Agenda – Executive Policy Committee – November 28, 2014

Report – Standing Policy Committee on Finance – November 20, 2014

Item No. 1 Financial Status Report and Forecast to September 30, 2014

STANDING COMMITTEE RECOMMENDATION:

On November 20, 2014, the Standing Policy Committee on Finance concurred in the recommendation of the Winnipeg Public Service and submitted the following to Council:

1. That the Financial Status Report and Forecast to September 30, 2014 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 2014 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 2014 up to the amount required to avoid a deficit in the General Revenue Fund;

    B. The Financial Stabilization Reserve Fund forgo its 2014 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 – November 28, 2014

Report – Standing Policy Committee on Finance – November 20, 2014

DECISION MAKING HISTORY:

STANDING COMMITTEE RECOMMENDATION:

On November 20, 2014, 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.

David Sanders, submitted a presentation dated November 20, 2014, with respect to the Financial Status Report and Forecast to September 30, 2014.

ADMINISTRATIVE REPORT

Title: **Financial Status Report and Forecast to September 30, 2014**

Issue:

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

AUTHORIZATION

Author	Department Head	CFO	CAO
Paul Olafson	Mike Ruta	Mike Ruta	Deepak Joshi A/CAO

RECOMMENDATIONS

1) That the Financial Status Report and Forecast to September 30, 2014 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 2014 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 2014 up to the amount required to avoid a deficit in the General Revenue Fund;
    b. The Financial Stabilization Reserve Fund forgo its 2014 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 Standing Policy Committee on Finance.

Recommendations 2 and 3 of this report concerns transfers amongst City of Winnipeg funds and under Section 288(1) of The City of Winnipeg Charter, this requires approval of City Council. As well, for 3a and 3b the funding mechanism for the Financial Stabilization Reserve Fund has been approved by Council. Finally, for all parts of recommendation 3 the approval of City Council is required where the recommended draw reduces the Financial Stabilization Reserve balance below its 8% target, which is the forecasted result.

IMPLICATIONS OF THE RECOMMENDATIONS

At this time, the Public Service anticipates a projected deficit of $14.9 million for the General Revenue Fund. The Public Service anticipates that the projected deficit will decrease over the remainder of the year based on financial improvements typically realized from that forecasted for September, as well as through continued efforts to control expenses without impacting the delivery of core services. The Public Service is monitoring the General Revenue Fund on a regular basis.

Based on experience of the past few years it is not unusual for the third quarter forecast to report a projected deficit which is eliminated by the end of the year. The average change over the last five years between September and year-end is $10.0 million, ranging from $3.9 – $15.4 million.

Recommendations 2 and 3 included 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. As well, the funding mechanism for the Financial Stabilization Reserve Fund has been approved by Council.

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. Based on December 31, 2014 forecasts for the Financial Stabilization Reserve any of recommendation 3 may result in a reserve balance below the 8% threshold and therefore this recommendation will also require City Council approval.

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 2014 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 2014 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 2014, 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, as approved by City Council in the September 28, 2011 report. 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, 2014, the Financial Stabilization Reserve Fund had an accumulated surplus of $85.8 million. As included in the 2014 budget, $11.74 million will be transferred from the Financial Stabilization Reserve Fund to the General Revenue Fund.

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.

Based on December 31, 2014 forecasts for the Financial Stabilization Reserve, recommendations 3a and 3b may result in a reserve below the 8% threshold and therefore this recommendation will also require City Council approval. Based on this forecast, after all measures are used, the Financial Stabilization Reserve will show an accumulated surplus of $64.2 million which is $13.3 million less than the amount required for the 8% target.

In accordance with the Council approved Reserve establishment, a plan to replenish the Reserve will need to be developed and approved by Council. This will be considered by Council in the 2015 to 2017 operating budget.

HISTORY

General Revenue Fund Projected Deficit

The Public Works Department has experienced an over-expenditure related to snow removal and ice control. During the first nine months, $46.3 million was spent on snow removal and ice control operations resulting in a projected over expenditure of $28.4 million. The total 2014 Streets Maintenance operations snow removal and ice control budget is $26.7 million. The over-expenditures are the result of above average snow accumulation of 113 centimeters versus a 30 year average of 66 centimeters; as well as an above average number of days experiencing snow. Compounding this was the 45 centimeters of snow received in December 2013, resulting in significant snow disposal costs (snow hauling and snow dump) in 2014. Finally, the extreme cold experienced during January and February made snow removal and ice control clearing activities especially challenging, further increasing costs. Snow removal and ice control services are governed by the Council approved *Policy on Snow Clearing and Ice Control* (http://winnipeg.ca/publicworks/Snow_Clearing_Policy/Policy-Snow-Clearing-Ice-Control.pdf)

The additional expenditures in the Public Works Department largely contribute to the forecasted deficit of $14.9 million. As a result, the Public Service has been taking steps to reduce discretionary spending without impacting public service. As well, departments have been requested to seek opportunities to eliminate the forecasted deficit. Based on experience of the past few years it is not unusual for the September forecast to report a

projected deficit which is eliminated by the end of the year. The average change over the last five years between the September forecast and year-end is $10.0 million.

