

Agenda – Standing Policy Committee on Finance – September 15, 2017

Moved by Councillor

That Rule 10(3) of The Procedure By-law No. 50/2007 be suspended in order that the following item, which was received less than 96 hours preceding the committee meeting, be considered by Committee.

ADDENDUM REPORTS

Item No. 9 Financial Status Report and Forecast to June 30, 2017

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

That the Financial Status Report to June 30, 2017 be received as information.

ADMINISTRATIVE REPORT

Title: Financial Status Report and Forecast to June 30, 2017

Critical Path: Standing Policy Committee on Finance

AUTHORIZATION

Author	Department Head	CFO	CAO
P.Olafson	Mike Ruta	Mike Ruta	D. McNeil

EXECUTIVE SUMMARY

The Financial Status Report and Forecast to June 30, 2017 currently anticipates a projected deficit of \$8.2 million. If the measure described below, still subject to Council approval, is utilized, the forecasted deficit is reduced to \$5.7 million.

Based on experience of the past few years it is not unusual for the second quarter forecast to report a projected deficit which is eliminated by the end of the year. The average change over the last five years between the second quarter and year-end is \$13.0 million, ranging from \$0.3 – 23.1 million.

At the March 13, 2017 meeting of the Standing Policy Committee on Finance, the Public Service tabled a report that provided information on the 2017 cost mitigation measures for the City of Winnipeg. The report outlined targeted cost reductions for each tax-supported department, as well as for Transit and Water and Waste. This Financial Status Report includes \$9.5 million in tax-supported budget savings through these measures.

The 2017 tax-supported budget includes a transfer up to \$5 million from the Financial Stabilization Reserve Fund to the General Revenue Fund. As a result of the 2016 deficit elimination measures, the Financial Stabilization Reserve is forecasted to afford only \$2.5 million at this time, which is included in this report.

In the fall of 2017, the Public Service will determine whether it projects the Financial Stabilization Reserve Fund balance to fall below the minimum 6% target of tax-supported expenditures. Council approval would be required to allow this reserve to fall below this level and a replenishment plan would be required. This transfer has been separately disclosed in Schedule 2 of this Financial Status Report.

RECOMMENDATIONS

That the Financial Status Report to June 30, 2017 be received as information.

REASON FOR THE REPORT

On December 17, 1997, City Council approved clause 1 of the report of the Standing Committee on Fiscal Issues, which requires that a periodic report be approved on a quarterly basis by the Standing Committee on Fiscal Issues. Since that time, the Standing Committee on Fiscal Issues has been renamed Standing Policy Committee on Finance.

IMPLICATIONS OF THE RECOMMENDATIONS

At this time, the Public Service anticipates a projected deficit of \$8.2 million. If the additional transfer from the Financial Stabilization Reserve Fund described in this report, still subject to Council approval, is utilized, the forecasted deficit is reduced to \$5.7 million. The Public Service anticipates that the projected deficit will decrease over the remainder of the year based on financial improvements typically realized from that forecasted for June 30, as well as through continued efforts to control expenses without impacting the delivery of core services. The Public Service monitors the General Revenue Fund on a regular basis.

HISTORY/DISCUSSION

The forecasted results at June and the year-end position before final transfers for the General Revenue Fund for the past five years were as follows:

Year	Surplus (deficit) in millions at June 30	Surplus (deficit) in millions at December 31 before Final Transfers
2016	\$ (5.4)	\$ (5.1)
2015	(3.5)	16.3
2014	(22.4)	0.7
2013	(11.2)	(1.8)
2012	3.3	15.9

This will continue to be monitored and options will be sought to eliminate the deficit. As a last resort, the Financial Stabilization Reserve could be drawn on to cover any remaining shortfall or the deficit could be incorporated into the 2018 operating budget.

2017 Cost Mitigation Measures – Update

At the March 13, 2017 meeting of the Standing Policy Committee on Finance, the Public Service tabled a report that provided information on the 2017 cost mitigation measures for the City of Winnipeg. Due largely to record snowfall in December, the 2016 fiscal year ended in a tax-supported deficit prior to Council approved deficit elimination measures. The Council adopted budget for 2017 had estimated a surplus in 2016 of \$9.5 million. The City must now manage this shortfall and find \$9.5 million in savings in addition to the efficiencies included in the 2017 tax-supported budget. The report outlined targeted cost reductions for each tax-supported department, as well as for Transit and Water and Waste. This Financial Status Report includes \$9.5 million in tax-supported budget savings through these measures.

