

Region of Waterloo

Corporate Services

Corporate Finance

To: Administration and Finance Committee

Meeting Date: August 15, 2023

Report Title: 2023 Mid-Year Update

1. Recommendation

That the Regional Municipality of Waterloo take the following action with respect to the 2023 Mid-Year Update as set out in report COR-CFN-23-029 dated August 15, 2023:

- a) Receive the 2023 Mid-Year Update that shows implementation and financial progress towards delivery on the Region's Annual Business Plan, in support of achieving the vision set out by Council in the Strategic Plan 2019-2023; and
- b) Amend the 2023 Tax Supported Capital Budget as set out in Appendix D.

2. Purpose / Issue:

This report provides an update on organizational progress towards achieving the Region's Strategic Plan 2019-2023 objectives and a financial update for the second quarter of 2023 including:

- 2023 year-end financial projections
- Federal and provincial funding allocations
- Spending estimates and proposed capital budget amendments with respect to significant capital projects

3. Strategic Plan:

The budget and financial reporting processes enable Council to achieve its Corporate Strategic Plan objectives by allocating appropriate resources to each focus area, adjusting where required to new opportunities and community need.

4. Report Highlights:

- The Region of Waterloo set an ambitious but fiscally sustainable Plan and Budget for 2023 that includes key service delivery and strategic initiatives to:
 - Accelerate affordable housing
 - Improve equity and advance Truth and Reconciliation
 - Grow the economy

- Increase climate action
 - Improve community safety and wellbeing
 - Expand sustainable transportation
 - Service transformation
 - Increase employee attraction, retention and wellbeing
- Overall, the organization has performed well during the first half of 2023 and is on track to achieve most strategic actions and initiatives by year-end. Appendix A provides a summary of the mid-year business plan updates. Highlights are provided below:
 - 1,825 new affordable homes now in development or occupied. This progress moves the Region closer to the overall target of 2,500 new affordable housing units, reaching 73 per cent of the overall goal in the first two and half years of the plan.
 - 15 new Primary Care Paramedics (PCPs) and 5 Advanced Care Paramedics (ACPs) added to our deployment plan resulting in two new 24hr units, and 17,520 additional hours of coverage a year.
 - 63.5% increase in GRT riders from January-May 2023 compared to January to May 2022.
 - Up to 500 e-bikes and 500 e-scooters made available for community members to rent until the end of October, with over 250,000 km traveled since April.
 - Level 1 – Mapping of the Airport Carbon Accreditation program achieved, enabling the airport to prioritize energy use reductions and energy efficiencies.
 - 114 out of 125 drinking water sites updated to increase system resilience; improve data management, networking and operations; and strengthen protections from cybersecurity events. We are on track to complete updates by the end of 2024.
 - Over 2,000 employees have completed the five part foundational courses on Diversity, Equity, Inclusion, and Belonging.
- As in any budget year, staff are monitoring certain budget risks including cost escalation, fuel prices, funding of discretionary Regional Development Charge exemptions, and non-tax revenues such as airline passenger volumes and transit fares. Based on year-to-date financial results to the end of June, the Region is projecting a net year-end position in line with the approved 2023 Tax Supported Operating Budget.
- Preliminary estimates for user rates indicate projected surpluses for both water (\$2.4 million) and wastewater (\$2.7 million), driven by increased revenues and lower than budgeted expenditures.
- Since approval of the Region's 2023 budget in February, there have been several funding announcements providing additional support to the Region, including recent announcements relating to Children's Services and Paramedic Services.

- The Region's \$695 million capital program for 2023 is progressing, and based on current spending estimates approximately 69% of the budget is anticipated to be spent by year-end.
- The Region is finalizing the Corporate Strategic Plan for 2023-2027, and is continuing to enhance its internal performance tracking and monitoring systems. This process will enable improved outcomes for all residents and businesses, while also supporting the organization as it turns its attention to planning for 2024 and implementing new strategic directions and priorities based on current and future community needs and aspirations.

5. Background:

a) 2023 Business Plan Update

- Over January to June 2023, the organization has made progress on each of the above goals under the six focus areas of the Strategic Plan 2019-2023. These are summarized in Appendix A.
- Of the key initiatives highlighted in its 2023 annual business plan, the majority are on track or facing manageable deviation from the plan.

b) Summary of Q2-2023 financial results

The Region is projecting a net year-end financial position in line with the approved operating budget and surpluses for user rate budgets.

- Based on year-to-date financial results, the Region is projecting a net year-end financial position in line with the 2023 Operating Budget (excluding Waterloo Regional Police Services).
- Preliminary estimates for user rates indicate projected surpluses for both water (\$2.4 million) and wastewater (\$2.7 million).
- A summary of year-end estimates by program area is included in Appendix B.

