

**Agenda – Standing Policy Committee on Finance – January 18, 2022**

**REPORTS**

**Item No. 3                      Financial Status and Forecast Report to November 30, 2021**

**WINNIPEG PUBLIC SERVICE RECOMMENDATION:**

That the Financial Status and Forecast Report to November 30, 2021, be received as information.

# ADMINISTRATIVE REPORT

**Title: Financial Status and Forecast Report to November 30, 2021**

**Critical Path: Standing Policy Committee on Finance**

## AUTHORIZATION

Author	Department Head	CFO	CAO
P. Olafson	C. Kloepfer	C. Kloepfer	M. Jack

## EXECUTIVE SUMMARY

The Financial Status Report and Forecast to November 30, 2021 currently anticipates forecasted deficits of \$17.9 million for the tax-support budget (General Revenue Fund) and \$3.5 million for Transit.

COVID-19 continues to cause shortfalls in the General Revenue Fund, Transit, Utility funds and Special Operating Agencies (SOAs). \$61.2 million of COVID-19 financial impacts were built into the 2021 Budget. An additional \$14.0 million in COVID-19 financial impacts have been identified in this report, resulting in an estimated total financial impact of \$75.2 million.

The Financial Stabilization Reserve Fund will be used to cover the forecasted shortfall in the General Revenue Fund (Schedule 7), if necessary. Entering 2021, the Financial Stabilization Reserve Fund was prudently positioned to respond to the ongoing financial uncertainties associated with the ongoing pandemic.

## RECOMMENDATIONS

That the Financial Status and Forecast Report to November 30, 2021, 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 forecasted deficit of \$17.9 million for the tax-support budget (General Revenue Fund). The Public Service monitors the General Revenue Fund on an ongoing basis.

Historically, the November forecast has improved over the remainder of the year. The average change over the last five years between the November forecast and year-end is \$4.2 million, ranging in improvements from \$1.1 million to \$6.3 million. However, due to the uncertainty related to the pandemic, this trend may not hold true in the current year.

As approved by Council, annual operating General Revenue Fund surpluses automatically transfer to the Financial Stabilization Reserve Fund. In the event the General Revenue Fund reports a deficit as at December 31, 2021, a transfer from the Financial Stabilization Reserve Fund to fund that deficit was approved by Council on September 29, 2021.

## HISTORY/DISCUSSION

The forecasted results at November 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 November 30	Surplus (deficit) in millions at December 31 before Final Transfers
2020	\$ (0.4)	\$ 2.5
2019	(6.7)	(1.1)
2018	14.2	19.5
2017	8.7	15.0
2016	(6.2)	(5.1)

It is noteworthy that this year's forecasted General Revenue Fund deficit is 167% higher than the largest deficit projected reported at November 30 for the previous reported five years.

As a last resort, the Financial Stabilization Reserve Fund will be drawn on to cover any remaining shortfall. The Financial Stabilization Reserve is projected to be \$7.0 million higher than the Council-mandated minimum balance of 6% of the tax-supported budgeted expenditures after budgeted transfers and additional transfers to balance the projected deficit at December 31, 2021 (see Schedule 7).

### **COVID-19 Pandemic**

As part of the 2021 budget update, a number of adjustments were made to account for the continued impact of the pandemic. There continues to be a significant impact on the forecasted financial results above what is budgeted due to COVID-19.

The table below summarizes the estimated total impact of COVID-19 on the current forecast.

<i>In millions of \$</i>	COVID-19 Impact in 2021 Budget	Additional COVID-19 Impact Forecasted	COVID-19 Total Impact
Tax Supported (General Revenue Fund)	\$ (13.9)	\$ (0.3)	\$ (14.2)
Transit	(41.4)	(13.0)	(54.4)
SOA's and Utilities	(5.9)	(0.7)	(6.6)
<b>TOTAL</b>	<b>\$ (61.2)</b>	<b>\$ (14.0)</b>	<b>\$ (75.2)</b>

The amounts are the result of the best available interpretations made as to the reason for variance with some highlights noted as:

- Due to the temporary closures of facilities for periods longer than budgeted to comply with Public Health Orders, recreational programming revenues are forecasted to be \$3.3 million less than budget. This has been offset through forecasted salary and benefits savings of \$8.6 million.
- As well, lower net enforcement revenues of \$2.3 million resulting from less traffic have been included in the Police Services forecast.