In its 2016 year-end Financial Status Report for the General Revenue Fund, a \$5.1 million deficit was reported. As a result of previously Council approved deficit elimination measures, \$1.4 million was retained in the General Revenue Fund in respect of net supplementary taxes and tax roll adjustments, \$0.4 million was also retained in the General Revenue Fund in respect of interest net of investment management fees, and \$3.3 million was transferred from the Financial Stabilization Reserve.

The 2017 tax-supported budget includes a transfer up to \$5.0 million from the Financial Stabilization Reserve Fund to the General Revenue Fund. As a result of the deficit elimination measures employed in 2016, the Financial Stabilization Reserve is forecasted to afford only \$2.5 million at this time, which is what is included in this report.

In the fall of 2017, the Public Service will determine whether it projects the Financial Stabilization Reserve Fund balance to fall below the minimum 6% target of tax-supported expenditures. Council approval would be required to allow this reserve to fall below this level and a replenishment plan would be required. This transfer has been separately disclosed in Schedule 2 of this Financial Status Report.

If the above measure, still subject to Council approval, is utilized, the forecasted deficit is reduced to \$5.7 million.

Provincial funding and other

The Province has introduced a new envelope funding model for the City of Winnipeg. In discussions with Provincial representatives, the City was notified that Transit and Winnipeg Police Services grants would be consistent with 2016 actual funding without inflationary increases resulting in a forecasted budget shortfall in 2017.

Transit

Transit's financial status has been significantly impacted by changes to the Provincial funding model and less than expected passenger revenue. This forecast assumes that the General Revenue Fund will need to contribute \$8.9 million beyond budget to Transit operations in 2017.

The following table depicts summarized financial information for Transit (also see Schedule 4):

	June Forecast	2017 Budget	June Forecast Variance	March Forecast Variance
Passenger fares and other revenue	\$ 81.6	\$ 87.9	\$ (6.3)	\$ (1.0)
Province of Manitoba transfer	<u>40.1</u>	<u>48.3</u>	<u>(8.2)</u>	<u>(8.2)</u>
TOTAL	<u>121.7</u>	<u>136.2</u>	<u>(14.5)</u>	<u>(9.2)</u>
Expenses	180.2	182.3	2.1	2.4
Transfer to SWRT Payment Reserve	<u>3.4</u>	<u>5.1</u>	<u>1.7</u>	<u>1.7</u>
TOTAL	<u>183.6</u>	<u>187.4</u>	<u>3.8</u>	<u>4.1</u>
DEFICIT BEFORE OTHER ITEMS	(61.9)	(51.2)	(10.7)	(5.1)
Transfer to Bus Replacement Reserve	(3.5)	(3.9)	0.4	0.4
Transfer from General Revenue Fund	<u>64.0</u>	<u>55.1</u>	<u>8.9</u>	<u>4.7</u>
Deficit	<u>\$ (1.4)</u>	<u>\$ -</u>	<u>\$ (1.4)</u>	<u>\$ -</u>

In May, the Province tabled Bill 36, *The Budget Implementation and Tax Statutes Amendment Act, 2017*. The Act repealed the 50/50 funding formula relating to Transit operating costs. The reduced level of provincial funding combined with the decreased transfer related to the Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass Payment Reserve has resulted in a shortfall in the Provincial transfer of \$8.2 million. While this amount has not changed from that reported in March, the department's forecasted shortfall has increased from the \$5.1 million shortfall previously reported, primarily due to reduced forecasted passenger fare revenue.

Transit is also experiencing a forecasted shortfall of \$5.7 million relating to declining passenger revenue (included in the \$6.3 million shortfall in passenger fares and other revenue disclosed in the table above). Lower ridership than planned is the primary reason for this. Compared to 2015, sample passenger counts indicate weekday ridership has declined by 9%. Ridership is influenced by many factors such as gasoline prices, demographics, weather, etc. Decrease in ridership is a national and North American trend and has been reported by many cities including Calgary, Ottawa, and Toronto.

