Minute No. 456
Report – Standing Policy Committee on Finance – June 8, 2017

Item No. 1 **2017 Cost Mitigation Measures - Changes to Capital Projects and Implications for the Financial Stabilization Reserve and Other Reserves**

COUNCIL DECISION:

Council concurred in the recommendation of the Standing Policy Committee on Finance and adopted the following:

1. That the changes to the capital projects listed in Appendix A totaling $4.317 million which will result in corresponding tax-supported operating budget savings as part of 2017 cost mitigation measures, be approved.

2. That the Chief Financial Officer be given the authority to redistribute financing sources as outlined in Appendix A in order to realize savings in the General Revenue Fund in 2017.

3. That as part of the 2017 cost mitigation measures additional transfers to the General Revenue Fund, be approved as follows:

   A. $400,000.00 from the Insect Control Urgent Expenditures Reserve

   B. $160,454.00 from the Land Operating Reserve

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

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DECISION MAKING HISTORY:

Moved by Councillor Gillingham,

That the recommendation of the Standing Policy Committee on Finance be adopted by consent.

Carried

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On June 14, 2017, the Executive Policy Committee concurred in the recommendation of the Standing Policy Committee on Finance and submitted the matter to Council.

STANDING COMMITTEE RECOMMENDATION:

On June 8, 2017, 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: 2017 Cost Mitigation Measures - Changes to Capital Projects and Implications for the Financial Stabilization Reserve and Other Reserves

Critical Path: Standing Policy Committee on Finance, Executive Policy Committee, Council

AUTHORIZATION

Author	Department Head	CFO	CAO
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EXECUTIVE SUMMARY

A review of capital projects has been conducted as part of the City's $9.5 million tax-supported cost mitigation measures for 2017. This report outlines changes to previously budgeted capital projects that, if approved, would contribute to these measures. The report also recommends transfers from two reserves which will assist in meeting cost mitigation targets and provides information concerning the Financial Stabilization Reserve and other cost saving measures relevant to achieving a balanced year-end position.

RECOMMENDATIONS

1) That Council approve the changes to the capital projects listed in Appendix A totaling $4.317 million which will result in corresponding tax-supported operating budget savings as part of 2017 cost mitigation measures.

2) That the Chief Financial Officer be given the authority to redistribute financing sources as outlined in Appendix A in order to realize savings in the General Revenue Fund in 2017.

3) That Council approve as part of the 2017 cost mitigation measures additional transfers to the General Revenue Fund as follows:
    a. $400,000 from the Insect Control Urgent Expenditures Reserve
    b. $160,454 from the Land Operating Reserve

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

REASON FOR THE REPORT

On April 13, 2017, The Standing Policy Committee on Finance directed the Public Service to submit the report, concerning the cash to capital projects that are recommended to be considered under the 2017 cost mitigation measures, to the Committee.

Council approval is required for any transfers from the capital budget and reserves. In addition, year-end projections may be impacted by any shortfalls in transfer from the Financial Stabilization Reserve.

IMPLICATIONS OF THE RECOMMENDATIONS

Proposed transfers from the capital budget and reserves will have no service impact.

HISTORY/DISCUSSION

On February 13, 2017, the Standing Policy Committee on Finance directed the Public Service to identify and itemize savings with respect to cost mitigation measures, and submit a report for the information of the Committee.

On March 13, 2017, the Standing Policy Committee on Finance concurred in the recommendation of the Public Service and received the 2017 Cost Mitigation Measures report as information.

Due largely to record snowfall in December, the 2016 budget year ended in a tax-supported deficit prior to Council approved deficit elimination measures. The Council adopted budget for 2017 had estimated a surplus in 2016 of $9.5 million. The Public Service has implemented the following cost mitigation measures to manage this $9.5 million shortfall:

1) Restrictions on departmental discretionary spending including position vacancies.
2) A review of cash to capital projects to determine what projects could be postponed or reprioritized.

Capital Projects

In respect of cost mitigation measure number 2 above, Appendix 1 sets out the projects identified for closure and transfer to the General Revenue Fund. Departments have confirmed to Corporate Finance that there will be no effect on planned service delivery by removing these projects from the 2017 Capital Budget. In addition, the departments may wish to resubmit these projects for consideration in the 2018 budget process.

Hiring Freeze

There are other unknowns within the 2017 budget that may impact forecasted results this year, as well as the 2018 tax-supported budget, including:

- $7.7 million set aside as an efficiency target in 2017. Because of the shortfalls identified above in respect of last year's snowfall this target may be difficult to achieve.
- The City is working on its 2018 tax-supported budget which is currently forecasted to be an $89 million deficit.

