Winnipeg

VISION | Long term financial health and sustainability

Financial Management Plan

December 2010

“Periodically review and report on the financial management plan, which provides financial strategies and targets, with a view to long term financial health and sustainability”

OurWinnipeg Plan

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Introduction

Standard & Poor's Credit Ratings of Canadian Cities – August, 2010

City	Rating
Winnipeg	AA
Vancouver	AA
Calgary	AA+
Edmonton	AA+
Saskatoon	AAA
Regina	AA+
Windsor	AA
Hamilton	AA
Toronto	AA
Mississauga	AAA
Ottawa	AA+
Montreal	A+
Halifax	A+

What is the Financial Management Plan?

The Financial Management Plan is the City of Winnipeg's strategy for guiding financial decision-making, meeting long-term obligations, and improving its economic position and financial stability. The Plan sets forth the guidelines against which current and future financial performance can be measured, and assists the City in planning fiscal strategy with a sustainable, long-term approach.

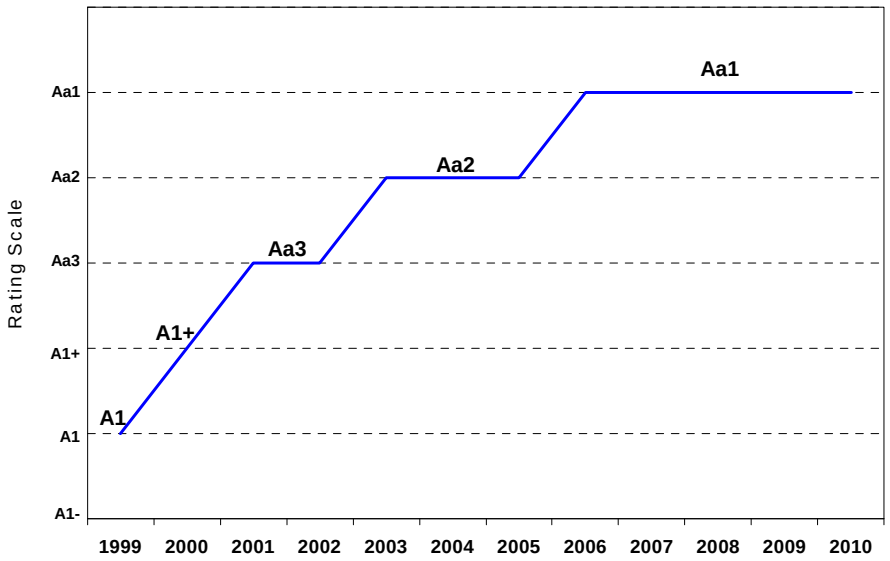
Have the goals from the previous Plan been achieved?

The first Financial Management Plan was approved by Council in 1995 and an updated Plan was adopted by Council on April 25, 2001. Significant achievements have been made with respect to the goals of the previous Financial Management Plan:

1. Promote Economic Growth - The City's property assessment base grew by 138% since 2001.
2. Support a Competitive Tax Environment - Municipal residential property taxes (excluding school taxes) are below the average of other Canadian cities.
3. Reduce Debt - The net external debt per capita target of $1,000 was reached seven years ahead of time in 2002, largely due to the sale of Winnipeg Hydro.
4. Control Expenditures - Tax-supported operating expenditure increases since 2001 have been consistent with inflation adjusted for population growth.
5. Maintain Assets and Infrastructure - Capital investment has increased from $158 million in 2001 to $439 million in 2010, an increase of 178%.
6. Ensure Adequate Reserves - The Stabilization Reserves target balance of 10% of tax supported expenditures was reached in 2006.
7. Expand E-Government - An integrated Enterprise Resource Planning system (Finance and Human Resources), was successfully completed on time and on budget in 2003.

In addition, Moody's upgraded the City's credit rating from Aa3 in 2001 to Aa1 in 2006 and confirmed this rating in 2010 with a stable outlook.

CREDIT RATING



Source Moody's Investors Service

VISION

Long term financial health and sustainability

"The City of Winnipeg's Aa1 rating and stable outlook is supported by a disciplined fiscal plan, which has led to improving debt and debt servicing ratios. Over the past several years, the city has restructured its fiscal planning process, including the introduction of multi-year budgeting plans. These efforts have enabled Winnipeg to post a series of positive operating outcomes, which has helped the city improve debt ratios. The rating also reflects Winnipeg's diverse economy, which provides a degree of stability to the city's tax base."