The department is forecasting \$3.8 million in cost savings to help offset the impact of reduced ridership and Provincial funding. Included in this total is a reduced transfer of \$1.7 million to the Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass Payment Reserve. In 2015, the Province committed to funding \$1.7 million towards eligible bus purchases and has recently indicated they would not be providing this previously committed funding.

The department also is contributing \$1.8 million of \$9.5 million, to the City's cost mitigation measures, thereby reducing the transfer from the General Revenue Fund. It is accomplishing this through a combination of reducing the transfer to the Bus Replacement Reserve (\$0.4 million) and using a portion of retained earnings to partially fund 2017 operations (\$1.4 million, which was approved at the June 21, 2017 Council meeting).

The Transit department is preparing a report regarding other saving measure options to mitigate and reduce the transfer from the General Revenue Fund otherwise required.

Police Services

The Police Services has been notified that it will not receive \$0.6 million relating to 2016 programs. Further, as a result of the new funding model, an additional shortfall of \$0.6 million for 2017 programs exists. The total impact to the Police Department's net revenues is \$1.2 million related to 2016 and 2017 Provincial funding decisions for the cadet and helicopter maintenance programs.

Fire Paramedic Service

The Fire Paramedic Service has been in discussions with the Winnipeg Regional Health Authority (WRHA) regarding funding for ambulance services for both 2017 and future years. These discussions are ongoing and while no decisive funding agreement has been reached, the WRHA has advised that 2017 funding will continue as previously expected. This forecast has been prepared on that basis assuming the current funding model will continue. If this were to subsequently change, there will be a significant impact to the forecast presented.

Summary

In addition to the operating budget implications noted above, capital budgets will be impacted. The City and the Province are continuing discussions regarding Provincial funding to the City for 2017 and 2018.

Assessment Appeals

Included in the Assessment and Taxation Department's forecast is an additional provision of \$2.2 million concerning outstanding assessment appeals (for a total forecasted 2017 expense of \$6.3 million). For accounting purposes, the department estimates a value representing what

outstanding assessment appeals may cost the City. The additional provision made in 2017 represents the estimated shortfall for this account as of December 31, 2016.

In total, 4,238 realty and business assessment appeals were filed at the Municipal Board between 2006 and 2017. Of this amount, 1,452 assessment appeals are outstanding.

Under the previous four-year assessment cycle, the number of appeals outstanding decreased in the third and fourth year which allowed the department, tax agents and the Municipal Board to schedule and complete a larger number of appeals prior to the end of the assessment cycle. The City is currently in its fourth two-year assessment cycle and a trend is developing with respect to the pace Municipal Board Appeals are scheduled, heard and determined.

The liability to the City is also impacted by interest applied to the outstanding appeals. Pursuant to *The Municipal Act (Interest on Excess Taxes Regulation 51/97)*, interest payable on tax refunds resulting from successful appeals is set at 4.75% per year.

A recent analysis of the assessment appeal liability indicates that another \$4.6 million is required to fully fund the estimated liability. This unfunded liability will be considered in the 2018 budget process.

Other

Corporate Finance Department has prepared this report showing forecasted revenues and expenses to December 31, 2017, for the General Revenue Fund, Utility Funds and Municipal Accommodations Fund. This information was obtained from departments and was based on actual data as at June 30, 2017.

Attachments included are the following:

Schedule 1 – The City of Winnipeg – General Revenue Fund – Financial Status Report and Forecast;

Schedule 2 – The City of Winnipeg – General Revenue Fund – Budget Variances;

Schedule 3 – The City of Winnipeg – General Revenue Fund – Reconciliation of March to June Forecast;

Schedule 4 – The City of Winnipeg – Summary by Fund; and

Schedule 5 – The City of Winnipeg – General Revenue Fund – Net Mill Rate by Department.

FINANCIAL IMPACT

Financial Impact Statement Date: September 7, 2017

Project Name:

Financial Status Report June 30, 2017

COMMENTS:

This report is prepared for information purposes.

Melissa Wensel
Financial Analyst

CONSULTATION

This Report has been prepared in consultation with:

All City of Winnipeg Departments

OURWINNIPEG POLICY ALIGNMENT

01-3 Prosperity Direction 1 Provide Efficient and Focused Civic Administration and Governance. This report supports demonstration of accountability by the City's public service through reporting.

