Agenda - Executive Policy Committee – December 7 2011

Report - Standing Policy Committee on Finance – December 1, 2011

Item No. 2 Financial Status Report and Forecast – Year End Surplus / Deficit

STANDING COMMITTEE RECOMMENDATION:

On December 1, 2011, the Standing Policy Committee on Finance concurred in the recommendation of the Winnipeg Public Service and submits the following to Council:

1. That the Financial Status Report and Forecast to October 31, 2011 be received as information.

2. That if the General Revenue Fund reports a surplus at year-end, it be transferred to the General Purpose Reserve Fund.

3. That in the event the General Revenue Fund reports a deficit at year-end, the following measures be utilized, in the order specified, to sufficiently eliminate a 2011 deficit in the General Revenue Fund:

    A. Reduce the transfer required to the Financial Stabilization Reserve Fund in respect of net supplementary taxes and tax roll adjustments to the budget in 2011 up to the amount required to avoid a deficit in the General Revenue Fund;

    B. The Financial Stabilization Reserve Fund forgo its 2011 interest earnings, net of investment management fees, up to the amount required to avoid a deficit in the General Revenue Fund; and

    C. The Financial Stabilization Reserve Fund transfer to the General Revenue Fund, the amount required to avoid a deficit in the General Revenue Fund.

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

Agenda - Executive Policy Committee – December 7, 2011

Report - Standing Policy Committee on Finance – December 1, 2011

DECISION MAKING HISTORY:

STANDING COMMITTEE RECOMMENDATION:

On December 1, 2011, the Standing Policy Committee on Finance concurred in the recommendation of the Winnipeg Public Service and submitted the matter to the Executive Policy Committee and Council.

ADMINISTRATIVE REPORT

Title: **Financial Status Report and Forecast to October 31, 2011**

Issue:

Critical Path: **Standing Policy Committee on Finance – Executive Policy Committee - Council**

AUTHORIZATION

Author	Department Head	CFO	CAO
Paul Olafson	M. Ruta	M. Ruta CFO	D. Joshi COO

RECOMMENDATIONS

1) That the Financial Status Report and Forecast to October 31, 2011 be received as information.
2) That if the General Revenue Fund reports a surplus at year-end, it be transferred to the General Purpose Reserve Fund.
3) That in the event the General Revenue Fund reports a deficit at year-end, the following measures be utilized, in the order specified, to sufficiently eliminate a 2011 deficit in the General Revenue Fund:
    a. Reduce the transfer required to the Financial Stabilization Reserve Fund in respect of net supplementary taxes and tax roll adjustments to the budget in 2011 up to the amount required to avoid a deficit in the General Revenue Fund;
    b. The Financial Stabilization Reserve Fund forgo its 2011 interest earnings, net of investment management fees, up to the amount required to avoid a deficit in the General Revenue Fund; and
    c. The Financial Stabilization Reserve Fund transfer to the General Revenue Fund, the amount required to avoid a deficit in the General Revenue Fund.

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 to the Standing Policy Committee on Finance.

IMPLICATIONS OF THE RECOMMENDATIONS

As at October 31, 2011, the Public Service anticipates a projected surplus of $0.6 million for the General Revenue Fund. The Public Service is recommending that any surplus amounts attained at year-end be transferred to the General Purpose Reserve Fund for future use to be approved by City Council instead of the Financial Stabilization Reserve Fund. The surplus would automatically be transferred to the Financial Stabilization Reserve Fund. However, there is potential for a deficit to occur relating to several factors including possible inclement weather during November and December impacting snow clearing costs.

The recommendations identified in this report concerning transfers amongst City of Winnipeg funds fall under Section 288(1) of The City of Winnipeg Charter, which requires approval from City Council. The exception to this is recommendation 3c. In this case, City Council approved that funds above the 8% target may be used for major unforeseen expenditures and deficits in any given year. Accessing these funds for unforeseen expenditures and deficits in any given year only require City Council approval if the required draw would reduce the reserve balance below the 8% target.

