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**Subject:** Q2 Financial Update

**Report to:** Corporate Services Committee

**Report date:** Wednesday, September 11, 2019

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## **Recommendations**

That the June 30, 2019 (Q2) Quarterly Financial Update of the Regional Municipality of Niagara ("the Region") **BE RECEIVED** for information.

## **Key Facts**

- Quarterly 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.
- Departments prepare forecasts using assumptions and estimates based on information available at the time of writing the quarterly financial update. Forecasts contain certain inherent risks and as such actual results may differ.
- Operating results will be reported for the remainder of 2019 based on the reporting structure in place prior to the reorganization of Corporate Services, the revised Corporate Services structure will be reported on from a financial perspective beginning with the 2020 budget.
- The Regional Departments and General Government are projecting a deficit of \$747 (0.15% of budget) at year end.
- Levy supported programs (Regional Departments consolidated with the ABCs (Niagara Regional Police (NPRS), Niagara Regional Housing (NRH), Niagara Peninsula Conservations Authority (NPCA) and Court Services)) are projecting a surplus of \$916 (0.12% of budget) at year end.
- Rate supported programs (Water and Wastewater Services and Waste Management) are projecting a deficit of \$1,996 (1.45% of budget) at year end.
- Staff have implemented a number of measures to mitigate projected deficits, as outlined in CSD 49-2019 - Q1 Financial Update, and will continue to pursue other strategies as appropriate.
- Sustainable variances identified through the quarterly reporting exercise will be considered in the development of the 2020 budget.

## **Financial Considerations**

Full analysis and explanation of the levy and rate supported programs can be found in the Q2 2019 Quarterly Financial Update Report on the Region's website –

<https://www.niagararegion.ca/business/finance/quarterly-reports/default.aspx>

The Quarterly Financial Update Report is compliant under the Accessibility for Ontarians with Disability Act. Hard copies of the report can be made available upon request.

### Levy Supported Programs

	Surplus / (Deficit), after indirect allocations (in thousands)	Percentage of Budget
Regional Departments and General Government	(\$747)	0.15%
NRPS	(438)	0.26%
NRH	1,735	2.98%
Court Services	363	6.50%
NPCA	3	0.05%
Total Levy Supported	\$916	0.12%

A high level analysis of the financial results for Levy supported programs is provided in the analysis section below, for further details please refer to the Q2 2019 Financial Update Report “Consolidated Statement of Operations – levy” section.

### Rate Supported Programs

	Surplus / (Deficit), after indirect allocations (in thousands)	Percentage of Budget
Water and Wastewater	(\$737)	0.85%
Waste Management	(1,259)	2.48%
Total Rate Supported	(\$1,996)	1.45%

A high level analysis of the financial results for Rate supported programs is provided in the analysis section below, for further details please refer to the Q2 2019 Financial Update Report “Consolidated Statement of Operations – Water and Wastewater and Waste Management” sections.

## **Analysis**

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

Regional Departments and General Government has a forecasted year-end deficit of \$747 (0.15% of budget). The forecasted deficit is driven by development charge (DC)

exemptions being higher than budget, reduction to Social Assistance (Ontario Works) admin funding as well as increased Workplace Safety Insurance Board (WSIB) costs. These pressures are offset by savings in compensation as a result of staff vacancies throughout the corporation, higher than anticipated supplemental tax revenue and forecasted savings in utilities.

This deficit is offset by the net surplus forecasted in the ABCs of \$1,663 (0.70% of budget) at year end. The forecasted surplus in the ABCs is primarily a result of the surplus in Niagara Regional Housing (NRH) due to lower than budgeted subsidy payments to providers, in addition to increased collection enforcement activity and larger fine payments within Court Services.

Recommendations to address deficits will be brought forward to Council as part of the Year-End Transfer report.