SUBMITTED BY

Department: Corporate Finance
Division: Corporate Controller's
Prepared by: Melissa Wensel
Date: September 7, 2017
File No:
Attachments:

THE CITY OF WINNIPEG - GENERAL REVENUE FUND
FINANCIAL STATUS REPORT AND FORECAST

Schedule 1

Actual for the six month period ended June 30, 2017

forecasted for the year ending December 31, 2017

(in thousands of dollars)

(unaudited)

	Adopted Budget	Forecast	Variance From Budget	Year to Date Actual
REVENUES				
Taxation	\$ 678,845	\$ 678,430	\$ (415)	\$ 356,522
Government transfers	127,789	125,848	(1,941)	54,420
Sale of goods and services	62,796	60,913	(1,883)	30,851
Regulation fees	59,210	57,745	(1,465)	26,523
Other	39,121	39,652	531	1,424
Payments-in-lieu of taxes	36,134	36,134	-	17,990
Interest	34,102	35,001	899	7,613
Transfer from other funds	41,512	31,985	(9,527)	7,608
Total Revenues	1,079,509	1,065,708	(13,801)	502,951
EXPENSES				
Assessment and taxation	20,856	21,994	(1,138)	9,464
Audit	1,379	1,298	81	434
Chief administrative offices	4,353	4,214	139	1,979
City clerks	14,947	14,718	229	9,369
Community services	114,892	112,742	2,150	55,633
Corporate	59,197	65,349	(6,152)	38,057
Corporate finance	9,073	8,450	623	4,179
Corporate support services	35,996	34,802	1,194	17,126
Council	3,532	3,483	49	1,604
Fire paramedic service	199,219	197,036	2,183	98,525
Legal services	3,078	3,167	(89)	1,637
Mayor's office	1,863	1,837	26	400
Museums	1,031	1,031	-	910
Planning, property and development	45,598	44,418	1,180	20,816
Police services	288,000	284,295	3,705	142,518
Policy and strategic initiatives	812	776	36	340
Public works	229,991	229,462	529	90,885
Street lighting	13,399	12,867	532	6,302
Water and waste	32,293	31,976	317	12,932
Total Expenses	1,079,509	1,073,915	5,594	513,110
FORECASTED DEFICIT	\$ -	\$ (8,207)	\$ (8,207)	\$ (10,159)

Notes:

(1) See Schedule 4 for comparable departmental view.

THE CITY OF WINNIPEG - GENERAL REVENUE FUND
BUDGET VARIANCES ARISING FROM THE
JUNE 30, 2017 FORECAST
FOR THE YEAR ENDING DECEMBER 31, 2017

Schedule 2

(in millions of dollars)
(unaudited)

Corporate Accounts:

Unfavourable variance in Corporate Accounts is mostly related to the following:

• a further transfer to Transit is forecasted due to:			
• lower provincial funding.	\$	(8.2)	
• decrease in fare and other revenue.		(6.3)	
• reduction in transfer to the SWRT payment reserve.		1.7	
• other expenses.		2.1	(10.7)
• cost mitigation measures relating to Transit:			
• reduction in transfer to bus replacement reserve.		0.4	
• reduction of capital transfer.		1.4	1.8
Net additional transfer to Transit			(8.9)
• a shortfall in the transfer from the General Purpose Reserve due to the 2016 deficit.			(9.5)
• a decrease in budgeted savings.			(3.9)
• a shortfall in the transfer from the Financial Stabilization Reserve.			(2.5)
• savings from adjustments to provisions.			7.3
• other.		0.3	\$ (17.2)

Public Works:

• The unfavourable variance is mostly due to increased snow clearing program expenditures. This relates to ongoing snow clearing and removal from December 2016 snow falls which was somewhat offset with savings from position vacancies.		(1.6)	
• As part of the cost mitigation measures, Public Works is reporting savings in expenses and additional revenues.		3.0	1.4

Community Services:

• As part of the cost mitigation measures, Community Services is reporting savings to expenses.		1.1	
• The remaining favourable variance is mostly related to savings from position vacancies.		1.5	2.6

The Police Services department's favourable variance is mainly due to savings associated with the new collective agreement with the Winnipeg Police Association. These savings are offset by lower Provincial funding relating to the cadet program and police helicopter.

