



The Regional Municipality of Durham Information Report

From: Commissioner of Finance
Report: #2023-INFO-73
Date: August 25, 2023

Subject:

The Consolidated Budget Status Report to June 30, 2023, and Full Year Forecast

Recommendation:

Receive for information

Report:

1. Purpose

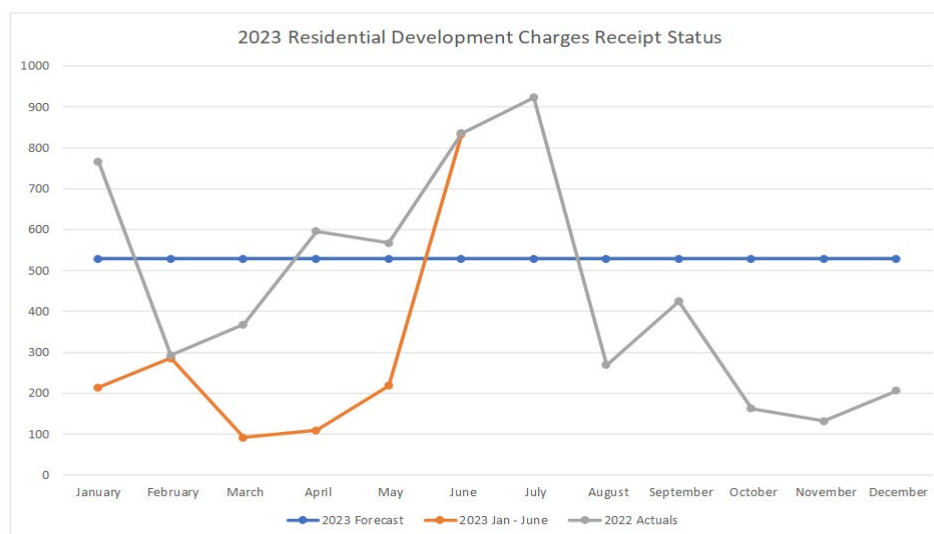
1.1 The following summary on the status of the 2023 Consolidated Budget and Full Year Forecast for the General Tax Operations, and the Water Supply and Sanitary Sewer Systems, is based upon information supplied by the Regional Departments, a review of the financial statements to June 30, 2023, and a forecast to the end of the year. It is important to note that there are many assumptions and estimates incorporated in this forecast.

2. Significant Factors Impacting Regional Operations

2.1 As noted in the Economic Updates provided by the Finance Department, the economic environment has had impacts on the local economy. While current price increases are on a downward trend, the overall price of goods increased by 1.2 per cent year-over-year compared to June 2022. Regional programs have not been immune from the impacts of the inflationary environment and the rising interest rates. The impact of these considerations have been incorporated into the full year forecast.

2.2 While COVID-19 impacts have largely disappeared, the Long-Term Care and Services for Seniors division of the Social Services Department and the Health Department have continued to experience increased staffing costs due to COVID-19 response and vaccination efforts. The Province has ended funding for COVID-19 extraordinary costs for the Long-Term Care and Services for Seniors division and Paramedic Services as of March 31, 2023. Any COVID-19 costs in these operations after March 31 are expected to be included in the existing base funding allocations provided by the Province.

- 2.3** Residential development charges receipts for the first six months of 2023 total 1,753 units, or 27.6 per cent of the forecast for 2023. Staff will continue to monitor the receipts against the forecast of 6,350 units.



Notes:

2023 Forecast = 6,350 units total (529.17 units per month)

2023 Jan - June = 1,753 units total

2022 Actuals = 5,544 units total

3. Budget Status Summary – Regional Operations

- 3.1** An overall surplus is forecast for Regional property tax supported operations for 2023, as indicated in the following table:

	<u>Surplus/(Deficit)</u>
	\$
Social Services	650,000
Health and Paramedic Services	500,000
Works – General Tax Programs	(2,250,000)
Planning and Economic Development	400,000
Corporate Services	100,000
Office of the Chief Administrative Officer	(600,000)
Finance	800,000
Durham Regional Police Services	-
Durham Region Transit	(2,350,000)
Investment Earnings	10,000,000
Corporate Items and Other Initiatives	<u>(1,235,000)</u>
Overall General Tax Surplus	<u>6,015,000</u>