"Credit Analysis", Moody's Investors Service, January 2010

Current Reality

An updated Financial Management Plan is required as a blueprint for financial decision-making during the next term of Council. Property taxes are now below the average of other Canadian cities. Expenditures have been managed within inflationary targets – significant spending increases have occurred in public safety services by ensuring other public services are operated efficiently and by reducing costs for internal services. The City's large unfunded infrastructure deficit needs to be addressed requiring a strengthened revenue structure along with the need for more debt. Capital investment will need to be prioritized and environmental sustainability should be considered as a factor in this decision-making.

Moving Forward

The Financial Management Plan guides prudent financial decision making in support of City Council's approved plans, programs and projects. It is an integrated part of the *OurWinnipeg* planning framework by supporting the City's vision: *Living and Caring Because we Plan on Staying*. It also aligns with *OurWinnipeg* by supporting:

- A city that works: The "basics" matter: public safety, water quality, wastewater and transportation infrastructure, and public amenities and facilities are the essentials to keeping people healthy. To this end, the Financial Management Plan supports sound and forward-looking financial management of our assets.

- A sustainable city: Sustainability is part of how the City does business, and is reflected in policies and programs that respect and value the natural and built environments, protecting our city's natural areas and heritage resources. Our financial decisions should be based on understanding the long-term implications – direct and indirect – of our activities.

- Quality of life: Opportunity, vitality and creativity are examples of social aspects of our community that are critical to our overall well-being. The City is committed to collaborating within its mandate with other governments and service providers. The Financial Management Plan is cognizant of and responsive to social priorities including affordability and equity.

This Financial Management Plan establishes the framework for the City's overall financial planning and management, and the renewed goals are:

1) Promote economic growth
2) Support environmental sustainability
3) Maintain infrastructure assets
4) Manage debt
5) Manage expenditures
6) Ensure a sustainable revenue structure
7) Support a competitive tax environment
8) Ensure adequate reserves

Each goal is accompanied by a target and a measure. The City commits to reporting regularly to Winnipeg's citizens on its progress in meeting these goals.

Promote Economic Growth

TARGET

Increase assessment base

Economic Initiatives

Partnerships

- CentreVenture
- Economic Development Winnipeg
- Winnipeg Convention Centre
- True North Entertainment
- Mid-Continent Trade Corridor
- The Forks North Portage Partnership
- Other levels of government

Liaison

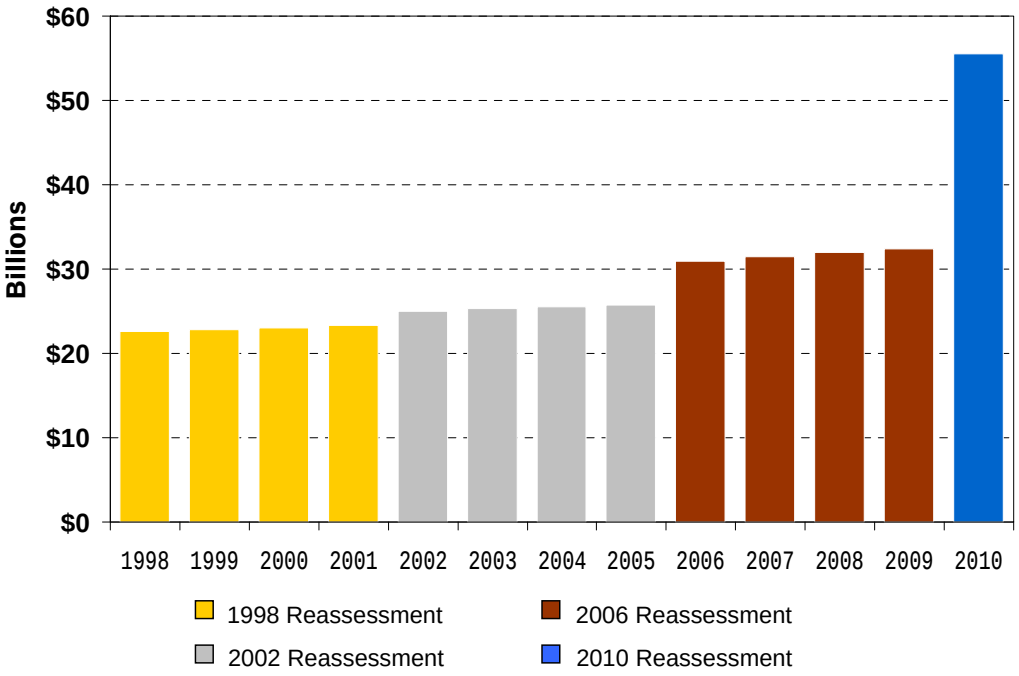
- Business Community
- Business Improvement Zones
- Film and Culture
- Community-based Organizations