As presented at the March 12, 2021, Standing Policy Committee on Finance meeting, a number of levers are being used to minimize the impact including:

- Use of Transit unallocated retained earnings
- Reduced discretionary spending (including non-discretionary travel)
- Review and approval of all vacancies ahead of position postings, delaying hiring when possible
- Voluntary furlough program
- Additional transfer from Financial Stabilization Reserve
- Delaying issuance of debt
- Reduced operating costs from Transit service reduction (2021 approved budget)
- One-time transfers from the Southwest Rapid Transit Corridor Reserve and Transit Bus Replacement Reserve (2021 approved budget)
- Reduction of services and supplies expenditures in Winnipeg Parking Authority

The approved 2022 Budget includes a shortfall of \$41 million due to the ongoing financial implications of COVID-19. The Omicron variant is very transmissible and has resulted in new Public Health Orders to mitigate against this. The operational and financial impacts of this variant are emerging and evolving and are being closely monitored by the Public Service.

### **Corporate**

The Corporate accounts include general revenue and expense/savings budgets that are not directly attributable to any other public or internal service. They are largely presented in the Assessment, Taxation and Corporate service-based budget.

Included in these accounts are budgeted efficiency savings of \$32.1 million. In prior years, these savings have materialized during budget development through Council-approved transfers from

reserves. As well, these savings have been realized through any number of means resulting in year-end surpluses in the General Revenue Fund. Such savings arise in departmental budgets. This report anticipates that \$5.1 million in budgeted savings will be realized over the remainder of this year. The average change in savings over the last five years between the November forecast and year-end is \$4.2 million.

Also included in the Corporate forecast is an expenditure of \$2.3 million in Economic Support Grants. On May 27, 2021, Council approved additional budget for a second round of the COVID-19 Economic Support Grant Program to assist eligible businesses and not-for-profit organizations through recent public health orders.

### **Winnipeg Police Service**

Winnipeg Police Service's unfavourable variance is driven in part by higher police pension plan expenses resulting from an actuarial valuation, which amounts to an additional \$5.5 million expense for 2021. Pension legislation requires an actuarial valuation of the plan to be prepared and filed with the Office of the Superintendent – Pension Commission at least once every three years. The December 31, 2020, actuarial valuation was completed in June 2021. This valuation resulted in the employer contribution rate increasing to 21.78% from the budgeted rate of 18.31% for current service costs. This change in contribution rate is due to non-discretionary actuary estimate changes in the discount rate and investment returns as a result of low-interest rates prevailing in the market. The valuation also reports a solvency deficiency which the City has secured with a letter of credit.

The 2021 Budget includes \$6.1 million in expenditure management savings, increased from \$1 million. The increase in budgeted expenditure management savings is attributable to replacing the budgeted savings from pension amendments lost pursuant to the arbitrator's March 2020 decision. The expenditure management budget is being met largely from savings attributed to overtime and higher rates of attrition.

A request for over-expenditure authorization was approved by the Standing Policy Committee on Finance at its meeting of November 12, 2021, related to the two pension-related items noted above.

The financial impact of the pandemic is being realized in decreased net revenues from photo and traditional enforcement. With Public Health Orders restricting retail operations and other businesses and many individuals working from home, traffic volumes are down from pre-pandemic conditions.

Finally, higher-than-planned expenses associated with P25 radio equipment are contributing to the expenditure management savings shortfall. The Winnipeg Police Service relies on P25-compliant radios to provide a critical link between members in the field and their dispatch centre for real-time exchange of information, and improved safety for staff and citizens of Winnipeg. Current radio components are failing at a higher rate than expected, which could potentially impact officer and public safety. To this end, the City is participating in a cooperative contract with the Government of Canada that results in savings for the City. This is an "as required" contract and the Winnipeg Police Service is investing in these radios in 2021.

Helping to mitigate these expenditures are increased revenues from police services. This is due primarily to special duty work at vaccination sites.

## **Fire Paramedic Service**

On September 1, Shared Health issued its 2021 calendar year funding letter to the City. The funding commitment for 2021 is based on a Global Funding Allocation approach rather than the previously used cost allocation formula and recovery process. Forecasted financial results in this report assume a funding model where Emergency Medical Services costs are fully recovered from Shared Health. This forecast includes amounts of additional Shared Health grant that will be required above the 2021 Global Funding Allocation in order to meet Council's full cost recovery mandate, which remains a risk to the City.

This Shared Health Global Funding Allocation includes a sustainability reduction to meet provincial government cost reduction requirements. While the reduction cited in the September 23, 2020 letter was \$1.1 million (2021 calendar year prorated), the reduction included in the Global Funding Allocation is \$0.9 million for the period April 1 to December 31, 2021. It eliminates standard funding of the same amount for salary and benefit increases. Shared Health notes it remains committed to working with Fire Paramedic Service to identify service changes to achieve the sustainability amount, given the salary and benefit increases are part of a collective bargaining process and will be incurred by the department. Contract discussions are underway between the City and Shared Health for this service provision.