4. General Tax Operations

4.1 Social Services Department

Long-Term Care and Services for Seniors

- The Long-Term Care and Services for Seniors division advises that a deficit position of approximately \$1,550,000 is anticipated for the year, resulting from a number of contributing factors.
- Staff requirements and service levels are impacting staffing costs and it is estimated that this will result in a deficit of approximately \$300,000 for the year. The significant contributing factor is the use of overtime to fill shifts due to staff absences. Homes staff are Provincially mandated to be out of the Home for 10 days if they contract COVID-19.
- As noted above, the Province has terminated the Enhanced COVID-19 funding for Long Term Care facilities effective March 31, 2023 and costs related to testing, strengthened infection prevention control measures and training, a steady supply of personal protection equipment, and increased staffing levels are to be managed within the approved base Ministry funding.
- Expenses for education and training, agency personnel, building and equipment maintenance are anticipated to be \$1,700,000 over budget. The increase is due to training costs for staff, backfilling of staff vacancies with agency personnel and inflationary cost increases for operating materials and supplies, medical supplies, personal protective equipment, and infection control costs experienced in sourcing building materials and equipment parts.
- Food costs have been impacted by inflationary pressures and are anticipated to be \$100,000 over budget.
- Increased per diem funding notices from the Province subsequent to the approval of the Regional Business Plans and Budgets is anticipated to provide an additional \$900,000 of revenue during the year.
- Revenue from preferred accommodation is anticipated to be under budget by approximately \$200,000 due to a decrease in the number of beds for which the preferred rate is applied. Other miscellaneous revenues are expected to be under budget by \$100,000.
- The Adult Day program experienced a decline in the number of participants due to the COVID-19 Pandemic and has begun increasing patient intake. However, it is anticipated that the program will experience a deficit of \$50,000.

Family Services

- The Family Services Division reports that client revenue in both the Core Counselling and Employee Assistance programs is trending below budget due

to higher usage of services by clients with lower income. Ability to pay is considered when fees are charged and the revenue deficit is attributable to the current client mix. However, the revenue decrease is offset by savings in operational expenditures, mainly due to staff vacancies, and as a result, a break-even position is expected for the year.

Income and Employment Support

- The Income and Employment Support division is projecting a surplus of \$300,000 for the year.
- While the caseload decreased during the pandemic, the average monthly Ontario Works caseload is now trending higher by 4.5 per cent over the prior year's average caseload. Although the province funds most of the direct program costs, a portion of the discretionary program is funded from property taxes. At this time, based on the expenditures to date, a break-even position in the discretionary program is projected for the year.
- The 2023 service contract for the administration of Durham's Ontario Works program has been approved by the Province, with funding in line with the Regional budget.
- As a result of the time required in filling staff vacancies, the Ontario Works Program Delivery budget is projected to have personnel cost savings of approximately \$300,000.
- On March 24, 2023, the Ministry announced additional 2023-2024 funding of \$7,147,800 for the Homelessness Prevention Program (HPP), increasing the Region's allocation to \$18,683,900 from the previous allocation of \$11,536,100. A revised Investment Plan for 23/24 has been submitted to the Ministry. Approval to accept the unbudgeted 2023 revenue was reported to Council via report #2023-SS-7. This HPP funding, will be utilized to provide affordable housing and support services via community partners, with the objective of preventing, addressing and reducing homelessness, including chronic homelessness.

Emergency Management and Program Support Services

- The operations of the Emergency Management and Program Support Services sections are expected to be in a surplus position for 2023, with staff savings due to timing of filling vacancies being estimated at \$100,000.

Children's Services

- The Children's Services division is currently tracking to budget and anticipates a break-even position for the year.
- An estimated \$6,300,000 in Canada Wide Early Learning and Child Care (CWELCC) funding is currently uncommitted; however, additional licensees

are anticipated to participate in the program in 2023 and overall funding is expected to be fully utilized.

- A new directly operated child care centre, Village Union, is expected to be operational in September 2023, providing an additional 26 spaces for kindergarten and school age children. No surplus or deficit has been estimated at this time due to the level of uncertainty regarding revenue and expense amounts at this new site.