Funding

- Economic Development, Heritage and Housing Rehabilitation Investment Reserves
- Multi-Family Dwelling Reserve and home tax credit programs

The City's ability to support the growth of its existing business community and the community at large as well as attract new businesses and people is key to the future economic prosperity for Winnipeg and its citizens. Standard & Poor's Credit Rating from March 2010 states, *"The City's well-diversified economy confers a higher degree of protection from external economic shocks."*

THE CITY'S PROPERTY ASSESSMENT BASE IS GROWING



Winnipeg is forecast to grow by 180,000 people by 2031. A growing population provides us with the opportunity to think more strategically about ways to accommodate residential, employment, commercial and other kinds of growth. *OurWinnipeg* and the Complete Communities Direction Strategy take a collaborative and enabling approach to guiding growth to where it can have positive social, economic and environmental results. Renewed planning policies and implementation tools will align with and further support ongoing economic development initiatives such as:

- Emerging Neighbourhoods (ie: Waverley West, Sage Creek, Kildonan Green)
- Commercial Destinations
- CentrePort
- Rapid Transit
- Portage Avenue Action Strategy
- Heritage Tax Credits
- Downtown Residential Development Grant Program
- Canadian Museum for Human Rights
- Aboriginal Initiatives
- Football Stadium

MEASUREMENT

Growth in assessment base

Support Environmental Sustainability

TARGET

Financial decisions that support environmental sustainability

"The Government Finance Officers Association recommends that the issue of sustainability be considered a core value in setting organizational policy and establishing business practices in all areas of public finance."

Government Finance Officers Association

Citizens look to their governments to provide and demonstrate leadership, incorporating the values of the community into all aspects of their service provision. Through *OurWinnipeg* and the recent SpeakUpWinnipeg initiative, the City has heard that Winnipeggers want their municipal government to be a leader, championing choices and opportunities to live in a sustainable way. Using *OurWinnipeg* and a supporting Direction Strategy – A Sustainable Winnipeg, the City of Winnipeg will work to embed sustainability into internal decisions and actions.

Projects, programs and initiatives supporting environmental sustainability include:

- Development of sustainability indicator measurement, monitoring and reporting methodology
- Strengthen existing integrated decision-making and planning mechanisms and build new mechanisms where required
- Sustainable Procurement Community Network
- Establish a Corporate Sustainable Procurement Policy
- Green building standards for City buildings
- Green workplace initiative
- Green living public education and awareness campaign
- Community-wide Climate Change Action Plan
- Corporate Climate Change Action Plan (further 20% reduction)
- Green Fleet Vehicle Plan
- Comprehensive integrated waste management plan, including examination of curbside composting
- Residential toilet rebate program
- Asset Management Initiative

"To promote environmentally-responsible management decisions, a multi-faceted evaluation approach to examine the full impact is recommended."

Government Finance Officers Association

The local environment is the foundation for our economic and social health, and we need to take responsibility for it. Our actions should contribute to the protection of the natural environment both regionally and globally.

The Financial Management Plan is an integrated part of *OurWinnipeg* planning framework, as is the Direction Strategy – A Sustainable Winnipeg.

The City of Winnipeg's Asset Management Initiative will ensure departments are following leading practices in asset management. The initiative includes the development of a multi-criteria approach to sustainable capital planning. Prioritization of capital investment would be based on life cycle costing, risk management and a triple bottom line approach (i.e. consideration of environmental, social and economic sustainability). In addition, implementation of a multi-criteria approach to capital planning will ensure unfunded prioritized projects are identified for new intergovernmental funding and other opportunities.

MEASUREMENT

Develop a multi-criteria approach to prioritize capital investment, including environmental sustainability, by 2013

