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**Subject:** 2019 Year End Results and Transfer Report

**Report to:** Corporate Services Committee

**Report date:** Wednesday, March 11, 2020

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## Recommendations

1. That the unaudited summarized financial results of the Niagara Region as detailed in Appendix 1, **BE RECEIVED**;
2. That the 2019 year end operating surplus for levy supported programs including agencies, boards and commissions of \$3,453 thousand **BE TRANSFERRED** as follows:
  - \$48 thousand **BE TRANSFERRED** to the Ontario Police Video Training Alliance (OPVTA) Reserve as per NRPS recommendation to their Board in Appendix 6
  - \$89 thousand **BE TRANSFERRED** to the Police Services Board Contingency Reserve as per NRPS recommendation to their Board in Appendix 6
  - \$204 thousand **BE TRANSFERRED** to the Police Contingency Reserve as per NRPS recommendation to their Board in Appendix 6
  - \$580 thousand **BE TRANSFERRED** to the NRH Owned Units Reserve to fund heat control system upgrades in owned units to be completed in 2020 as per NRH recommendation to their Board in Appendix 7
  - \$250 thousand **BE TRANSFERRED** to the Niagara Regional Housing Reserve to fund the Affordable Housing Master Plan to be completed in 2020 as per NRH recommendation to their Board in Appendix 7
  - \$355 thousand **BE TRANSFERRED** to the Niagara Regional Housing Reserve to be utilized for new capital development opportunities to reduce the housing waitlist as per NRH recommendation to their Board in Appendix 7
  - \$177 thousand surplus related to the 2019 SNIP program **BE TRANSFERRED** to the Taxpayer Relief Reserve to fund the 2020 SNIP program as directed by Council at December 5, 2019 BRCOTW
  - \$1,750 thousand **BE TRANSFERRED TO** the Taxpayer Relief Reserve;
3. That the 2019 year end operating deficit for rate supported programs of \$2,840 thousand **BE TRANSFERRED** from reserves as follows:
  - \$1,156 thousand **BE TRANSFERRED** from the Waste Management Stabilization Reserve in order to fund the operating deficit relating to Waste Management service
  - \$507 thousand **BE TRANSFERRED** from the Water Stabilization Reserve in order to fund the operating deficit related to Water services

- \$1,177 thousand **BE TRANSFERRED** from the Wastewater Stabilization Reserve in order to fund the operating deficit relating to Wastewater services;
- 4. That encumbrances of \$16,377 thousand (Appendix 2), **BE RECEIVED** for information and that the deferral of these expenditures be included in the 2020 operating budget; and
- 5. That the transfers of \$8,446 thousand from the capital variance project to Capital Reserves **BE RECEIVED** for information.

## Key Facts

- Overall, the unaudited results of Niagara Region's 2019 budget is a surplus of \$3,453 thousand in the levy supported programs and deficit of \$2,840 thousand in the rate supported programs.

	2019 Surplus/(Deficit) after indirect allocations (in thousands)	2019 Percentage of Budgeted Gross Expenditures	2018 Surplus/Deficit Percentage of Budgeted Gross Expenditures
Regional Depts. & General Government	\$878	<b>0.16%</b>	0.35%
Court Services	\$444	<b>7.24%</b>	8.10%
NRH	\$1,327	<b>2.03%</b>	4.65%
NRPS	\$798	<b>0.44%</b>	0.34%
NPCA	\$6	<b>0.13%</b>	0.06%
<b>Total Levy Supported Surplus</b>	<b>\$3,453</b>	<b>0.44%</b>	<b>0.26%</b>
Water	(\$507)	<b>1.13%</b>	10.67%
Wastewater	(\$1,684)	<b>1.46%</b>	0.63%
Waste Management	(\$1,156)	<b>2.13%</b>	3.13%
<b>Total Rate Supported Deficit</b>	<b>(\$2,840)</b>	<b>1.58%</b>	<b>2.76%</b>

- The Niagara Region continues to tightly manage its operating surplus/deficits in year with overall variances as a percentage of gross budgeted expenditure remaining low. A 5 year summary of the surplus/deficit can be found in Appendix 3.
- The recommendations included in this report have been guided by the Operating Surplus/Deficit Policy approved by Council in July 2018, which states that "yearend 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".