Housing Services

- The Housing Services division reports that expenditures continue to track below budgeted expectations, with a projected surplus of \$1,800,000.
- Savings of \$300,000 are anticipated in the Social Housing Administration area because of time lags in filling staff vacancies.
- Payments to external social housing providers, a portion of the Community Housing Program budget, are presently tracking approximately \$2,400,000 under budget, primarily due to lower than anticipated Rent Geared to Income subsidies paid to providers.
- It is anticipated that the Rent Supplement and Housing Allowance programs total budget of \$4,900,000 will be fully utilized, providing subsidy to approximately 450 households.
- The Community Housing Repairs program, which provides funding for partner housing providers to address urgent capital repairs, is anticipated to be fully spent in 2023. This program is funded by the Canada Ontario Community Housing Initiative (COCHI) grant program, in the amount of \$3.6 million for 2023.
- The Ontario Priorities Housing Initiative (OPHI) program to address local priorities in areas of housing supply and affordability is underway and anticipates a break-even status, utilizing Provincial funding of \$3.4 million.
- The Durham Regional Local Housing Corporation (DRLHC), the Region's own housing provider, is projecting a deficit of approximately \$900,000. Cost overages for the year, primarily from winter grounds maintenance and building maintenance and repair, are anticipated to be \$400,000. Vacancy losses are projected to result in an additional \$500,000 deficit as units being rehabilitated due to tenant turnover have been impacted with supply chain issues resulting in delays to the planned rehabilitation timeframes.

Overall, a surplus position of \$650,000 is projected for the Social Services Department for the year.

4.2 Health Department

Public Health

- Public Health is reporting a break-even position for 2023.
- Operational savings currently being experienced due to staff vacancies and leaves in the mandatory programs that are provincially funded will be utilized to support any overages in the department's continued response to the COVID-19 situation and with the delivery of vaccination programs.
- In 2023, the Region has submitted funding requests for 100% one-time subsidy of \$1,400,000 for COVID-19 general support and \$4,970,000 for COVID-19 vaccination costs. Under the provincial funding formula, this one-time subsidy can only be used for costs in excess of any unused provincial subsidy and Regional funding for mandatory programs.
- While the 2023 Budget for the provincial subsidy was based on a 2 per cent increase, the province has announced 1 per cent. The impact of the recent announcement will be factored in to future reports.

Paramedic Services

- The Region of Durham Paramedic Services Division is reporting an estimated surplus of approximately \$500,000 for the year.
- Personnel costs are anticipated to be below budget by \$900,000. Savings in full time staff costs are offset by the need for increased overtime, offload delays experienced at emergency rooms, and Workers Safety Insurance claim costs. In addition, the planned Advanced Care Paramedic training will be completed this fall, which may result in a delay in staffing these positions.
- The delivery of 100% funded Community Paramedic programs is being impacted by the ability to recruit staff to deliver these services. Services are being delivered to the community with a scaled back scope of operations due to the availability of personnel.
- The 100% Provincially funded Community Paramedicine for Long-Term Care program is continuing. An extension to the program from March 2024 to March 2026 was announced by the Province, with funding of \$3,000,000 for each year.
- The fuel cost budget for 2023 was adjusted based on prior years' experience and minor fuel savings have been experienced to date. The volatility of fuel costs is an area of risk, and a break-even impact is anticipated for 2023.
- It is estimated that costs related to vehicle repairs will exceed budgeted estimates by approximately \$400,000 due to increased wait time for vehicle replacements and impacts of an aging fleet.

- Savings of in the range of \$300,000 are anticipated for training costs, conferences, and other operational accounts. However, these savings are offset by additional operating costs in program lines such as medical supplies due to inflationary impacts.
- The 2023 provincial subsidy approval for RDPS is anticipated in the summer. In previous years, the Provincial approval has exceeded budgeted estimates, and a similar result for 2023 will increase the anticipated surplus.

The overall result for the Health Department is a projected surplus of \$500,000 for 2023.

4.3 Works Department

Transportation and Other General Tax Programs

- The Works Department reports that as of the end of June overall revenue and expenditures for the Transportation and other General Tax programs are projected to be in a deficit position of approximately \$1,150,000 for the year, primarily arising from the following factors.
- The Winter Maintenance program is forecasted to exceed budgeted amounts, primarily due to several significant storm events in early 2023. At this point, a deficit of \$1,500,000 is anticipated; however, the frequency and severity of events in the latter part of the year will have an impact on this estimate.
- The Roadside Maintenance program is anticipating a deficit of approximately \$750,000 due in part to increasing bridge maintenance and culvert replacement costs.
- Traffic programs such as Signals and Systems, and Signs and Markings are anticipated to be in a deficit position of \$1,200,000 for 2023, primarily due to reactive signal maintenance costs.
- Tax rate savings on closed capital projects to date the year is \$1,200,000.
- Staffing vacancies and the difficulty in attracting qualified staff to fill positions in the engineering and staff support and facilities management areas are anticipated to provide savings of approximately \$1,100,000.