Maintain Infrastructure Assets

TARGET — **Implement leading practices for asset management**

Major Capital Projects

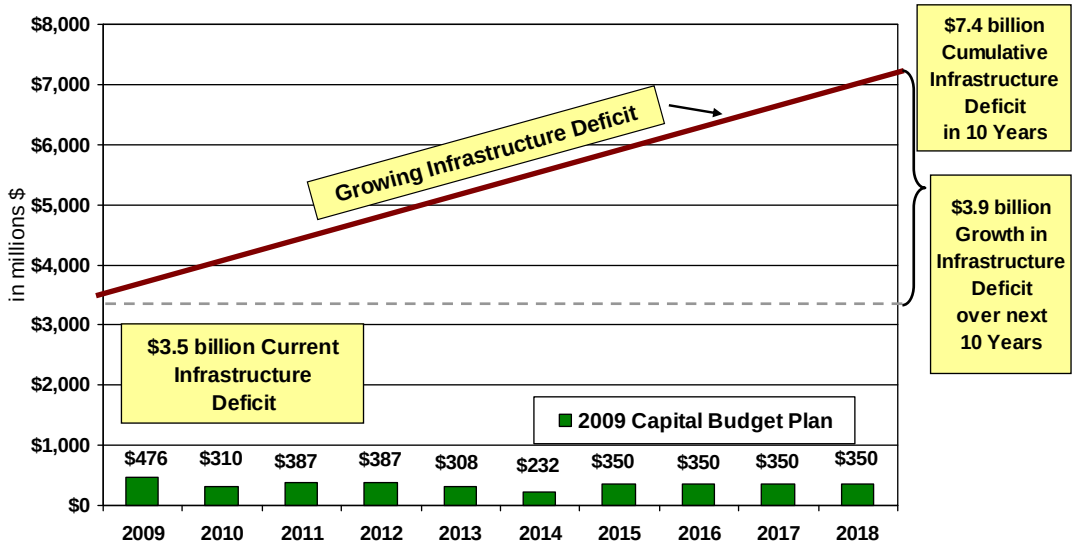
- Water Treatment
- Wastewater Treatment
- Recreation and Leisure Facilities
- Inkster Boulevard
- Disraeli Bridge and Overpass
- Police Stations
- Rapid Transit
- Chief Peguis Trail
- Active Transportation
- Osborne Street Bridge
- Waverley West Arterial Roads
- Assiniboine Park Conservancy
- Police Headquarters
- Transit Fare Collection System
- Fire Paramedic Stations
- Tuxedo Yards Development

"In the next five years, Winnipeg faces significant infra-structure renewal requirements … namely to address aging roads, water, and wastewater treatment systems, as well as transit."

"Ratings Direct", Standard & Poor's, March 1, 2010

Maintaining and improving the City's assets and infrastructure is essential in meeting the needs of Winnipeg citizens and attracting new investment and business to the City. While capital investment for City infrastructure has increased 178% from 2001 to $439 million in 2010, the cost to raise the City's infrastructure to an appropriate condition is estimated at $3.5 billion growing to $7.4 billion over the next ten years. The largest portion of this $7.4 billion relates to existing and new unfunded road infrastructure.

FUNDING INADEQUATE FOR SUSTAINABLE INFRASTRUCTURE



On March 10, 2010, the City's Executive Policy Committee directed the Winnipeg Public Service to prepare an asset management plan to implement an asset management system that includes a triple bottom line (i.e. environmentally, socially and economically sustainable) approach to all asset management decisions, in accordance with *OurWinnipeg*. An asset management system should assist the city in managing infrastructure assets better by:

- implementing leading practices for asset management, including life cycle costs
- reporting on the state of infrastructure, the condition of assets by service area, and any funding gap
- identifying appropriate maintenance funding to extend the life of assets
- prioritizing investment in capital assets using a triple bottom line approach to ensure existing assets are maintained and that new capital investment is appropriate
- providing information and data to support requests for new funding

Phase 1 of the City's of Winnipeg's Asset Management Initiative developed a number of short, medium and long term recommendations based on a needs assessment. The Initiative's Phase 2 includes development of corporate policies, standards and leading practices in asset management, such as reviewing service levels, incorporating risk management, multi-criteria prioritization of capital projects, and business case evaluation. This Initiative forms the first step toward addressing the challenge of funding the infrastructure deficit.

MEASUREMENT — **Complete Phase 2 of Asset Management Initiative by end of 2012**

Manage Debt

TARGET

A manageable level of debt

"Smart debt recognizes that borrowing is a valid form of infrastructure financing, and seeks to build consensus around the usage of debt by emphasizing its role as part of any long-term capital plan. Smart debt realizes that "pay-as-you-go" cannot accommodate all infrastructure needs, nor should it."

"Delivering The Goods", Canada West Foundation, June 2008

Depending on the interest rate environment, debt issuance may be advisable where a capital project is:

