Agenda – Executive Policy Committee – May 15, 2018

AUDIT COMMITTEE

Item No. 1 Annual Consolidated Financial Statements of The City of Winnipeg, for the year ended December 31, 2017

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

1. That the attached consolidated financial statements of The City of Winnipeg for the year ended December 31, 2017 be approved, and that the Chief Financial Officer be directed to submit these to Council with the City's Annual Report for information.

2. That the attached Audit Findings Report prepared by KPMG LLP be received as information.

3. That the proper officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

ADMINISTRATIVE REPORT

Title: Annual Consolidated Financial Statements of The City of Winnipeg, for the year ended December 31, 2017

Critical Path: Audit Committee

AUTHORIZATION

Author	Department Head	CFO	CAO
P. Olafson	M. Ruta	M. Ruta	D. McNeil

EXECUTIVE SUMMARY

This report presents the City's 2017 consolidated financial statements that demonstrate fiscal prudence while making quality of life improvements for the citizens of Winnipeg.

Council-approved investments in capital assets totaled $476 million in 2017. Construction resulted in $125 million of rehabilitated and newly constructed local and regional streets as well as the new Jonathon Toews Fieldhouse. The Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass and Waverley Underpass projects are also well underway.

The financial statements attached report a small deficit (revenues less than expenses) of $14 million before capital-related revenues. This was achieved in spite of significant challenges faced by the City this past year, including budget shortfalls resulting from the record snowfall in December 2016 and changes announced during the year to Provincial operating and capital funding.

At the Standing Policy Committee on Finance meeting of February 15, 2018, it was reported the General Revenue Fund incurred a surplus of $15 million at December 31, 2017. The consolidated financial statements included in this report are prepared in accordance with Canadian public sector accounting standards and, as such, include all activities under the control of the City of Winnipeg, including those accounted for in the General Revenue Fund. Further, these consolidated financial statements are prepared on a full accrual basis meaning unfunded liabilities are accounted for, as well as amortization of tangible capital assets.

While investment in City infrastructure continues to be a priority, the City has achieved a disciplined balance for capital spending with increased revenues and responsible long-term borrowing. The City's credit ratings affirm solid fiscal performance (Standard and Poor's as AA; Moody's Investors Services as Aa2), citing the City's "strong financial management", "long-term financial and capital improvement plans" and "adequate level of operating reserves".

RECOMMENDATIONS

1. That the attached consolidated financial statements of The City of Winnipeg for the year ended December 31, 2017 be approved, and that the Chief Financial Officer be directed to submit these to Council with the City's Annual Report for information.

2. That the attached Audit Findings Report prepared by KPMG LLP be received as information.

3. 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

Section 100(i) of *The City of Winnipeg Charter* requires the Chief Financial Officer to submit to Council, within six months of the fiscal year-end of the City, a report on the financial position of the City for the end of its fiscal year. Further, under section 100(j), the Chief Financial Officer will submit that report to the Province of Manitoba, also within six months of the fiscal year-end.

IMPLICATIONS OF THE RECOMMENDATIONS

The City will meet the requirements of *The City of Winnipeg Charter.*

HISTORY/DISCUSSION

The City of Winnipeg annually prepares consolidated financial statements, including notes and schedules thereto. These are prepared in accordance with Canadian public sector accounting standards recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. KPMG LLP will be issuing an unqualified audit opinion on the consolidated financial statements.

The City's 2017 consolidated financial statements reflect the financial position and the results of operations of The City of Winnipeg, which includes organizations controlled by the City. They report on Council's priorities to invest in city streets, public transportation, safer, stronger neighborhoods and community amenities and efficiencies and innovation.

This past year, the City invested $476 million in its tangible capital assets, including placing into service roads totaling $125 million. Construction also resulted in important new facilities being placed into service during the year such as the Jonathon Toews Fieldhouse. The Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass and Waverley Underpass projects are also well underway.