Solid Waste Management

- The Solid Waste Management division is projecting a deficit position of \$1,100,000 based on the following factors.
- Contract price adjustments and fuel pricing in the Collection, Processing, Haulage and Disposal programs are estimated to contribute \$900,000 to the deficit.

- Personnel cost savings in the by-law enforcement and support areas are estimated at \$500,000, primarily from staff vacancies and time lag in filling positions.
- Pricing volatility in the sale of recycled material continues to impact 2023 revenue and a deficit of \$700,000 is estimated for the year. Market price changes over the balance of the year for recyclable commodities will be closely monitored.

Overall, the Works Department is anticipating a deficit of \$2,250,000.

4.4 Planning and Economic Development Department

- The Planning division has estimated savings of \$400,000 from vacancies experienced so far this year. A review of positions in the wake of Bill 23, the More Homes Built Faster Act, has impacted hiring; however, it is anticipated that the existing vacancies will be filled by the fall. The Rapid Transit and Transit Oriented Development Office is reporting a break-even position.
- The Economic Development and Tourism division is anticipating a break-even position at this time. Savings due to vacancies are offset by part time costs and it is anticipated that the hiring for vacant positions will be complete in the summer.
- At this time, a surplus of approximately \$400,000 is projected for the Planning and Economic Development Department.

4.5 Corporate Services Department

- The Information Technology division anticipates being at or near budgeted amounts at year end, resulting in a break-even position. Savings from staffing vacancies are being experienced; however, the savings are being offset by use of temporary and agency staff to ensure continuation of service.
- Human Resources has experienced significant numbers of staff on leave and an increase in vacancies, due primarily to retirements. In addition, support for the recruiting and hiring of vacancies experienced throughout the Region has increased pressures on the division and resulted in increased use of agency staff. The approved hiring of two unbudgeted compensation analyst positions will contribute to the 2023 deficit, currently estimated at \$400,000 for 2023.
- Legislative Services reports there will be savings of approximately \$500,000 for personnel costs due to the timing of filling vacant positions in the Council Services and Information Management sections. Savings in the printing and staffing related areas, such as training, are also being realized.
- Expenditures of Service Durham, the division responsible for the implementation and operation of my Durham311, are projecting a break-even position for 2023.

Overall, a surplus of \$100,000 is expected for the Corporate Services Department.

4.6 Office of the Chief Administrative Officer

- The programs reporting under the CAOs Office, including Corporate Communications, Strategic Initiatives, and Diversity Equity and Inclusion, anticipate savings of approximately \$400,000 due to the timing of filling vacancies.
- The Legal Services division is anticipating a break-even position for the year.
- The Provincial Offences Act (POA) program is anticipated to provide net revenue of approximately \$100,000 versus the budgeted net revenue of \$1,110,000, resulting in an anticipated deficit of approximately \$1,000,000 for the year. The number of POA charges filed during the pandemic dropped significantly from pre-pandemic times, and extensions to fine due dates for POA charges have impacted revenues as well. The shortfall in revenues has been partially offset by savings in the Court Services and Default Fine Collection programs.
- The Durham Emergency Management Office is projecting a break-even position for the year.
- Overall, the CAO office is anticipating a deficit of \$600,000 for the year.

4.7 Finance Department

- The Finance Department is projecting a surplus of approximately \$800,000 for the year. Staff turnover, with the time required to fill vacant positions and the difficulty of attracting qualified candidates, is offset by use of temporary staff and overtime resulting in a \$300,000 surplus. Earnings from management of the Region's investment portfolio are anticipated be \$500,000 above budget.

4.8 Police Services

- As of June 30, 2023, the Police Service is forecasting year end results to be close to budgeted level with an overall break-even position.
- Salary related savings are a result of vacancies caused by staff departures and on-going recruitment challenges. These savings are offset by increased spending in overtime and benefit costs supporting injured staff.
- Additionally, the July 2022 fire at the Clarington property will result in unplanned expenditures for the Police Service budget. The amount and timing of costs, and the offsetting insurance proceeds, are being assessed and finalized; however, unplanned expenditures of approximately \$900,000 are anticipated in 2023.