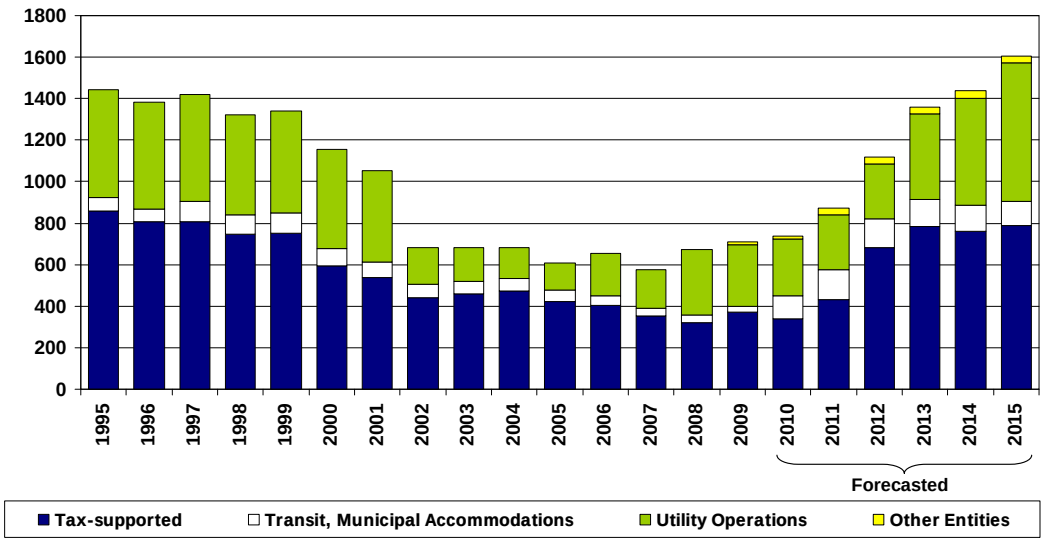
- Intergenerational in nature (i.e. a large project with long-term benefits)
- Benefiting the community at large
- Growth related
- A major rehabilitation and/or
- Financed by a dedicated revenue stream.

The City's previous Financial Management Plan set a target to reduce debt per capita to $1,000 by 2009. This goal was reached ahead of schedule in 2002 largely as a result of the sale of Winnipeg Hydro. While the City has had success related to its debt management, it faces a substantial infrastructure deficit, including its street system, parks, transit, land drainage and community facilities.

Council has been exploring innovative solutions to address the infrastructure deficit. The City has been increasing the pay-as-you-go component of its capital plan, has implemented user pay charges to set up capital reserves, and has pursued strategic partnership opportunities with other levels of government.

Regulatory requirements are resulting in large capital investment in wastewater treatment facilities over the next several years, increasing the debt load. This work, along with other long-term financing obligations and new approved major projects, may increase the City's debt per capita to $1,606 by 2015 based on existing capital plans.

City of Winnipeg Net Debt Per Capita at December 31st



•Debenture debt and P3 obligations included

•Other Entities included in 2009 and subsequent years

As the City addresses its substantial infrastructure deficit, additional capital investment will be required beyond what is currently planned. External debt may be utilized to finance a portion of this new investment. As a result, debt per capita will likely increase beyond the projected $1,606 in the future. Issuance of debt must consider growth in City revenues and remain affordable to the citizens of Winnipeg. The debt strategy needs to balance infrastructure renewal with the cost to service debt and maximum debt limits should be set.

MEASUREMENT

Develop a debt strategy, including maximum debt limits

Manage Expenditures

TARGET

Tax supported operating expenditure increases should not exceed inflation adjusted for growth, net of operational efficiencies

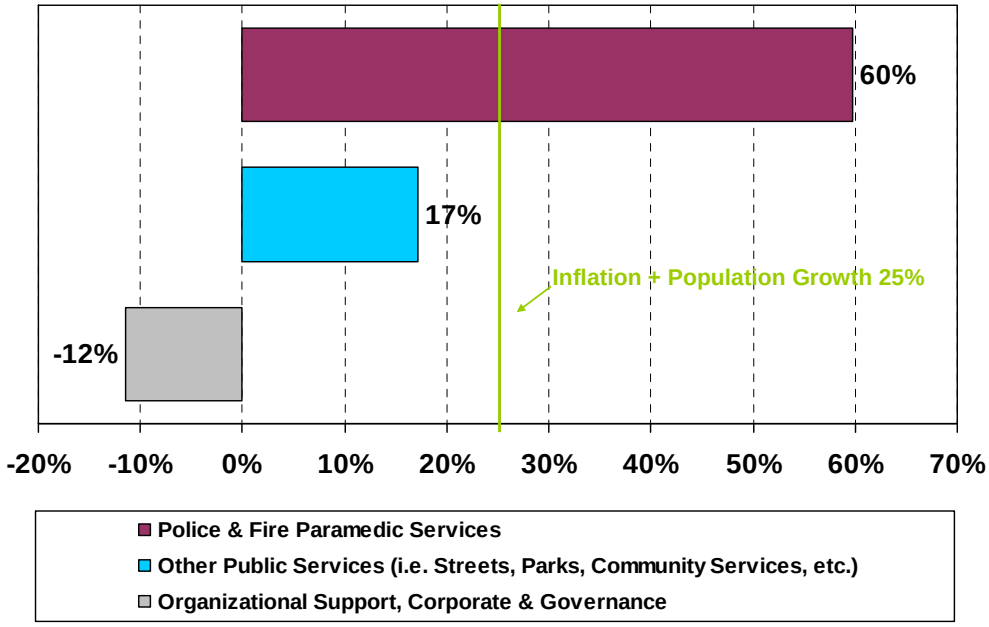
"Expenditures have been focused on public safety, transit and infrastructure. Protection and community services (primarily police and firefighting) spending continues to outpace overall spending, accounting for 32.9% of expenditures in 2008, up from 30.8% in 2003. These pressures are being accommodated by reductions in other areas. For example, over the same time, interest costs and spending on finance, administration and general government have declined as a percentage of revenues."