The effects of COVID-19 are continuing into 2021 through increased costs associated with overtime, personal protective equipment (PPE) and additional service provision. These total \$3.0 million and are forecasted in this report to be fully recovered as additional funding from Shared Health. A similar recovery from Shared Health occurred in 2020.

Not recoverable is Fire overtime which is increasing due to staffing shortfalls. This is due in part to high levels of retirement over the past two years coupled with reduced recruit class sizes to meet social distancing requirements. As well, health directives to limit the spread of COVID-19 are impacting the number of employees able to report for duty.

A request for over-expenditure authorization was approved by the Standing Policy Committee on Finance at its meeting of November 12, 2021.

The high transmissibility of the Omicron variant is having an impact on staffing and is being closely monitored by Fire Paramedic Service. Higher overtime costs are now being incurred to maintain on-shift staffing levels and a further 2021 over-expenditure authorization will be required.

## **Snow Removal and Ice Control Over Expenditure**

The Public Works Department is forecasting a significant over-expenditure related to snow removal and ice control. Based on results to November 30, 2021, \$39.6 million is expected to be spent on snow removal and ice control operations resulting in a projected over-expenditure of \$4.6 million. The total 2021 Public Works Department snow removal and ice control budget is \$35.0 million.

Largely due to favourable weather conditions in the first four months of 2021, the Public Works Department entered November with forecasted spending of \$2 million less than budgeted on the snow clearing and ice control program. In accordance with Council policy, if this held, the amount underexpended would be transferred to the Snow Clearing Reserve. In November, the city experienced a significant snow event, contributing to 30 centimetres of snowfall (10

centimetres higher than the five-year average) for the month. This event was also mixed with rain and wet snow resulting in icy conditions. Snow clearing and ice control expenses in November totalled \$9.7 million, \$6.6 million higher than the budget allocated to November. Snow removal and ice control services are governed by the Council-approved Policy on Snow Clearing and Ice Control (<https://winnipeg.ca/publicworks/snow/snow-clearing-policy.stm>). Savings in salaries and benefits and insect control have largely offset the projected \$4.6 million snow removal and ice control over-expenditure.

Late in December, the city experienced another significant snowfall event. Another estimated 30 centimetres of snow has fallen to the date of this report. The costs associated with this event are still being compiled. It is expected that the Public Works Department will request a 2021 over-expenditure authorization for snow clearing and ice control.

### **Transit**

Transit continues to see ridership levels averaging approximately 53% below normal levels causing forecasted passenger revenues to be \$14.5 million less than budget. Somewhat mitigating against this are cost savings, including salaries and benefits, bus parts, fuel and reduced demand for Transit Plus services. Transit is forecasting a deficit of \$3.5 million. The department has \$16.0 million in retained earnings available to fund this.

Transit service levels are 6% less than what is normally offered (as is budgeted).

### **Other**

The Corporate Finance Department has prepared this report showing forecasted revenues and expenses to December 31, 2021, 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 November 30, 2021.

Attachments included are the following:

- Schedule 1 – The City of Winnipeg – General Revenue Fund – Financial Status and Forecast Report;
- Schedule 2 – The City of Winnipeg – General Revenue Fund – Budget Variances;
- Schedule 3 – The City of Winnipeg – General Revenue Fund – Reconciliation of October to November forecast;
- Schedule 4 – The City of Winnipeg – Summary by Fund;
- Schedule 5 – The City of Winnipeg – General Revenue Fund – Net Mill Rate by Department;
- Schedule 6 – The City of Winnipeg – General Revenue Fund – Taxation Revenues; and
- Schedule 7 – The City of Winnipeg – Forecasted Balance of the Financial Stabilization Reserve Fund

<b>FINANCIAL IMPACT</b>
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**Financial Impact Statement Date:** January 7, 2022

**Project Name:**

**Financial Status and Forecast Report November 30, 2021**

**COMMENTS:**

This report is prepared for information purposes.

**"Original signed by: \_\_\_\_\_**

Melissa Wensel CPA, CA  
Manager of Financial Reporting and Accounting Services  
Corporate Finance



## 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.

## WINNIPEG CLIMATE ACTION PLAN ALIGNMENT

N/A

## WINNIPEG POVERTY REDUCTION STRATEGY ALIGNMENT

N/A

## SUBMITTED BY

Department: Corporate Finance  
Division: Corporate Controller's  
Prepared by: Melissa Wensel  
Date: January 7, 2022

Attachments:

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