Agenda - Executive Policy Committee - September 17, 2008

REPORTS

Item No. 2 General Revenue Transfers from the Water and Sewer Utilities File W

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

1. That effective 2009, the Water and Sewer Utilities discontinue making the following transfers to the General Revenue Fund:
   a. General transfers from the Water and Sewer Utilities to the General Revenue Fund (estimated at $15.6 million for 2009);
   b. Hydrant rental transfer from the Water Utility to the General Revenue Fund (estimated at $3.7 million for 2009);

2. That effective 2009, frontage levy revenue of $19.6 million collected on the property tax bill be accounted for in the General Revenue Fund to pay for upgrading, repair, replacement and maintenance of streets and sidewalks.

3. That the Frontage Levy By-law No. 7958/2002 be amended to allow frontage taxes to be used for the upgrading, repair, replacement and maintenance of water and sewer mains and streets and sidewalks.
   Note: See amending By-law - Attachment A.

4. a) That the sources of funds for the Water Main Renewal Reserve and the Sewer System Rehabilitation Reserves now include funding from water and sewer rates as well as frontage levies, with the amount of funding each year to be authorized in Council-approved rate reports and/or budgets;

   b) That the Water and Waste Department report back on any further proposed changes to the Water Main Renewal Reserve and the Sewer System Rehabilitation Reserves, if required.

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

RE: GENERAL REVENUE TRANSFERS FROM THE WATER AND SEWER UTILITIES

FOR SUBMISSION TO: EXECUTIVE POLICY COMMITTEE

ORIGINAL REPORT SIGNED BY: CHIEF FINANCIAL OFFICER

REPORT DATE: September 11, 2008

RECOMMENDATION(S):

1. That effective 2009, the Water and Sewer Utilities discontinue making the following transfers to the General Revenue Fund:
    a. General transfers from the Water and Sewer Utilities to the General Revenue Fund (estimated at $15.6 million for 2009);
    b. Hydrant rental transfer from the Water Utility to the General Revenue Fund (estimated at $3.7 million for 2009);

2. That effective 2009, frontage levy revenue of $19.6 million collected on the property tax bill be accounted for in the General Revenue Fund to pay for upgrading, repair, replacement and maintenance of streets and sidewalks.

3. That the Frontage Levy By-law No. 7958/2002 be amended to allow frontage taxes to be used for the upgrading, repair, replacement and maintenance of water and sewer mains and streets and sidewalks.
   Note: See amending By-law - Attachment A.

4. a) That the sources of funds for the Water Main Renewal Reserve and the Sewer System Rehabilitation Reserves now include funding from water and sewer rates as well as frontage levies, with the amount of funding each year to be authorized in Council-approved rate reports and/or budgets;

   b) That the Water and Waste Department report back on any further proposed changes to the Water Main Renewal Reserve and the Sewer System Rehabilitation Reserves, if required.

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

Report Summary

Key Issue(s):

This report is in response to Council direction to end net general revenue transfers from the Water and Sewer Utilities.

To improve transparency of revenues in light of the City's consideration of a utility board governance, this report recommends the elimination of the general transfers and the hydrant rental transfer from the Water and Sewer Utilities to the General Revenue Fund

($19.3 million) and a change in accounting treatment for a portion of frontage levy revenue collected on the property tax bill ($19.6 million), where it would now flow into the General Revenue Fund, instead of directly into capital reserves. It would now be used for upgrading, repair, replacement and maintenance of the street system, including sidewalks. These changes, while essentially budget neutral, result in a positive net benefit to the General Revenue Fund of approximately $300,000.

This report does not recommend the elimination of the transfer from the Sewer Utility to cover the costs of the tax-supported land drainage program of $13.9 million at this time. The City will continue to explore the option of establishing a land drainage utility. Until this review is finalized, this report recommends maintaining this transfer as well as continuing to use $7.5 million of frontage levy revenue for land drainage capital projects.

The changes outlined in the recommendations of this report will not have a financial impact on the general public.

This change may impact the two capital reserves where frontage levy is a source of funds, namely the Water Main Renewal Reserve and the Sewer System Rehabilitation Reserve. A report will come forward from the Water and Waste Department if any changes are recommended to these reserves.

The approval of the recommendations in this report is not contingent upon the results of the two potential subsequent reports.

Implications of the Recommendation(s):

General Implications

- [x] **None**
- [ ] **For the organization overall and/or for other departments**
- [ ] **For the community and/or organizations external to the City**
- [ ] **Involves a multi-year contract**

Comment(s):

Policy Implications

- [ ] **No**
- [x] **Yes**

Comment(s): Historically, the Water and the Sewer Utilities have made transfers to the General Revenue Fund, and frontage levy revenue has been accounted for in capital reserves for water and sewer main renewal. This report is recommending the discontinuance of the general transfers and the hydrant rental transfer to the General Revenue Fund from the water and sewer utilities, as well as a change in the accounting treatment for a portion of the frontage levy revenue – to be accounted for in the Public Works Department (Roadway Construction and Maintenance service), General Revenue Fund and to be used for upgrading, repair,

replacement and maintenance of the street system, including sidewalks as permitted by the Charter.