- ABC's have made their own recommendations based on their strategic objectives and their assessment of underfunded areas.
- As the Surplus/Deficit Policy applies to all departments, agencies, boards and commissions the recommendation to transfer the full levy supported surplus to the Taxpayer Relief Reserve is preferred by Niagara Region staff in consideration of the Niagara Regions' overall sustainability and credit rating. More information on this is presented in the Alternatives Reviewed section of the report.
- Funding of \$16,377 thousand has been set aside in the encumbrance reserve as of December 31, 2019. \$12,683 thousand (77.4%) of the total encumbrance amount is related to various incentive and grant programs such as Combined Sewer Overflow (CSO) Program, Smarter Niagara Incentive Program (SNIP), Public Realm Investment Program (PRIP), Gateway Tax Increment Grant (TIG) and the Waterfront Investment Program (WIP). For the amounts encumbered, a spending obligation (in the form of a purchase order, contract or other legally binding commitment) has been made against the 2019 operating budget, however, the product or service has not been received in the year. The budgeted funds will be transferred to the 2020 operating budget when the product or service is received and the related budgeted expense will be grossed up for the year.
- In accordance with the Budget Control By-Law, capital variance projects (CVP) are allocated surplus from capital projects and used for funding capital project deficits in the year. The CVP are maintained at a target balance of \$1 million at the beginning of each year per the Capital Asset Management Policy. Balances greater than \$1 million are transferred to capital reserves at year end. Transfers to the General Capital Levy of \$5,449 thousand, Wastewater capital of \$945 thousand, Water capital of \$1,172 thousand and Waste Management Capital of \$1,100 thousand were completed at year end. Some of this funding was utilized in the 2020 capital budget and some will be leveraged in the long-term capital affordability strategy.

## **Financial Considerations**

The recommendations in this report will fully allocate the 2019 year end operating surplus to reserves. Full explanations for the surpluses and deficits can be found in Appendix 4 and are summarized on the *Consolidated Year End Funding Surplus/(Deficit) Review* in Appendix 1.

## **Analysis**

Full analysis and explanation of the rate and levy supported programs can be found in the Annual Financial Update in Appendix 4 and on the Region's website. The report is Accessibility for Ontarians with Disabilities Act compliant. Hard copies of the report can be made available upon request.

### [December 2019 Financial Report](https://www.niagararegion.ca/business/finance/quarterly-reports/default.aspx)

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

### Reserve Impacts Based on Report Recommendations

The Niagara Region's Operating Surplus/Deficit Policy outlines how annual operating surpluses or deficits are addressed at year end, giving consideration to affordability, sustainability and Niagara Region's credit rating. This Policy applies to all departments, agencies, boards and commissions consolidated within the Niagara Region.

The Policy states that year end surpluses will be allocated to those areas that have been identified as underfunded per the Reserve and Reserve Funds Policy and/or one time funding needs as recommended by Council. The Policy states that for corporate stabilization reserves, the minimum balance target is 10% to 15% of Operating Expenses.

The chart below shows a summary of the transfers recommended in this report and shows the reserve balance before and after the recommended transfers.

Reserve Description	Reserve Balance Before Transfer (in thousands)	Recommended Transfer to/(from) Reserve (in thousands)	Reserve Balance After Transfer (in thousands)
<b>Stabilization Reserves</b>			
Taxpayer Relief	\$21,831	\$1,925	\$23,757
Water Stabilization	\$3,492	(\$507)	\$2,986
Wastewater Stabilization	\$3,026	(\$1,177)	\$1,848
Waste Management Stabilization	\$7,200	(\$1,156)	\$6,043
Police Contingency	\$250	\$204	\$454
Police Services Board Contingency	\$152	\$89	\$252
<b>Capital Reserves</b>			
Ontario Police Video Training Alliance	\$61	\$48	\$109
Niagara Regional Housing	\$7,623	\$605	\$8,228
Niagara Owned Units	\$5,408	\$580	\$5,987

The following shows the balance of the reserves (after the recommended transfers included in this report) and amount over or below the minimum target balances as outlined in the Reserve and Reserve Funds Policy.

Reserve Description	Reserve Balance After Transfer (in thousands)	Target Balance (in thousands)	
		Low (10%)	High (15%)
<b>Stabilization Reserves</b>			
Taxpayer Relief	\$23,757	\$55,968	\$83,952
Water Stabilization	\$2,986	\$2,359	\$3,359
Wastewater Stabilization	\$1,848	\$6,342	\$9,513
Waste Management Stabilization	\$6,043	\$5,085	\$7,628
Police Contingency	\$454	Determined by NRPS	
Policy Contingency	\$252	Determined by NRPS	
<b>Capital Reserves</b>			
Ontario Police Video Training Alliance	\$109	Reserve targets noted above not applicable for these reserves	
Niagara Regional Housing	\$8,228		
Niagara Owned Units	\$5,987		

Based on the table above, the following stabilization reserves are underfunded, as they are not meeting the minimum target balance thresholds established:

- Taxpayer Relief
- Wastewater Stabilization

Reserve balances below the minimum target may impact the ability to manage future operational risks.