Estimated year-end operating financial results are highlighted as follows:

- Transit fare revenues are estimated to exceed the annual budget by \$3.7 million, primarily due to higher U-pass sales resulting from higher student enrollment.
- Based on year-to-date results and current trends, non-tax revenue shortfalls are anticipated for Airport user fees (\$1.3M as a result of lower passenger facilitation and terminal fees) and POA fine revenues (\$194,000 due to lower general revenue and collections, partially offset by higher automated speed enforcement revenues). Housing rental revenues are anticipated to exceed the budget by approximately \$320,000, while waste management revenues are tracking close to the budget.
- The 2023 budget for fuel was increased significantly based on prices in effect

- at the time of budget development, and the Tax Stabilization Reserve (TSR) was utilized to phase in this impact. Year-to-date average fuel prices (\$1.39/L for diesel and \$1.32/L for gasoline) are lower than budgeted (\$1.59/L for diesel and \$1.62/L for gasoline), and as a result it is estimated that budgeted TSR funding is likely not required.
- Notable operating expenditure variances include anticipated savings for winter control and area municipal road maintenance (\$393,000) and over expenditure for facilities related costs including maintenance, utilities and contracted services (\$2.7 million).
 - The unbudgeted cost of unsanctioned homelessness encampments is estimated to be \$939,000 in 2023. To implement the Region's encampment policy and to ensure the Region's by-law enforcement work continues uninterrupted, additional resources are being engaged in the form of two new by-law enforcement officers.
 - The 2023 year-to-date Ontario Works monthly average caseload is 8,459, which is lower than the budgeted caseload size of 9,200 cases per month. This is resulting in reduced expenditure and corresponding offsetting revenue for client basic allowances & mandatory benefits (approximately \$6.3 million) as the program is funded 100% by the Province.
 - Year-to-date Regional development charge exemptions funded from the operating budget currently exceed the 2023 full year budget provisions by \$2.6 million, of which \$1.6 million is tax levy funded and \$1.0 million is user rate funded. Regional development charge exemptions are a reflection of the mix and location of development occurring within the Region with the industrial discount being the primary driver of this variance.
 - Staff are projecting surpluses for both water supply (\$2.4 million) and wastewater treatment (\$2.7 million), driven primarily by increased rate revenues and lower than budgeted expenditures relating to electricity and temporary staff vacancies.

A number of items with financial implications have been approved by Council since 2023 budget approval in February. Items such as additional grant funding for key cultural institutions and GRT route service mitigation result in additional expenditure funded from the TSR, while costs associated with the Employment Lands Shovel-Ready Strategy will impact the year-end operating position. A list of these approvals was originally provided through report COR-CFN-23-027 dated June 6, 2023, and an updated list is included in Appendix E.

c) Federal and Provincial Funding

Since approval of the Region's 2023 budget in February, there have been two notable funding announcements providing additional support to the Region:

- **Children's Services** - \$8.38 million of additional Canada Wide Early Learning and Child Care (CWELCC) funding from the Ministry of Education to support additional child care spaces.
- **Paramedic Services** - \$227,000 of one-time Offload Delay Nurse funding to cover the period of January 1 to March 31, 2023.

d) Capital Program Status and Funding Updates

Appendix C provides a summary of budget versus actual capital project spending by department, and captures all projects with 2023 budgets of \$1 million or more. Using this approach, approximately 82% of the capital budget is being captured in this summary. The capital program is progressing, and based on current spending estimates approximately 69% of the 2023 capital budget is anticipated to be spent by year end. Reasons for project delays typically stem from factors such as weather, supply chain issues, and third-party delays for utility locates and relocations.

Staff have reviewed the progress of certain projects in the 2023-2032 capital program and have identified a project requiring a reallocation of funding sources. A summary of the recommended change and an explanation for the change are included in Appendix D.

6. Communication and Engagement with Area Municipalities and the Public

Regional staff continue to work closely in collaboration with partners in area municipalities. A number of engagement opportunities have launched as part of delivery on the Region's 2023 Plan and Budget and will continue through implementation.

7. Financial Implications:

As noted throughout the report. Year-end surpluses/shortfalls will be allocated to or be funded from reserves in accordance with Council policy, unless otherwise directed by Council.

8. Conclusion / Next Steps:

Staff will provide Council with financial update for the third quarter of 2023 in November, including updated year-end financial projections.

9. Attachments:

Appendix A: 2023 Mid-year Business Plan Update

Appendix B: Summary of Operating Budget Year End Estimates by Department

Appendix C: Summary of Capital Program Year End Estimates

Appendix D: Recommended Capital Budget Adjustment

Appendix E: 2023 In-Year Council Approvals

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