The forecasted results at June 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 September 30	Surplus (deficit) in millions at December 31 before Final Transfers
2013	$ (5.7)	$ (1.8)
2012	7.7	15.9
2011	(5.7)	9.7
2010	N/A	(3.8)
2009	(3.4)	9.0

This will continue to be monitored and options will be sought to eliminate the deficit. As a last resort, the Financial Stabilization Reserve will be drawn on to cover any remaining shortfall.

Frozen Services

The above reports only on the City's General Revenue Fund – it does not include the City's utilities. Schedule 4 attached reports summaries of the utility operations and includes forecasts and actuals to date for the frozen services event.

This year was the coldest winter in Winnipeg since 1898. The frost reached an average of about eight to nine feet deep below pavement surfaces. Winnipeg has experienced the highest number of frozen water pipes in over 35 years.

Over this winter there was:

- 2,596 reports of frozen water pipes (since November 2013)
- 1,009 properties that received a City-installed temporary hose line (since November 2013)
- 7,320 properties identified as being at an increased risk of interruption in water services because of the possibility of frozen pipes

As of September 30, 2014 the forecasted incremental cost of the Public Service's response to the frozen services is:

Frozen Services Cost Estimates (in $000s)		
Salaries and benefits	$	1,698
Materials and supplies		658
External rentals		919
Contracted services		403
Variable treatment costs		350
Miscellaneous		139
Total	$	4,167

The frozen pipes event did not effectively end until July 2, 2014 when customers were notified that they could stop running their tap. Actual incremental costs to September 30, 2014 of water running continuously, by affected properties are approximately $4.0 million.

The water pumpage demand was roughly 10% higher than the typical winter because of the running water. The incremental cost of running water consists of variable cost of pumping and treating water and treatment of the ensuing wastewater – this has been estimated at approximately $0.4 million and is included in the above estimated cost.

The Standing Policy Committee on Finance at the July 17, 2014 meeting directed the Winnipeg Public Service to provide the following information:

- Water Utility's actual year-to-date overtime to September 30, 2014 is $2.9 million, which is $1.8 million higher than it was for the same period last year (September 2013, $1.1 million)
- The incremental cost of running water continuously is estimated at $350 thousand and is described above.
- Reimbursements for pipes thawed by private contractors is $6 thousand.
- Additional equipment costs are $1.2 million, which includes repair of thawing equipment, acquisition of additional thawing equipment as well hired equipment for additional fleet that was required.

The City of Winnipeg has made application for Disaster Financial Assistance (DFA). If the DFA application is approved, approximately one half of the estimated costs may be recoverable through cost-sharing.

The forecasts and actuals above are not expected to change materially from what is presented. Therefore, this will be the final presentation of the frozen services event.

FTE Quarterly Reporting

At the September 13, 2013 meeting of Standing Policy Committee on Finance, a motion was passed that following delivery of the first Civic Establishment Report to Executive Policy Committee, the Winnipeg Public Service be requested to provide updates within the quarterly Financial Status Report and Forecast which include the actual Full-Time Equivalent Positions (FTEs) to Committee. The Full Time Equivalent Report for 2013 was approved by Council on March 26, 2014.

As defined in the Full Time Equivalent Report, a FTE is reflective of the effort required to support the City's programs and services. Actual FTE data is extracted from the payroll system. As also defined in the Full Time Equivalent Report, "Actual FTE" is the total number of hours paid divided by the regular compensable hours in a fiscal year. It includes permanent, temporary, full-time, part-time, salaried, hourly, seasonal, casual and student positions.

Actual FTEs for the 3 months ended September 30, 2014 total 2,129.23. For the 9 months ended September 30, 2014, actual FTEs total 6,504.17 compared to an adopted budget of 8,845.62 (net of vacancy management). For comparative purposes, the budgeted amount would be adjusted to 8,954.82 as a result of Council's approval of the Full Time Equivalent Report. The quarterly reported actual FTEs will vary each report.

Other

The Corporate Finance Department has prepared this report showing forecasted revenues and expenses to December 31, 2014, 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 September 30, 2014.

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 June to September Forecast

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 4, 2014

Project Name:

Financial Status Report and Forecast to September 30, 2014

COMMENTS:

This report is prepared for information purposes.

Kaleigh Wills
Manager of Financial Reporting and Accounting Services

CONSULTATION

In preparing this report there was consultation with:

All City of Winnipeg Departments

SUBMITTED BY

Department: Corporate Finance
Division: Corporate Controller's
Prepared by: Kaleigh Wills
Date: November 4, 2014
File No.



September Forecast