

Agenda – Standing Policy Committee on Finance – November 12, 2021

REPORTS

Item No. 4 Request for Over-expenditure Authorization – Winnipeg Police Service – 2021 Winnipeg Police Pension Employer’s Contribution and Unrealized Budgeted Pension Savings

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

1. That approval be given to the Winnipeg Police Service to over-expend its 2021 operating budget by \$5,771,000 for the Police Pension Employer Contribution Rate Change.
2. That approval be given to the Winnipeg Police Service to over-expend its 2021 operating budget up to \$1,517,000 for unrealized Expenditure Management savings as follows:

| | |
|---|--------------------|
| Budgeted Expenditure Management Savings | \$6,088,000 |
| Offset Salary and Benefit Cost Savings | <u>(4,571,000)</u> |
| Total | <u>\$1,517,000</u> |

3. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

Agenda – Standing Policy Committee on Finance – November 12, 2021

DECISION MAKING HISTORY:

STANDING COMMITTEE DECISION:

On October 15, 2021, the Standing Policy Committee on Finance requested:

1. That the Winnipeg Public Service provide a report on options and alternatives to achieve savings other than use of the Financial Stabilization Reserve Fund.
2. That the matter be laid over to the next meeting of the Standing Policy Committee on Finance.

ADMINISTRATIVE REPORT

Title: Request for Over-expenditure Authorization – Winnipeg Police Service – 2021
Winnipeg Police Pension Employer’s Contribution and Unrealized Budgeted
Pension Savings

Critical Path: Standing Policy Committee on Finance

AUTHORIZATION

| Author | Department Head | CFO | CAO |
|------------|-----------------|-------------|---------|
| T. Holowka | Chief D. Smyth | C. Kloepper | M. Jack |

EXECUTIVE SUMMARY

The Winnipeg Police Service is requesting authorization for a projected 2021 operating budget over-expenditure of \$7.288 million as a result of the employer’s current service contribution rate change and unrealized budgeted pension savings.

The employer contribution rate increased from 18.31% to 21.78% effective January 1, 2021, based on the actuarial valuation of the pension plan. Based on the Winnipeg Police Service’s most recent projections, the total impact of the retroactive increase is \$5.771 million.

In addition, the 2021 operating budget Expenditure Management target was increased to \$6.1 million from \$1.0 million to accommodate police pension shortfall as a result of an arbitration decision that the City breached the collective agreement by passing a by-law amending the pension benefits of the members. An over-expenditure authorization of \$1.517 million for budgeted pension savings that will not be realized is being requested. This over-expenditure was partially off-set by other salaries and benefits savings.

The August 31, 2021, forecast is showing departmental expenditures to exceed budget by \$9.603 million. Included in this forecast number is \$2.315 million in expenditures offset by an increase in revenue. As such, the department’s over-expenditure request is for \$7.288 million.

In the event the additional funding requested in this report were to cause the General Revenue Fund to be in a shortfall position as at December 31, 2021, as approved by Council on September 29, 2021, the Financial Stabilization Reserve fund can be drawn on to cover the shortfall in the General Revenue Fund.

RECOMMENDATIONS

1. That approval be given to the Winnipeg Police Service to over-expend its 2021 operating budget by \$5,771,000 for the Police Pension Employer Contribution Rate Change.

2. That approval be given to the Winnipeg Police Service to over-expend its 2021 operating budget up to \$1,517,000 for unrealized Expenditure Management savings as follows:

| | |
|---|--------------------|
| Budgeted Expenditure Management Savings | \$6,088,000 |
| Offset Salary and Benefit Cost Savings | <u>(4,571,000)</u> |
| Total | <u>\$1,517,000</u> |

3. That the proper officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

REASON FOR THE REPORT

Clause 9.1 of By-Law No. 7100/97 states that “The Standing Policy Committee on Finance may approve additional appropriations to an operating budget including approval of reallocations of funds provided in an operating budget of the city for a purpose other than that set out in the budget, and approval of additional operating expenditures.”

IMPLICATIONS OF THE RECOMMENDATIONS

If approved, additional operating budget will be allocated to the Winnipeg Police Service to address the over-expenditures related to the police pension.

HISTORY/DISCUSSION

Police Pension Employer Contribution Rate Change

In accordance with pension legislation in Manitoba, the Winnipeg Police Pension Plan must be reviewed every three years and an actuarial valuation must be filed with the pension regulator. The latest valuation as at December 31, 2020, requires an increase in the employer’s current service contribution from 18.31% to 21.78%, retroactive to the beginning of 2021. The total impact of the retroactive increase is \$5.771 million.

The employer contribution rate may vary from year to year depending on the actuarial valuation filed with the pension regulator. Due to these costs being included in the Winnipeg Police Service budget, and because this information was not available prior to the adoption of the 2021 budget, this request is being made at this time to allow for this increased cost.

This increase was not included in the 2022-2025 budget submission as this information was not available during the preparation of the budget; however, it will be considered through the budget process currently underway.

This employer contribution rate is separate and distinct from the City’s letter of credit costs incurred in lieu of making special payments to fund the solvency deficiency under the Police Pension Plan.