"Credit Analysis", Moody's Investors Service, January 2010

City Council recognizes affordability as being important to the citizens of Winnipeg. Compared to other Western Canadian cities, Winnipeg is a low cost provider of services.

Since 2001, operating expenditures have increased 25.5%, consistent with inflation adjusted for population growth. During this period, the City significantly increased spending on safety, which is one of its top priorities. At the same time consolidation and streamlining of support functions as well as ongoing monitoring of other expenditures helped to keep overall costs within target levels.

TAX SUPPORTED SERVICES:
Percentage Change - 2001 to 2010 Expenditure Budgets



The City continues to manage expenditures while ensuring public services are maintained. Performance measures and performance information are now available for each City service. This will ensure that service performance can be tracked and trends can be monitored to assist in resource allocation and to ensure accountability for outcomes.

Meeting citizens' service expectations, coupled with future general price increases, will continue to put pressure on expenditure levels in the future. The City's strategy to manage expenditures, find efficiencies, and achieve economies of scale includes:

- rationalizing and consolidating services, delivery systems and facilities
- building a smaller, more skilled and flexible workforce
- implementing alternative service delivery options
- partnering with other levels of government and other organizations, including service sharing and
- applying new technology to improve service delivery and increase efficiency

MEASUREMENT

Increase in tax supported operating expenditures over prior year should not exceed inflation adjusted for growth

Ensure a Sustainable Revenue Structure

TARGET

A revenue structure that keeps pace with inflation adjusted for growth

"Cities in Europe, Southeast Asia, or the US have significantly greater access to a wider range of taxes, and this places them on a more secure fiscal footing."

"Dollars and Sense II", Canada West Foundation, September 2008

The City of Winnipeg's main source of revenue is derived from property taxes, a revenue stream that has had to be reduced in order to remain competitive. The City is, therefore, falling behind in meeting operational requirements and addressing its infrastructure deficit. The pressure to invest more in infrastructure makes it very difficult to increase spending on other priorities. Sustainable funding for operations and to enable strategic investments must be found.

A move to a sustainable revenue structure does not override the need to look internally to find efficiencies, improve operations, and reduce costs. Sustainability also requires that the use of one-time revenue for ongoing expenditures should be discouraged.

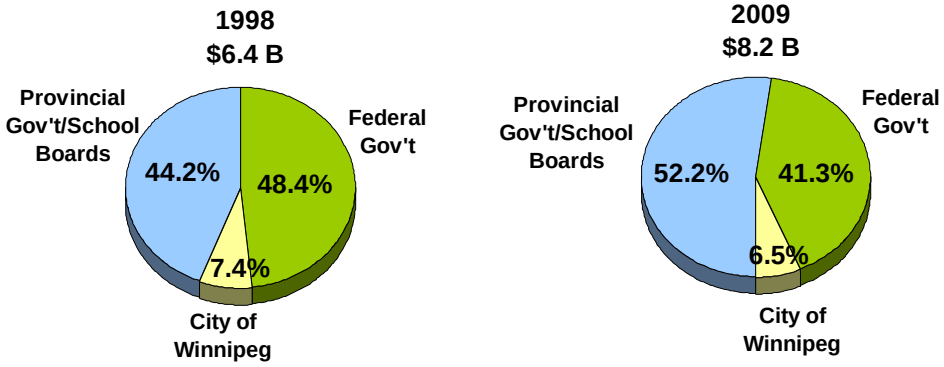
Property tax will remain the backbone of municipal finance. It is a highly stable and predictable form of taxation. However, it is inelastic given that when the economy grows, property values rarely grow as quickly as do incomes and sales. Even when property taxes do grow, there is usually a lag between assessed values and market values.

Currently, 6.5% of all taxes paid by Winnipeggers go to the City Government, with 93.5% going to the other levels of government.