#### Unspent Budgeted Reserve Transfers

Budgeted reserve transfers that are unspent during the year are returned to their originating reserves in accordance with the Reserve and Reserve Fund Policy. In 2019 the following funds were returned to reserves:

- Unused drainage assessment funding by local area municipalities of \$98 thousand
- Unused active transportation/bike lane funding by local area municipalities of \$150 thousand
- Unused funds for Niagara Regional Transit West Niagara service expansion rollout of \$821 thousand
- Unused funds for Stormwater guidelines of \$50 thousand

#### Encumbrances

Encumbrance accounting is a mechanism to facilitate the accounting of good and services where an obligation to purchase has occurred 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 funding surpluses are encumbrances totalling \$16,377 thousand (see Appendix 2). As part of the year end reporting process, the Financial Management and Planning division has reviewed each encumbrance request with the originating department. The encumbrances identified will be transferred to the encumbrance reserve at December 31, 2019 and transferred back to the respective departments in 2020. Encumbrance balances that have been carried forward from a previous year have also been identified in Appendix 2.

The majority of the encumbrance requests in 2019 relate to various incentive and grant programs which are in partnership with the local area municipalities (LAMs) and can span multiple years.

#### Capital Variance Project Transfer to Capital Reserve

Throughout the year, project variances are transferred to or from the Capital Variance Project (CVP) to be use in year in accordance with the Budget Control By Law.

During 2019, a total of 117 projects were closed (compared to 197 projects in 2018). As a result of the project closures and budget reductions, a total of \$15,727 thousand and \$26,331 thousand were returned to the CVP in 2019 and 2018 respectively.

At the end of the year, the balance of the CVPs are reviewed and the amount in excess of \$1 million is transferred to the appropriate capital reserve (see *Capital Variance Project Summary* in Appendix 4 for more detail).

The following is a summary of the amounts transferred to the respective capital reserve from each CVP and the balances remaining in the CVP as of December 31, 2019.

CVP Description	CVP Balance Before Transfer to Reserve (in thousands)	Transfer to Reserve (in thousands)	CVP Balance After Transfer to Reserve (in thousands)
Levy Programs	\$6,229	\$5,229*	\$1,000
Waste Management	\$1,682	\$1,100**	\$582
Wastewater	\$1,945	\$945	\$1,000
Water	\$2,172	\$1,172	\$1,000
<b>Total</b>	<b>\$12,028</b>	<b>\$8,446</b>	<b>\$3,582</b>

\* \$4,000 of the amount transferred to reserve has been committed to the approved 2020 capital budget

\*\* All of the \$1,100 transfer to reserve has been committed to the approved 2020 capital budget

## Alternatives Reviewed

Council may direct staff to consider alternatives options for the consolidated net surplus position of \$612 thousand. Some of the potential alternatives may include:

### Alternative Option – Transfer all of the Surplus from the Levy Supported Programs to Taxpayer Relief

It is at the discretion of Council how to treat the levy supported operating surplus at year end. Surpluses are a result of funding provided in a budget that was not required to achieve the objectives or mandate for that year. Since these funds are not required, Council may direct staff to allocate all of the levy supported operating surplus to the Taxpayer Relief Reserve (thereby not accepting some or all of the recommendations made by the NRH and NRPS Boards).

The yearend surplus is currently the only mechanism the Region is using to contribute funds into its stabilization reserves as contributions to these reserves are not being made as part of the base budget process. This alternative allows Council to maximize its available contribution to the stabilization reserves and improves the Region's overall

financial sustainability. Strong stabilization reserves support all levy supported programs including the agencies, boards and commissions who may need to leverage them in the future.

To further support staff's position that Niagara Region's reserves are underfunded, the Ministry of Municipal Affairs and Housing's 2018 Financial Indicator Review has been attached in Appendix 5. It shows Niagara Region's reserves as a percentage of municipal expenses at 32.5% which is much lower than the comparative group showing an average of 91.8%.

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

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

### **Other Pertinent Reports**

CSD 49-2019	Q1 2019 Financial Update
CSD 63-2019	Q2 2019 Financial Update
CSD 76-2019	Q3 2019 Financial Update

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**Recommended by:**  
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Commissioner  
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**Submitted by:**  
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*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	Consolidated Year End Funding Surplus/(Deficit)
Appendix 2	Detailed Summary of Encumbrances by Department
Appendix 3	5 Year Funding Surplus/(Deficit) Analysis
Appendix 4	Q4 2019 Financial Update



Appendix 5	MMAH 2018 Financial Indicator Review
Appendix 6	NRPS Financial Variance Overview for the Year Ending December 31, 2019
Appendix 7	NRH 2019 Year-End transfer Report (NRH 2-2020)