Actual Year-end Scenario - General Revenue Fund Surplus

Annual operating General Revenue Fund surpluses automatically transfer to the Financial Stabilization Reserve Fund. Should the actual year-end General Revenue Fund 2011 operations result in a surplus, the Public Service is instead recommending that the surplus be transferred to the General Purpose Reserve Fund for future use to be approved by City Council.

Actual Year-end Scenario - General Revenue Fund Deficit

Should the General Revenue Fund report a 2011 deficit, the following measures, in the order specified, would be utilized, to sufficiently eliminate that deficit:

Net supplementary taxes and tax roll adjustments to the budget

On September 28, 2011, City Council approved a report from the Executive Policy Committee to permit transfers to or from the Financial Stabilization Reserve to offset any variance in the revenue projections for net supplementary taxes and tax roll adjustments used in the General Revenue Fund budget and the actual amounts achieved.

During the year, taxes are reported in the General Revenue Fund and at year-end a transfer based on the variance between budget and actual is recorded and reported in the Financial Stabilization Reserve Fund. In 2011, taxes are forecasted to be greater than budget thereby resulting in a transfer to the Financial Stabilization Reserve Fund. After considering the foregoing measure, this recommendation reduces the transfer from the General Revenue Fund up to the amount of the potential deficit.

Interest Revenue – Financial Stabilization Reserve Fund

The City of Winnipeg operates a centralized treasury function with a single operating bank account in the General Revenue Fund. Consequently, the Financial Stabilization Reserve Fund does not have a separate bank account. Cash transactions are credited or charged to the "Due from the General Revenue Fund" in the reserve. Interest revenue is credited to the reserve. After considering the foregoing measures, this recommendation increases the interest revenue in the General Revenue Fund by forgoing interest revenue, less investment management fees, in the Financial Stabilization Reserve Fund up to the remaining amount of the potential deficit.

Transfer from the Financial Stabilization Reserve Fund

Even after the above recommendations are implemented a deficit may still result in the General Revenue Fund thereby requiring a transfer from the Financial Stabilization Reserve Fund. In the last two months of the year, for instance, there is a financial risk associated with snow accumulations and the need for snow removal and ice control.

As at January 1, 2011, the Financial Stabilization Reserve Fund had an accumulated surplus of $81.6 million. This amount will remain unchanged even if the reserve does not receive net supplementary tax and tax roll adjustment revenues or foregoes its interest earnings during 2011. The use of the Financial Stabilization Reserve Fund is subject to certain operating criteria including no charges to the Reserve being made unless the reserve balance exceeds 8% of the General Revenue Fund expenses. If that target is met or exceeded, funds above the 8% target may be used for major unforeseen expenditures and deficits in any given year. This transfer does not require City Council approval.

In the event the deficit avoidance measures are implemented fully and because $13.8 million, can be transferred from the Financial Stabilization Reserve which results in a fund balance at the 8% target, this option is recommended to eliminate any remaining deficit.

HISTORY

The Corporate Finance Department has prepared a report showing forecasted revenues and expenses to December 31, 2011, 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 October 31, 2011.

As at October 31, 2011, the City is forecasting a General Revenue Fund surplus of $0.6 million. The reasons for the surplus are indicated in the schedule entitled "Budget Variances Arising from the October 31, 2011 Forecast".

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 October to September Forecasts;

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: November 29, 2011

Project Name:

Financial Status Report and Forecast to October 31, 2011

COMMENTS:

This report is prepared for information purposes.

Patricia Bodnar
Senior Fiancial Accountant

CONSULTATION

In preparing this report there was consultation with:

All City of Winnipeg Departments

Legal Services Department

SUBMITTED BY

Department: Corporate Finance
Division: Corporate Controller's
Prepared by: Patricia Bodnar
Date: November 29, 2011
File No.



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