Rate Supported Programs (all amounts in thousands):

***Water and Wastewater***

Water and Wastewater Services has a projected net deficit at year end of \$737 (0.85% of budget) which is comprised of a forecasted surplus in the water division of \$272, reduced by a forecasted deficit of \$1,009 in the wastewater division.

The forecasted net deficit in Water and Wastewater Services is due to lower than budgeted water sales as a result of cool weather in the first half of 2019, higher than anticipated equipment repairs, higher than anticipated grounds and building repairs and unanticipated costs for emergency sewer repairs. The deficit has been partially mitigated by forecasted savings in utilities and compensation as a result of staff vacancies.

Recommendations to address deficits will be brought forward to Council as part of the Year-End Transfer report.

***Waste Management***

Waste Management Services has a projected deficit of \$1,259 (2.48% of budget). The forecasted deficit is primarily due to declining market revenues received from the sale of recyclable commodities which has been partially offset by lower than anticipated costs of purchasing commodities under contracts with Waterloo, Haldimand and commercial businesses.

Recommendations to address deficits will be brought forward to Council as part of the Year-End Transfer report.

**Comparison of Q1 to Q2 Forecasted Results:**

The following table shows the changes in the forecasted surpluses/deficits between Q1 and Q2.

	Forecasted Surplus / (Deficit) After Indirect Allocations (in thousands)		Change from Q1
	Q1	Q2	
Regional Departments and General Government	(\$4,802)	(\$747)	\$4,055
ABCs	\$135	\$1,663	\$1,528
Total Levy Supported	(\$4,667)	\$916	\$5,583
Water and Wastewater	(\$1,071)	(\$737)	\$334
Waste Management	(\$1,795)	(\$1,259)	\$536
Total Rate Supported	(\$2,866)	(\$1,996)	\$870

See CSD 49-2019 for more details on the Q1 pressures driving forecasted deficits.

***Levy Supported Programs***

The change in the forecasted results for Regional Departments and General Government are due to higher than anticipated supplemental tax revenue, unanticipated utility savings and salary gapping.

In CSD 49-2019 one of the mitigation strategies to address the forecasted deficit was to utilize the DC reserve payback to fund the DC exemption variance (estimated at \$5,000 in Q1). At Q2, the forecasted DC exemption variance was estimated at \$4,917. As of Q2, there are now surpluses forecasted in other levy supported programs that can be used to offset the DC exemption variance. As such, the transfer from the DC reserve payback is now anticipated to be \$747 at year end.

The change in the forecasted surplus in the ABCs is a result of lower than budgeted subsidy payments to non-profit and co-op providers in NRH, increased fines and collections in Court Service offset by a higher than budgeted self-insurance claim payouts in NRPS.

***Rate Supported Programs***

The change in the Water and Wastewater forecast is a result of lower than budgeted utility expenses offset by lower than anticipated water sales due to the cool and wet weather as well as higher than anticipated repair and maintenance costs, including emergency watermain repairs.

The change in the Waste Management forecast is a result of issuance of liquidated damages and increased tipping fees.

### **Alternatives Reviewed**

Forecasts for the year are based on the best information and estimates based on circumstances knowns at the time of the financial update.

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

Forecasting financial results and providing formal reporting to Council and the public supports Sustainable and Engaging Government.

### **Other Pertinent Reports**

CSD 49-2019      Q1 Financial Update

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#### **Prepared by:**

Beth Brens, CPA, CA  
Acting Associate Director, Reporting &  
Analysis  
Corporate Services

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#### **Recommended by:**

Todd Harrison, CPA, CMA  
Commissioner  
Corporate Services

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#### **Submitted by:**

Ron Tripp, P.Eng.  
Acting, Chief Administrative Officer

*This report was prepared in consultation with the Corporate Leadership Team and consolidated ABC's and reviewed by Helen Chamberlain, Director, Financial Management & Planning/Deputy Treasurer.*

### **Appendices**

Appendix 1      Q2 2019 Quarterly Financial Update