Expenditure Management – Police Pension Shortfall

On November 21, 2019, Council concurred in the recommendations of the Executive Policy Committee to amend the *Winnipeg Police Pension By-law No. 126/2011*, including the removal of pensionable overtime, increases to employee contributions, and changes to the early retirement provisions, effective April 1, 2020. Council also directed that projected savings of \$14.74 million from the police pension plan reforms be utilized as a funding source for the Service's 2020-2023 operating budget to meet the budget targets.

The Winnipeg Police Association and Winnipeg Police Senior Officers Association grieved the changes to the police pension plan. The arbitration proceeded on January 14 and 15, 2020. On March 27, 2020, the arbitrator ruled in favour of the Associations, determining that changes to the police pension plan must be reversed and negotiated by the parties. As a result, the budgeted savings in 2020-2023 will not be realized.

The total amount of the unrealized police pension savings in 2020 was \$5,913,000 with \$3,605,250 being recognized in the Winnipeg Police Service and \$2,307,750 being recognized in Corporate.

These over-expenditures were partially off-set by \$620,250 in savings elsewhere within the 2020 Police Service budget, which were mainly due to other salaries and benefits savings.

On December 8, 2020, the Standing Policy Committee on Finance approved an over-expenditure of \$2.985 million for the year ending December 2020 related to the police pension. To address the police pension savings shortfall for the remainder of the multi-year balanced budget, the Police Service and Corporate each absorbed half of the total impact of the police pension reforms. The Police Service's operating budget was adjusted to increase the Expenditure Management budget line from \$1 million to \$6.1 million for 2021 through 2023.

The Service will achieve \$4.571 million of the 2021 Expenditure Management budget through other salaries and benefits savings. The Service will continue to make best efforts to achieve the full budgeted Expenditure Management amount; however, the year-end forecast as of August 31, 2021, includes an over-expenditure of \$1.517 million. As such, the Service is requesting an over-expenditure authorization in 2021 not to exceed \$1.517 million for budgeted pension savings that will not be realized.

This over-expenditure has been included in the department's projections since June, 2021.

On October 4, 2021, the Winnipeg Police Board received this report from the Winnipeg Police Service for review and consideration. On October 6, 2021, through communication from the Secretary, the Winnipeg Police Board advised that it accepted this report for information, and indicated that the Winnipeg Police Service may proceed with the submission of this report.

FINANCIAL IMPACT

Financial Impact Statement

Date: October 4, 2021

Project Name: **First Year of Program 2021**
Request for Over-expenditure Authorization – Winnipeg Police Service – 2021 Winnipeg Police Pension Employer’s Contribution and Unrealized Budgeted Pension Savings

| | <u>2021</u> | <u>2022</u> | <u>2023</u> | <u>2024</u> | <u>2025</u> |
|--|---------------------|-------------|-------------|-------------|-------------|
| Capital | | | | | |
| Capital Expenditures Required | \$ - | \$ - | \$ - | \$ - | \$ - |
| Less: Existing Budgeted Costs | - | - | - | - | - |
| Additional Capital Budget Required | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Funding Sources: | | | | | |
| Debt - Internal | \$ - | \$ - | \$ - | \$ - | \$ - |
| Debt - External | - | - | - | - | - |
| Grants (Enter Description Here) | - | - | - | - | - |
| Reserves, Equity, Surplus | - | - | - | - | - |
| Other - Enter Description Here | - | - | - | - | - |
| Total Funding | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Total Additional Capital Budget Required | <u>\$ -</u> | | | | |
| Total Additional Debt Required | <u>\$ -</u> | | | | |
| Current Expenditures/Revenues | | | | | |
| Direct Costs | \$ 7,288,000 | \$ - | \$ - | \$ - | \$ - |
| Less: Incremental Revenue/Recovery | - | - | - | - | - |
| Net Cost/(Benefit) | <u>\$ 7,288,000</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Less: Existing Budget Amounts | - | - | - | - | - |
| Net Budget Adjustment Required | <u>\$ 7,288,000</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

Additional Comments: The direct costs above include requested over-expenditure for the Winnipeg Police Service in 2021 related to the Police Pension shortfall.
 The impact of the Police Pension Employer Contribution Rate Change on future years will be considered through the budget process.
 In the event the additional funding requested in this report were to cause the General Revenue Fund to be in a shortfall position as at December 31, 2021, as approved by Council on September 29, 2021, the Financial Stabilization Reserve fund can be drawn on to cover the shortfall in the General Revenue Fund.

original signed by T. Holowka
 T. Holowka, CPA, CGA
 Comptroller
 Winnipeg Police Service

CONSULTATION

This Report has been prepared in consultation with:

- Winnipeg Police Board

OURWINNIPEG POLICY ALIGNMENT

N/A

WINNIPEG CLIMATE ACTION PLAN ALIGNMENT

N/A

SUBMITTED BY

Department: Winnipeg Police Service
Division: Finance Division
Prepared by: Tara Holowka
Date: October 4, 2021
File No: N/A