TOTAL ESTIMATED TAXES PAID BY WINNIPEGGERS

Municipal Governments collect a decreasing share of the taxation pie

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Source: Revenue Canada Agency and annual financial reports of the governments of Canada, Manitoba, and Winnipeg.

The City of Winnipeg's ability to introduce new revenue sources or change existing taxation policies through greater fiscal and legislative powers is subject to the approval of the provincial government. As an example, the City was recently successful in obtaining provincial approval to implement a new accommodations tax, which is being directed to a Destination Marketing Fund to fund organizations, projects and special events that encourage tourists to visit Winnipeg.

The inclusion of inflation increases on government grants and more dedicated funding sources, such as the gas tax, are part of the City's ongoing discussions with the other levels of government. The City will continue to pursue a larger piece of the "tax pie".

A sustainable revenue structure should consider the following:

- Adequacy
- Diversification
- Stability
- Growth potential
- Ease of administration
- Appropriate cost recovery
- Timing of cash flow

MEASUREMENT

Increase in operating revenue should be, at a minimum, inflation adjusted for growth

Support a Competitive Tax Environment

TARGET

Municipal residential property taxes below the average of other Canadian cities

Cumulative Property Tax Change in Western Canadian Cities (1999 to 2009)

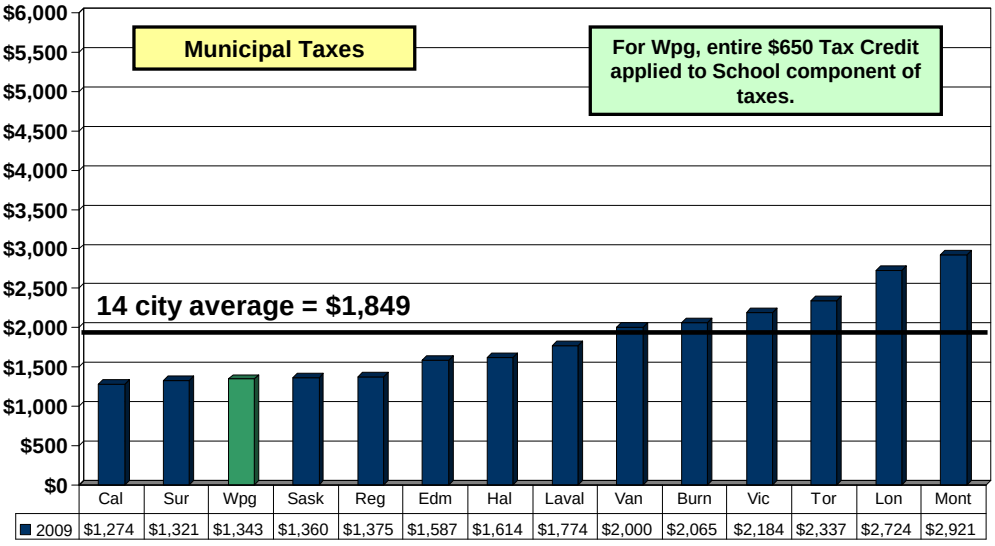
Vancouver	44%
Edmonton	50%
Calgary	42%
Saskatoon	38%
Regina	24%
Winnipeg	-6%

"In Winnipeg, real per capita property taxes are now considerably lower than in 1990."

"Dollars and Sense II", Canada West Foundation, September 2008

The City's municipal residential property taxes are below the average of other Canadian cities.

PROPERTY TAXES ON AVERAGE HOUSE



	Cal	Sur	Wpg	Sask	Reg	Edm	Hal	Laval	Van	Burn	Vic	Tor	Lon	Mont
2009	$1,274	$1,321	$1,343	$1,360	$1,375	$1,587	$1,614	$1,774	$2,000	$2,065	$2,184	$2,337	$2,724	$2,921

Source: City of Edmonton 2009 Residential Property Taxes & Utility Charges Survey, released January 2010. 14 largest cities included in the Survey (Regina and larger approx 200,000 plus population)

The 2010 Operating Budget boosts Winnipeg's competitiveness with the City's 13th consecutive property tax freeze or reduction.

The City has also reduced business taxes to improve its competitive position and make Winnipeg a good place to invest. The business tax rate has been decreased from 9.75% in 2001 to 6.39% in 2010. This rate decrease has translated into less business tax revenue being paid by Winnipeg business – a budget of $57.6 million in 2010 compared to $60.1 million in 2001, while the market value of these businesses has increased. A small business tax credit was created in 2009. In 2010, this resulted in 36% of Winnipeg businesses not having to pay business tax.