Any hiring freeze savings will also assist in achieving the $9.5 million target, as well as, potentially assisting in addressing future structural deficit shortfalls. It is important to note that critical positions within Departments are being filled and there is no impact on front line employees, specifically Police Officers, Fire Fighters, Paramedics and Transit Operators.

Financial Stabilization Reserve

In addition, the $9.5 million shortfall may also be impacted by the Financial Stabilization Reserve.

In its year-end Financial Status Report for the General Revenue Fund for 2016, a $5.1 million deficit was reported. As a result of previously Council approved deficit elimination measures, $1.4 million has been retained in the General Revenue Fund in respect of net supplementary taxes and tax roll adjustments, $0.4 million has been retained in the General Revenue Fund in respect of interest net of investment management fees, and $3.3 million has been transferred from the Financial Stabilization Reserve.

That same report indicated, after all measures required are used, the Financial Stabilization Reserve will show an accumulated surplus of $67.4 million which is $2.6 million more than the amount required for the 6% target (compared to the 2017 budgeted tax-supported expenditures).

The 2017 tax-supported operating budget includes a transfer up to $5 million from the Financial Stabilization Reserve Fund to the General Revenue Fund. If the full $5 million is transferred, the Financial Stabilization Reserve Fund is estimated to be $2.4 million under its target assuming the reserve does not receive additional net investment earnings and/or additional transfers from net supplementary taxes and tax roll adjustments. In addition this does not consider any further deficits that may arise "in year".

In the fall of 2017, the Public Service will determine whether it projects the reserve balance to fall below the minimum 6% target of tax-supported expenditures. Council approval would be required to allow the reserve to fall below this level and a replenishment plan would be required.

Other Reserve Transfers

As part of 2017 tax-supported Cost Mitigation measures, the following additional transfers that do not have service impact, be made to the General Revenue Fund:

- $400,000 from the Insect Control Urgent Expenditures Reserve
    - The Insect Control Urgent Expenditure Reserve balance to start 2017 is $2,228,088. The 2017 Budget already includes a transfer of $400,000. This additional transfer will decrease the balance in the reserve balance, which is used to meet service demands when they exceed Council approved budget.
- $160,454 from the Land Operating Reserve
    - Based on anticipated land sales in 2017, there will be sufficient unallocated equity to transfer to the General Revenue Fund without putting the Land Operating Reserve into a deficit position.

FINANCIAL IMPACT

Financial Impact Statement **Date:** May 9, 2017

Project Name: **First Year of Program** **2017**

2017 Cost Mitigation Measures - Changes to Capital Projects and Implications for the Financial Stabilization Reserve and Other Reserves

	2017	2018	2019	2020	2021
Capital					
Capital Expenditures Required					
Less: Existing Budgeted Costs	-				
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - External					
Federal Public Transit Infrastructure Fund					
Federal Clean Water and Wastewater Fund					
Province of Manitoba					
Retained Earnings					
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Savings	$ 4,317,200	$ -	$ -	$ -	$ -
Net Revenue Loss	(8,939,546)	-	-		
Loss Remaining	$ (4,622,346)	$ -	$ -	$ -	$ -
Additional Savings (Note 3)	4,622,346				
Net Budget Adjustment Required	$ -	$ -	$ -	$ -	$ -

Additional Comments:

1. Direct Savings above reflect cash to capital savings outlined in Appendix A to this report.

2. Net Revenue Loss above represents the anticipated $9.5 million surplus for 2016 that was not realized as a result of snowfalls in December, offset by $560,454 in additional transfers from reserves.

3. Additional savings to address the remaining shortfall are expected to be achieved through restrictions on departmental discretionary spending including position vacancies.

4. Impact on the Financial Stabilization Reserve is pending financial results as the year progresses.

(original singed by R. Hodges)
Ramona Hodges
Manager of Finance (Campus)
Corporate Finance Department

CONSULTATION

Capital Projects have been put forward by various departments as part of the 2017 cost mitigation measures process. This report compiles those proposals for consideration.

OURWINNIPEG POLICY ALIGNMENT

Not applicable.

SUBMITTED BY

Department: Corporate Finance
Division: Financial Planning and Review
Prepared by: B. Holsten Boyer
Date: May 9, 2017
File No:

Appendix A: Listing of capital budget changes.