Agenda – Council – September 27, 2017

Report – Standing Policy Committee on Finance – September 15, 2017

Item No. 1 Over-Expenditure Authorization for the Transit Department's 2017 Operating Budget

STANDING COMMITTEE RECOMMENDATION:

On September 20, 2017, the Executive Policy Committee concurred in the recommendation of the Standing Policy Committee on Finance and submitted the following to Council:

1. That approval be given to the Transit Department to over-expend the 2017 Operating budget by $10.663 million.

2. That Council approve the changes to the capital projects listed in Appendix A totaling $6.083 million which will result in corresponding budget savings.

3. That the Chief Financial Officer be given authority to redistribute financing sources as outlined in Appendix A in order to offset the over-expenditure in the Transit System Fund.

4. That Council approve as part of the 2017 transit savings measures the following additional action totaling $1.0 million:

    A. Appropriate $1.0 million from the department's retained earnings

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

Report – Standing Policy Committee on Finance – September 15, 2017

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On September 20, 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 September 15, 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: **Over-Expenditure Authorization for the Transit Department's 2017 Operating Budget**

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

AUTHORIZATION

Author	Department Head	CFO	CAO
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EXECUTIVE SUMMARY

Transit is requesting over-expenditure approval of $10.663 million along with the approval of savings measures to partially fund this deficit.

The over-expenditure is as a result of the following (in millions):

• A shortfall in provincial funding	$ 8.146
• A shortfall in fare and other revenue	$ 6.319
• Offset by savings in expenditure accounts	($ 3.802)
	$10.663

The budgetary shortfall of $8.146 million is the result of a change to the Provincial Operating Grant for Transit and will persist in future years. As such, measures such as reductions to public transit service and additional fare increases will need to be contemplated going forward. These types of measures would yield limited benefits toward addressing the 2017 funding shortfall if implemented this late in the year.

Transit has been able to identify other savings measures to fund $7.083 million of this deficit for 2017, leaving a remaining deficit of $3.58 million. The savings measures identified are combinations of reductions to capital projects, reduction in transfers to reserves and contributions from retained earnings. These measures are more fully described below and in Appendix A and are summarized as follows:

Changes in capital project budgets per Recommendation 2	$ 6.083
Other non-capital savings measures per Recommendation 4	$ 1.000
Total savings measures	$ 7.083
Remaining 2017 deficit	($ 3.580)

RECOMMENDATIONS

1. That approval be given to the Transit Department to over-expend the 2017 Operating budget by $10.663 million.
2. That Council approve the changes to the capital projects listed in Appendix A totaling $6.083 million which will result in corresponding budget savings.
3. That the Chief Financial Officer be given authority to redistribute financing sources as outlined in Appendix A in order to offset the over-expenditure in the Transit System Fund.
4. That Council approve as part of the 2017 transit savings measures the following additional action totaling $1.0 million:
    a. Appropriate $1.0 million from the department's retained earnings
5. That the proper officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

REASON FOR THE REPORT

Approval is required from Standing Policy Committee on Finance to appropriate retained earnings and Clause 9.1 of By-Law No. 7100/97 states that the 'Standing Policy Committee on Finance may approve reallocations of funds provided in an operating budget of the city for a purpose other than that set out in the budget, and approval of additional operating expenditures'.

IMPLICATIONS OF THE RECOMMENDATIONS

Additional operating budget is required for the Transit Department to address a shortfall in Provincial funding of $8.146 million compared to budget, and a shortfall in fare and other revenue of $6.319 million. These shortfalls have been partially offset by savings in expenditures of $3.802 million for a net impact of $10.663 million. The additional savings measures, if approved, would assist in enabling the department to continue delivering the Council approved service levels for 2017.