Regulatory Implications

x	**None**
	Eliminates or reduces regulatory impact
	Proposes regulatory impact

Comment(s):

Environmental Implications:

x	**No**
	Yes

Comment(s):

Human Resources Implications:

x	**No**
	Yes

Comment(s):

Financial implications

x	**Within approved current and/or capital budget**
	Current and/or capital budget adjustment required

Comment(s): No additional funding is required if this accounting change is implemented. These changes, while essentially budget neutral, result in a positive net benefit to the General Revenue Fund of approximately $300,000 in 2009.

Report

REASON FOR THE REPORT:

At its meeting on November 21, 2007, Council approved the following motion:

"That Council commit to end net general revenue transfers from the Water and Sewer Utilities no later than the adoption of the 2009 Operating Budget and do so in a manner that improves the transparency of revenues and expenditures within these utilities."

The City is considering a utility board governance model and the recommendations in this report will improve transparency of revenues.

DISCUSSION:

The 2009 tax-supported operating budget, which was adopted in principle on March 26, 2008, includes the following transfers from the Water and Sewer Utilities to the General Revenue Fund (or tax-supported fund), in millions:

1. General transfer from the Water Utility	$ 9.0
2. General transfer from the Sewer Utility	6.6
3. Hydrant rental transfer from the Water Utility	3.7
TOTAL	$19.3

This report recommends the discontinuance of these transfers effective 2009 to improve transparency of revenues, in light of the City's consideration of a utility board governance model

The Sewer Utility also makes a transfer to the General Revenue Fund to support land drainage costs in the amount of approximately $13.9 million for 2009. The City will continue to explore the option of establishing a new Land Drainage Utility; however, in the meantime, this report recommends that this transfer be maintained.

Currently, frontage levy revenue collected via property tax bills is estimated to be $27.1 million per annum. Of this amount, $7.5 million is used to support land drainage capital projects, leaving a balance of $19.6 million. This report recommends that this $19.6 million now be used, beginning in 2009, to support upgrading, repair, replacement and maintenance of streets and sidewalks, instead of being used in its entirety for water and sewer main renewal. Water and sewer main renewal in the capital budget would now be financed by the Water and Sewer Utility retained earnings, which will increase by $19.3 million as a result of not having to make the transfers to the General Revenue Fund noted above. The 2009 water and sewer rate report will reflect this change in funding. It is anticipated that there should be little or no impact on water and sewer rates as a result.

The City of Winnipeg Charter outlines "*How frontage taxes may be used*" as follows:

"432(4) Money from a frontage tax may be used for the

a) upgrading, repair, replacement and maintenance of water and sewer mains and streets and sidewalks; and
b) installation, upgrading, repair and replacement and maintenance of lighting in streets and back lanes."

Therefore, the proposed use of the frontage levy revenue is consistent with the permitted uses in the Charter.

However, the Frontage Levy By-law No. 7958/2002 currently limits the expenditure of frontage levy revenue to the repair and replacement of water and sewer mains and of streets and sidewalks in residential areas. It is proposed that the By-law be amended to permit expenditures of these revenues for the upgrading, repair, replacement and maintenance of water and sewer mains and streets and sidewalks.

The Public Service will review the current methodology of collecting the frontage levy revenue and report back to Council. Also, the Public Service will report back on any further required changes to the two capital reserves impacted by this change (the Water Main Renewal Reserve and the Sewer System Rehabilitation Reserve), if required.

FINANCIAL IMPACT STATEMENT - DATE AUGUST 11, 2008

If approved, the recommendations in this report result in a change in the accounting treatment for a portion of the frontage levy revenue ($19.6 million) received by the City and eliminates the general transfers and the hydrant rental transfer from the Water and Sewer Utilities to the General Revenue Fund ($19.3 million). These changes, while essentially neutral, result in a positive net benefit to the General Revenue Fund of approximately $300,000.

"Original signed by Carrie Erickson"
Carrie Erickson
Manager of Finance & Administration

IN PREPARING THIS REPORT, THERE WAS:

INTERNAL CONSULTATION WITH AND CONCURRENCE BY:

Water and Waste Department
Assessment and Taxation Department
Fire Paramedics Service
Public Works Department
Legal Services

EXTERNAL CONSULTATION WITH:

THIS REPORT SUBMITTED BY:

Corporate Finance Department
Financial Services
Prepared by: Jo-Anne Ferrier, City Treasurer
File No.

Attachment A

THE CITY OF WINNIPEG

BY-LAW NO.

A By-law of THE CITY OF WINNIPEG to amend the Frontage Levy By-law No. 7958/2002.

DRAFT

THE CITY OF WINNIPEG, in Council assembled, enacts as follows:

Section 8 of Frontage Levy By-law amended

1 Section 8 of the Frontage Levy By-law No. 7958/2002 is repealed and the following is substituted:

8 The money from the rates imposed under section 3 may be used for the upgrading, repair, replacement and maintenance of water and sewer mains and streets and sidewalks.

DONE AND PASSED, this day of , 2008.

_____
Mayor

_____
City Clerk

Approved as to content:

_____
City Treasurer

Approved as to form:

_____
For Acting City Solicitor/Manager of
Legal Services