1.9

Other departmental cost mitigation measures.

3.6

Other departmental revenues and expenses.

(0.5)

Forecasted Deficit before Measure Subject to Council Approval

(8.2)

Measure Subject to Council Approval

Additional transfer from Financial Stabilization Reserve (if required)

2.5

Forecasted Deficit after above

\$ (5.7)

(1) See Schedule 1 and 5 for breakdown of other departmental revenues and expenses.

THE CITY OF WINNIPEG - GENERAL REVENUE FUND
RECONCILIATION OF MARCH TO JUNE FORECAST
JUNE 30, 2017 FORECAST
FOR THE YEAR ENDING DECEMBER 31, 2017

Schedule 3

(in millions of dollars)
(unaudited)

Forecasted General Revenue Fund Deficit - March 31, 2017, before
Measures Subject to Council Approval **\$ (13.6)**

Unfavourable variance in Corporate Accounts is mostly related to the following:

• a further transfer to Transit due to:			
• decrease in fare and other revenue.	\$ (5.0)		
• other.	(0.6)	(5.6)	
• Approved cost mitigation measure relating to capital transfer to Transit.		1.4	
Net additional transfer to Transit		(4.2)	
• a decrease in budgeted savings.		(2.0)	
• a shortfall in the transfer from the Financial Stabilization Reserve.		(0.5)	
• savings from adjustments to provisions.		4.7	
• other.		0.3	(1.7)

Public Works department's favourable variance is due to:

• savings from position vacancies.	0.9	
• approved transfers and capital spending cost mitigation measures.	1.8	2.7

Community Service department's favourable variance is due to:

• savings from position vacancies.	0.6	
• approved capital spending cost mitigation measures.	0.6	1.2

The Police Services department's favourable variance is mainly due to savings associated with the new collective agreement with the Winnipeg Police Association. **3.9**

Other departmental transfer and capital spending cost mitigation measures. **0.8**

Other departmental revenues and expenses. **(1.5)**

Forecasted General Revenue Fund Deficit - June 30, 2017,
before Measure Subject to Council Approval **\$ (8.2)**

THE CITY OF WINNIPEG - SUMMARY BY FUND

FINANCIAL STATUS REPORT AND FORECAST

Schedule 4

Actual for the six month period ended June 30, 2017

forecasted for the year ending December 31, 2017

(in thousands of dollars)

(unaudited)

	Adopted Budget	Forecast	Variance From Budget	Actual
General Revenue Fund				
Revenues	\$ 1,079,509	\$ 1,065,708	\$ (13,801)	\$ 502,951
Expenses	1,079,509	1,073,915	5,594	513,110
Surplus/(Deficit)	<u>\$ -</u>	<u>\$ (8,207)</u>	<u>\$ (8,207)</u>	<u>\$ (10,159)</u>
Transit System				
Revenues	\$ 136,158	\$ 121,692	\$ (14,466)	\$ 63,733
Expenses	182,246	180,143	2,103	85,020
Transfer to SWRT Payment Reserve	(5,100)	(3,400)	1,700	(3,400)
	(51,188)	(61,851)	(10,663)	(24,687)
Transfer to Bus Replacement Reserve	(3,938)	(3,538)	400	-
Transfer from General Revenue Fund	55,126	63,989	8,863	31,847
Surplus/(Deficit)	<u>\$ -</u>	<u>\$ (1,400)</u>	<u>\$ (1,400)</u>	<u>\$ 7,160</u>
Waterworks System				
Revenues	\$ 128,502	\$ 125,476	\$ (3,026)	\$ 58,698
Expenses	77,401	75,387	2,014	38,086
	51,101	50,089	(1,012)	20,612
Transfer to Water Main Renewal Reserve	(16,500)	(16,500)	-	-
General Revenue Fund	(14,943)	(14,943)	-	-
Surplus Prior to Principle Debt Repayments	19,658	18,646	(1,012)	20,612
Principle Debt Repayments	(4,462)	(4,462)	-	-
Surplus	<u>\$ 15,196</u>	<u>\$ 14,184</u>	<u>\$ (1,012)</u>	<u>\$ 20,612</u>