The Transit department's retained earnings balance at the end of 2016 was as follows:

Retained Earnings, end of 2016:	$12,192,840
Appropriation 2015 Capital Budget	(155,467)
Appropriation 2016 Capital Budget	(4,796,880)
Appropriation 2017 Capital Budget	(6,195,000)
Returned retained earnings from reduction of 2017 Transit Buses project	1,400,000
Appropriation to 2017 Cost Mitigation Measures	(1,400,000)
Estimated Available balance, December 31, 2017	$ 1,045,493
Requested appropriation per Recommendation 4a	(1,000,000)
Revised estimated available balance	$ 45,493

HISTORY/DISCUSSION

Additional operating budget is necessary for the Transit Department to continue operating at its approved service levels.

Provincial Operating Grant

The City and the Province of Manitoba have historically had a Transit Funding Agreement in which the Province of Manitoba funded 50% of the eligible net operating costs of the Transit System. The 2017 operating budget for Transit was prepared in this manner with the total budgeted operating grant estimated at $48.246 million.

During 2017, the Province announced that City funding would be held at the 2016 level and the 50/50 funding partnership for Transit no longer applied. Transit's 2016 operating grant claim to the Province of Manitoba was $40.1 million. Therefore, the amount of the grant available to Transit for 2017 from the City basket of provincial funding has been set at $40.1 million, leaving a deficit of $8.146 million for this revenue source.

The budgetary shortfall resulting from the change to the Provincial Operating Grant for Transit will persist in future years. As such, sustainable measures such as reductions to public transit service and additional fare increases will need to be contemplated going forward. These types of measures would yield limited benefits toward addressing the 2017 funding shortfall if implemented this late in the year.

Had the Transit Funding Agreement remained in place, the calculated grant based on current estimates of revenues and expenditures for the department remains consistent with budget at $48.246 million.

Fare and Other Revenue

Forecasted Variance from Budget	
Fare revenue	$5,698,000
Advertising	269,000
Other	352,000
Total variance from budget	$6,319,000

Fare Revenue

Due to the timing of budget preparation, fare revenue budgets are prepared utilizing ridership and purchase behaviors from two years before the budget year. Therefore, changes to these factors that occurred in the year before the budget year have not been taken into account.

Fare revenue is impacted by different factors each year, with the largest influence being ridership. Ridership itself is impacted by several factors.

To assess ridership, data was reviewed from the department's Automated Passenger Counting (APC) system which on a sample basis (25% of fleet) counts passengers as they enter and exit the door of the bus. This data shows that weekday ridership in 2017 has declined, and is forecasted to decline, by 9% over 2015 for the Spring schedule (April – June), and 11% for the Winter schedule (Dec – March). With 2015 being the comparative year as this is the year the

2017 budget was based on, and with total fare revenue budgeted at $81 million in 2017, a 9% impact would be $7.3 million which has been offset by the additional revenue generated from the January fare increase.

Ridership itself is influenced by many factors such as gasoline prices, demographics, weather, etc. The main factor assumed to be impacting current results is gasoline prices. In 2016 and 2017 gasoline prices have been very low, making driving the personal automobile more affordable. The decline in ridership began around the same time as the decline in gasoline prices. Conversely in 2011 fuel prices rose, Transit saw a large increase in weekday ridership growth.

Therefore, it is anticipated that when gasoline prices rise in the future there would also be a recovery to ridership at that time.

The decrease in ridership is a national and North American trend and has been reported by many cities including Calgary, Ottawa, and Toronto.

There was also an expectation there could be some fare revenue reduction related to the launch of peggo and the new suite of fare products that were introduced with the new system. These products offer more purchase options to our customers allowing them to be more cost effective related to their travel plans.

Advertising

On-bus advertising is anticipated to be less than budgeted. The City currently has a contract where revenue is shared with the advertising contractor at 50%, with guaranteed minimum revenue of $1.1 million per year. The department is forecasting only to receive the guaranteed minimum in 2017; however, this may improve by year-end.

Other

Various other revenue accounts are forecasted to be under budget, such as parking revenue as employee parking is being transitioned to the Winnipeg Parking Authority including the receipt of revenue, a provincial support grant to cover payroll taxes the department has paid etc.