4.9 Durham Region Transit

- As of June 30, it is projected that Durham Region Transit will experience an operating deficit of approximately \$2,350,000. However, there are certain financial risks being monitored that will not be known until later in the year. For example, the current fuel price is resulting in savings, but price volatility, as has been experienced in recent years, is still a concern.
- To date, fare revenue is about 1.5 per cent, or \$500,000, lower than budgeted expectations, driven mainly by a 20 per cent decrease in cash fare paying revenue when compared to budget. This is offset by an increase in U-Pass revenue, as enrolment for the Winter term was higher than expected by about 8 per cent, or \$300,000. It is too early to tell whether these trends will continue through the remainder of the year, and as a result, it is conservatively projected that operating revenues will be in a break-even position.
- It is anticipated that increased advertising revenue based on new contract rates will produce a surplus of approximately \$100,000. In addition, unanticipated revenue of \$450,000 was received from the previous contract as part of the overall advertising revenue guarantees within the contract.
- The Safe Restart Program, which provided emergency assistance to maintain critical service and help transit systems deal with financial pressures related to COVID-19 was not renewed in 2023, and budgeted revenue will be short be approximately \$3,100,000.
- Overall revenue is anticipated to be in a deficit position of approximately \$2,550,000.
- The expenditure programs are anticipated to be in a break-even position.
- Payroll related expenditures are expected to be in a \$800,000 surplus due to gapping in hiring conventional operators early in the year.
- There has been considerable fluctuation and volatility related to fuel prices witnessed so far in 2023. To date, the average cost per litre is approximately \$1.50, compared to \$1.82 per litre assumed in the budget, with the June price as low as \$1.35 per litre. As a result, a surplus of \$1,100,000 related to fuel pricing has been realized as of June. If this trend in fuel prices continues through the remainder of the year, additional savings of about \$1,900,000 can be expected. However, given the recent history of fuel price volatility, it is too early to tell if this will continue for the remainder of the year. Fuel volume is also trending lower than budgeted expectations, resulting in a surplus of approximately \$600,000 to date. It is conservatively projected that fuel savings will total approximately \$1,700,000.
- A deficit of \$2,100,000 is anticipated in contract services. To provide reliability for customers, the transition to delivering all On Demand service by the third party contractor was advanced to fully deliver the service by September. On

demand services has also experienced additional ridership demand during the ridership recovery period and additional capacity was added to the network. Increased On Demand costs above budget estimates will be partially off-set by reducing conventional bus operator requirements as existing Specialized Services operators transition to deliver scheduled service.

- Inflationary costs related to parts and servicing related to bus repairs and maintenance are anticipated to result in a deficit of \$400,000 for 2023.
- Additionally, the net excess of transit tax rate financing on capital projects closed to date will contribute \$200,000 of surplus funds.
- The impact of the recent fire at the Oshawa depot site is underway. However, insurance proceeds are expected to fully cover losses at this juncture.

4.10 Investment Earnings and Corporate Items & Other Initiatives

- The rising interest rate environment experienced in 2023 has resulted in investment returns exceeding the budgeted expectations. While much of the favourable investment returns are attributed to development charges, reserve funds and capital accounts, the surplus earnings associated with the Regional property tax supported operations exceed the budget revenue by an estimated amount of \$10,000,000.
- The following major initiatives have been approved subsequent to approval of the 2023 Business Plans and Budgets and require funding from property tax sources:

In May 2023 Regional Council endorsed Report 2023-COW-19, Updated Regional Response to the City of Oshawa Request for Cost Sharing for Dedicated Downtown Patrol Enforcement. To deliver this service the following items require funding:

- | | |
|--|-----------|
| • A contribution to the City of Oshawa for 50% of its 2023 special security costs to a maximum of \$500,000. | \$500,000 |
| • Purchase of computer equipment for outreach staff | \$25,000 |
| • Purchase of 3 vehicles to support the community outreach program workers and to assist in delivery of supply and services to priority populations and serve clients in need. | \$210,000 |

Recruiting, training and computer equipment for hiring of ten Regional outreach workers and equipment with six months of estimated costs	<u>\$500,000</u>
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Corporate Items & Other Initiatives Total	<u>\$1,235,000</u>
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- The purchase of 1635 Dundas, Whitby to address asylum, refugee and homelessness will also require financing from General Tax sources and, along with the Corporate Items and Other Initiatives listed above, will be funded to the extent possible from 2023 General Tax surplus funds, with any overage to be funded from reserve or reserve funds at the discretion of the Commissioner of Finance.