THE CITY OF WINNIPEG - SUMMARY BY FUND FINANCIAL STATUS REPORT AND FORECAST

Actual for the six month period ended June 30, 2017

forecasted for the year ending December 31, 2017

(in thousands of dollars)

(unaudited)

	Adopted Budget	Forecast	Variance From Budget	Actual
Sewage Disposal System				
Revenues	\$ 181,250	\$ 175,433	\$ (5,817)	\$ 80,260
Expenses	87,002	82,274	4,728	40,778
	94,248	93,159	(1,089)	39,482
Transfer to Reserves	(37,870)	(36,738)	1,132	(7,378)
Transfer to General Revenue Fund	(32,090)	(31,839)	251	(5,719)
Surplus	<u>\$ 24,288</u>	<u>24,582</u>	<u>294</u>	<u>26,385</u>
Solid Waste Disposal				
Revenues	\$ 44,483	\$ 46,274	\$ 1,791	\$ 17,809
Expenses	42,191	40,025	2,166	13,731
	2,292	6,249	3,957	4,078
Transfer to Reserve	(377)	(1,353)	(976)	(46)
Surplus Prior to Principle Debt Repayments	1,915	4,896	2,981	4,032
Principle Debt Repayments	(2,179)	(2,196)	17	-
Surplus/(Deficit)	<u>\$ (264)</u>	<u>\$ 2,700</u>	<u>\$ 2,998</u>	<u>\$ 4,032</u>
Municipal Accommodations Fund				
Revenues	\$ 75,242	\$ 74,829	\$ (413)	\$ 35,263
Expenses	64,309	63,702	607	28,669
	10,933	11,127	194	6,594
Transfer to: General Revenue Fund	(10,933)	(11,127)	(194)	(128)
Surplus	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,466</u>

**THE CITY OF WINNIPEG - GENERAL REVENUE FUND/
FINANCIAL STATUS REPORT AND FORECAST**

Schedule 5

forecasted for the year ending December 31, 2017
(in thousands of dollars)
(unaudited)

	<i>Revenues</i>			<i>Expenses</i>			<i>Net Mill Rate</i>
	<i>Variance</i>			<i>Variance</i>			<i>Variance</i>
	<i>Adopted Budget</i>	<i>Forecast</i>	<i>Budget/ Forecast</i>	<i>Adopted Budget</i>	<i>Forecast</i>	<i>Budget/ Forecast</i>	<i>Budget/ Forecast</i>
Assessment and taxation	\$ 673,002	\$ 673,784	\$ 782	\$ 20,856	\$ 21,994	\$ (1,138)	\$ (356)
Audit	-	-	-	1,379	1,298	81	81
Chief administrative offices	-	-	-	4,353	4,214	139	139
City clerks	531	959	428	14,947	14,718	229	657
Community services	17,792	18,248	456	114,892	112,742	2,150	2,606
Corporate	137,876	126,849	(11,027)	59,197	65,349	(6,152)	(17,179)
Corporate finance	5,439	5,464	25	9,073	8,450	623	648
Corporate support services	2,096	1,596	(500)	35,996	34,802	1,194	694
Council	-	-	-	3,532	3,483	49	49
Fire paramedic service	64,330	62,042	(2,288)	199,219	197,036	2,183	(105)
Legal services	653	641	(12)	3,078	3,167	(89)	(101)
Mayor's office	-	-	-	1,863	1,837	26	26
Museums	-	-	-	1,031	1,031	-	-
Planning, property and development	41,424	40,646	(778)	45,598	44,418	1,180	402
Police services	47,104	45,324	(1,780)	288,000	284,295	3,705	1,925
Policy and strategic initiatives	-	-	-	812	776	36	36
Public works	76,462	77,320	858	229,991	229,462	529	1,387
Street lighting	-	-	-	13,399	12,867	532	532
Waterworks and waste	12,800	12,835	35	32,293	31,976	317	352
Forecasted Deficit	\$ 1,079,509	\$ 1,065,708	\$ (13,801)	\$ 1,079,509	\$ 1,073,915	\$ 5,594	\$ (8,207)