Expenditures

The department is forecasting $3.8 million in cost savings to help offset the impact of reduced ridership and Provincial funding. Included in this total is a reduced transfer of $1.7 million to the Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass Payment Reserve. In 2015, the Province committed to funding $1.7 million towards eligible bus purchases and has recently indicated that they would not be providing this previously committed funding. As a result, the department will not be making the corresponding transfer to the Reserve. This results in savings on that expenditure line.

Expenditure savings are expected as follows:

Reduction in the transfer to the Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass Payment Reserve	$1,700,000
Operational savings in various accounts	$2,102,000
Total forecasted expenditure savings	$3,802,000

Savings Measures

Capital Projects

Appendix A sets out the projects identified for a budget reduction with the financing source of retained earnings to be utilized to offset the department's anticipated over-expenditure, and the financing source of Transit Bus Replacement Reserve to enable a reduction in the transfer to the Reserve in an equal amount. There will be no impact on planned service delivery by removing these project budgets from the Capital Budget.

FINANCIAL IMPACT

Financial Impact Statement

Date: September 11, 2017

Project Name:

Over-Expenditure Authorization for the Transit Department's 2017 Operating Budget

First Year of Program **2017**

	2017	2018	2019	2020	2021
Capital					
Capital Expenditures Required	$ -	$ -	$ -	$ -	$ -
Less: Existing Budgeted Costs	-	-	-	-	-
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal	$ -	$ -	$ -	$ -	$ -
Debt - External	-	-	-	-	-
Grants (Enter Description Here)	-	-	-	-	-
Reserves, Equity, Surplus	-	-	-	-	-
Other - Enter Description Here	-	-	-	-	-
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs	$ (3,802,000)	$ -	$ -	$ -	$ -
Less: Incremental Revenue/Recovery	(14,465,000)	-	-	-	-
Net Cost/(Benefit)	$ 10,663,000	$ -	$ -	$ -	$ -
Less: Existing Budget Amounts	-	-	-	-	-
Net Budget Adjustment Required	$ 10,663,000	$ -	$ -	$ -	$ -

Additional Comments:

1) Direct costs represent the amount of expenditure savings the Transit department is currently forecasting.
2) Incremental Revenue/Recovery represents the shortfall in revenue expected by the Transit department and is a combination of provincial funding, and fare and other revenue.
3) Of the over-expenditure requested of $10.663 million, $7.083 will be appropriated from the measures identified in Recommendations #2 and #4.

original signed by

Patty Jamieson-Bell, CPA, CMA
Acting Manager of Finance and Administration

CONSULTATION

Corporate Finance Department

OURWINNIPEG POLICY ALIGNMENT

n/a

SUBMITTED BY

Department: Transit
Division: Finance and Administration
Prepared by: Patty Jamieson-Bell, Acting Manager of Finance and Administration
Date: September 11, 2017
File No:

APPENDIX A

Proposed Amendment & Capital Project Name	Amount in $000s	Financing	Notes	Implications
Reduce 2016 Land Acquisition capital project	$1,500,000	Retained Earnings	A reduction of $1.5 million out of the total 2016 budget of $2 million, would leave $0.5 million which has already been fully spent.	May leave the department unable to purchase a strategic parcel of land close to the Osborne Transit Campus.
Reduce 2017 Transit Buses capital project	$3,538,000	Transit Bus Replacement Reserve	Improved cost per bus on order vs the amount budgeted means this reduction will reduce project costs but the number of buses to be purchased will exceed that budgeted. Transfer from the Transit System Fund to the Transit Bus Replacement Reserve will be reduced by the corresponding amount.	No service impact.
Reduce 2017 Transit Buses capital project	$600,000	Retained Earnings	Improved cost per bus on order vs the amount budgeted means this reduction will reduce project costs but the number of buses to be purchased will exceed that budgeted.	No service impact.
Reduce 2017 Transit Building Replacement/Refurbishment capital project	$445,000	Retained Earnings	A reduction of $0.445 million out of the total 2017 budget of $1.468 million, would leave $1.023 million to carry out building general repairs.	No service impact.

TOTAL Capital Project Impact $6,083,000