While a competitive tax environment encourages economic growth, there are other factors that are key to new development. Citizens value City services. Meeting service expectations and maintaining infrastructure investment must be balanced with affordable taxation levels.

MEASUREMENT

Municipal residential property taxes below the average of other Canadian cities

TARGET

Stabilization Reserves maintained at a minimum of 8% of tax supported expenditures

"Winnipeg benefits from healthy free cash and liquid assets …"

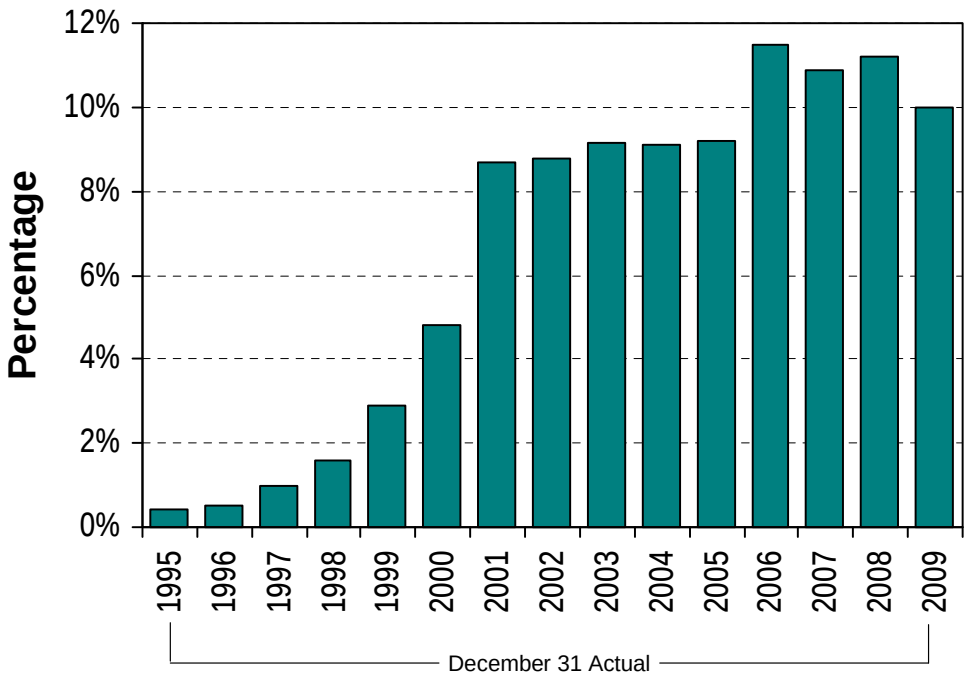
"In our opinion, the city's ability to maintain stable free cash balances … bolsters its financial profile."

"Ratings Direct", Standard & Poor's, March 1, 2010

Maintaining adequate reserves provides the City with the ability to respond to unexpected events and extraordinary situations, maintain stable taxes and ensure sufficient funds are available for major capital projects.

Stabilization reserves assist in funding major unexpected expenses or deficits recorded in the General Revenue Fund. The City's previous Financial Management Plan set a target for Stabilization Reserves to reach a minimum of 10% of tax supported expenditures by 2009. This goal was reached in 2006. Any excess over 10% has been used to fund operating expenditures. Achievement of this goal has contributed to improvement of the City's overall credit rating.

STABILIZATION RESERVES



Includes the Fiscal Stabilization and Mill Rate Stabilization Reserves

"A jurisdiction should adopt a policy to maintain a prudent level of financial resources to protect against the need to reduce service levels or raise taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures."

Government Finance Officers Association

The City of Winnipeg must optimize its financial capacity to ensure scarce resources are best working for citizens. The City's long-term financial modelling anticipates revenues and expenditure levels to continue to be predictable, without significant volatility. Therefore a balance between holding sufficient resources to effectively manage unplanned events and the resulting pressure on affordability for the taxpayer must be found. A combined Stabilization Reserve level of a minimum of 8% of tax supported expenditures is appropriate.

The City will continue to monitor its reserve position against future requirements to ensure adequate reserve balances are maintained.

MEASUREMENT

Stabilization Reserves maintained at a minimum of 8% of tax supported expenditures

For more information on the City's Financial Management Plan, please contact:

The City of Winnipeg
Corporate Finance Department
Financial Planning and Review Division
4th Floor, 510 Main Street
Winnipeg, Manitoba
R3B 1B9

Telephone Number: 311

Toll Free: 1-877-311-4WPG(4974)

Prepared by Corporate Finance,
The City of Winnipeg

City of Winnipeg website: www.winnipeg.ca