Net: \$18.2	Resident Co-Payment Increase	<ul style="list-style-type: none"> The resident co-payment increased by 2.3%. This increases the basic co-payment from \$60.78 to \$62.18 per day. Semi-Private and Private Accommodations have corresponding 2.3% increases on room premiums over and above the basic cost. 	(\$0.14)	(\$0.28)
Senior's Services 2019 budget Gross:\$100.2 Net: \$18.2	Supplementary Staffing and Convalescent Care Top-up	<ul style="list-style-type: none"> Small homes (those with 64 beds or less) will receive a fixed top-up that can be used for any direct care staff. 	(\$0.01) <u>\$0.01</u> \$0.00	(\$0.01) <u>\$0.01</u> \$0.00

Area Impacted	Provincial Announcement	Description of Announcement and Financial Implications	Tax Levy Pressure (Funding) (in millions)	
			2019	2020
		<ul style="list-style-type: none"> The region operates a 20-bed Convalescent Care Program and this program will receive an additional 1% in funding. Senior's services plans to expend this additional funding in 2019 and 2020 to address resident acuity 		
Senior's Services 2019 budget Gross:\$100.2 Net: \$18.2	Structural Compliance Program	<ul style="list-style-type: none"> Effective August 1, 2019, the Structural Compliance Premium will end. This program was initiated in 1998 to support eligible operators with complying with relevant design standards until such time that they were eligible for other Ministry support for developing and upgrading projects (i.e. the Construction Funding Subsidy Program). 	\$0.16	\$0.39
Social Assistance & Employment Opportunities 2019 budget Gross: \$133.0 Net: \$15.0	Provincial funding cap for the 2019 Ontario Works Cost of Administration	<ul style="list-style-type: none"> The Province has introduced a limit on the amount of administration subsidy supporting the Ontario Works program. The subsidy cap will equal each municipality's 2018 actual subsidy claim. 	\$0.60	\$0.60

Area Impacted	Provincial Announcement	Description of Announcement and Financial Implications	Tax Levy Pressure (Funding) (in millions)	
			2019	2020
Social Assistance & Employment Opportunities 2019 budget Gross: \$133.0 Net: \$15.0	Integration of Employment Services between Ontario Works, ODSP, and Employment Ontario	<ul style="list-style-type: none"> The Province reiterated commitments to reform the social assistance system (which includes Ontario Works and Ontario Disability Support Program) by simplifying the rate structure, reducing administration, cutting rules, and providing opportunities to achieve better employment outcomes for social assistance recipients. The Province expects these changes to result in estimated annual savings of over \$1 billion at maturity. Anticipated social assistance program design changes and reform efforts will likely result in reduced funding to the Niagara Region for Ontario Works program delivery and discretionary employment services and supports. 	To be determined pending further information from Province	To be determined pending further information from Province
Planning & Development Services	Bill 108 "More Homes, More Choice Act, 2019	<ul style="list-style-type: none"> On May 2, 2019, the Minister of Municipal Affairs and Housing introduced Bill 108, More Homes, More Choice Act, 2019, an omnibus bill intended to implement the Province's Ontario Housing Supply Action Plan. 	To be determined pending further information from Province	To be determined pending further information from Province

Area Impacted	Provincial Announcement	Description of Announcement and Financial Implications	Tax Levy Pressure (Funding) (in millions)	
			2019	2020
		<ul style="list-style-type: none"> For further information of the impacts of Bill 108 see PDS 26-2019 Staff will continue to provide additional comments as information becomes available 		
Niagara Regional Housing (NRH) 2019 budget Gross: \$66.1 Net: \$35.4	Community Housing Renewal Strategy Program Funding	<ul style="list-style-type: none"> Staff are working to understand the implications for 2020 based on the reduction of funding allocations, policy changes, and relationship between the provincial and federal program Funding announced for the next three years will not support substantial increased supply of affordable housing Further reporting will be brought forward to the Board/Committee/Council once further information is received and levy impacts are understood 	No impact anticipated	To be determined pending further information from Province
		Total	\$ 0.62	\$ 3.33