5. Water Supply and Sanitary Sewer Systems

Water Supply Operation

- 5.1** The Works Department reports that expenditure variances are being experienced in various Water Supply programs due to reactive work on watermain leaks, water service repairs and water valve maintenance, with a deficit of \$1,600,000 anticipated. Savings in staffing costs due to vacancies in Engineering and Staff Support, Plants and Facilities Management sections are anticipated to provide savings of approximately \$2,000,000. Overall, a surplus of approximately \$400,000 is anticipated for operational programs.
- 5.2** Emergency filter replacements at two units at the Oshawa Water Supply plant have been identified. Work is underway to determine the effort required to complete the rehabilitation of the filters, with contemporaneous efforts underway to prepare for the replacement of the filter media and related stainless steel underdrains. The preliminary estimate for this work is \$5,000,000.
- 5.3** The net excess water user rate financing on capital projects closed to date is \$6,700,000.
- 5.4** To the end of June, water consumption is trending marginally higher than that of the same period for last year. Growth in the number of water customers at approximately 0.5 per cent is in line with the estimated growth for 2023. However, consumption from the industrial, commercial, and institutional (ICI) sectors is returning to pre-pandemic levels and is trending higher than budgeted estimates. The combination of these factors is expected to result in an estimated water supply user rate revenue surplus of \$2,000,000 for 2023, representing approximately 1.6 per cent of budgeted user revenue.
- 5.5** Overall, a surplus position of \$4,100,000 for the water supply system is anticipated at this time.

Sanitary Sewer System

- 5.6** The Works Department projects that the current operational expenditures for the Sanitary Sewer system are anticipated to produce a surplus position of approximately \$2,600,000 by year end. Vacancies and related salary savings, primarily in the Engineering and Staff Support, Plants and Facilities Management sections, are anticipated to contribute approximately \$2,600,000 toward this projected surplus. Operational savings are expected for a number of accounts, particularly in sludge haulage and disposal estimated at \$500,000. The impact of inflationary costs for items such as chemicals and services were factored into the 2023 budget and as of June these costs are trending towards budgeted levels. It is anticipated that service volumes related to the repair and maintenance of sewer connections will result in a deficit of approximately \$500,000.
- 5.7** The net excess sewer user rate financing on capital projects closed to date is \$3,200,000.
- 5.8** Similar to water supply user revenues, the sanitary sewer charges from the residential sector are lower than expected, and billings to the ICI sectors are returning to pre pandemic levels. A surplus position of \$2,500,000 is anticipated for sanitary sewer user revenue for 2023, representing approximately 1.5 per cent of budgeted user revenue.
- 5.9** Overall, a net surplus position of approximately \$8,300,000 is anticipated for the sanitary sewer system.

6. Relationship to Strategic Plan

- 6.1** This report aligns with/addresses the following strategic goals and priorities in the Durham Region Strategic Plan:
- 5.3 - Demonstrate commitment to continuous quality improvement and communicating results:
Durham Region is committed to continuous quality improvement and using data and information to make evidence-informed decisions. We will support transparency and accountability by providing clear and consistent communication and sharing of results with the community.
 - 5.4 - Drive organizational success through innovation, a skilled workforce, and modernized services:
The Region will attract and retain a skilled and diverse workforce that embraces innovation and is committed to delivering modernized services that respond to changing expectations and fiscal realities.

7. Conclusion

- 7.1** Based on the available information to the end of June, surplus positions are forecast for the User Rate Supported Water Supply and the Sanitary Sewer Systems. A surplus position of approximately \$6 million is projected for the

Property Tax supported operations at this time. The extent of this surplus will depend on the final costs of items approved subsequent to the passing of the 2023 Regional Business Plans & Budgets, to address emergent issues.

- 7.2** Forecasting is challenging at the best of times, but in these times of extreme uncertainty, it is even more so. It is important to note that there are many assumptions needed to produce the forecast and that actual year end results may differ from the results noted above.

Respectfully submitted,

Original Signed By

Nancy Taylor, BBA, CPA, CA
Commissioner of Finance