The City's consolidated revenues (excluding other capital-related revenues) totaled $1.578 billion (increase of $81 million from 2016) while consolidated expenses totaled $1.592 billion (increase of $19 million from 2016.) Overall, the financial statements report a small deficit (revenues less than expenses) of $14 million before other capital-related revenues.

At the Standing Policy Committee on Finance meeting of February 15, 2018, it was reported the General Revenue Fund incurred a surplus of $15 million at December 31, 2017. The consolidated financial statements included in this report are prepared in accordance with Canadian public sector accounting standards and, as such, include all activities under the control of the City of Winnipeg, including those accounted for in the General Revenue Fund. Further, these consolidated financial statements are prepared on a full accrual basis meaning unfunded liabilities are accounted for, as well as amortization of tangible capital assets.

This was achieved in spite of significant financial challenges faced by the City this past year. Due largely to record snowfall in December 2016, last year ended in a tax-supported deficit prior to Council approved deficit elimination measures being employed. The Council adopted budget for 2017 had estimated a surplus from 2016 of $9.5 million. The City had to manage this shortfall and find savings accordingly, in addition to the efficiencies' savings target included in the 2017 tax-supported budget. At the March 13, 2017 meeting of the Standing Policy Committee on Finance, the Public Service tabled a report that provided information on the 2017 cost mitigation measures for the City of Winnipeg. The report outlined targeted cost reductions for each tax-supported department, as well as for Transit and Water and Waste. Through Council approved cost mitigation measures, this shortfall was managed through a hiring freeze (non-front line employees) and restricted discretionary spending.

As well, the Province introduced a new envelope funding model for the City of Winnipeg. The City was notified that Transit and Winnipeg Police Services operating grants would be consistent with 2016 actual funding without inflationary increases resulting in a budget shortfall in 2017. Further, a similar funding model was also announced during the year for capital grants.

Revenues

Tax revenues increased $21 million from 2016, due in part to assessment growth and a 2.33% tax increase. With 2% of that increase devoted to equally fund the regional and local streets renewal programs, the remainder of the tax increase is dedicated to fund future payments for the Southwest Rapid Transitway (Stage 2) project.

Sales of services and regulatory fees are $38 million higher than 2016, due in part to higher sewer and water revenues. This is attributable to both increased rates and consumption. As well, part of the increase ($4 million) is due to the introduction of the impact fee this past year.

Government transfers increased $13 million over 2016, primarily because of increased funding from the Government of Canada for the Homelessness Partnership Strategy.

Expenses

Higher expenses associated with the aforementioned Homelessness Partnership Strategy as well as fire paramedic services largely contributed to the $21 million increase to protection and community services expenses.

A growing number of outstanding assessment appeals have contributed to the $15 million increase in Finance and Administration expenses. At December 31, 2017, approximately 1,400 assessment appeals are outstanding. The provision for the financial impact of potential lost assessment appeals grew by $4 million over the previous year. Further, the provision for uncollectible taxes has increased by $4 million over last year, due primarily to the positive effect

(reduces provision) in 2016 from grants in lieu of taxes collected from the Government of Canada on the Canadian Museum for Human Rights.

Utility operations expenses have increased by $14 million over 2016. This is largely due to higher salary and benefit costs as well as other operating expenses.

Savings were realized in public works expenses, totaling $12 million less than 2016. Snow and ice control spending was much lower in 2017, after having experienced significant snowfall in December 2016.

General government expenses have also decreased $24 million from 2016. Significant expenses accrued for in 2016 for landfill and contaminated site liabilities have not repeated again this year.

The overall annual surplus of $251 million is attributable to revenue from government transfers and tangible capital asset and other capital contributions. This revenue does not produce cash resources for the City's general operations. It represents amounts received and invested in the City's tangible capital assets.

Budget

Included in the Council approved 2018 budget is the 2017 consolidated budget, the source of budget information disclosed in these financial statements. This disclosure is required by the aforementioned Canadian public accounting standards and is another source of transparency and accountability for governments. For 2017, the consolidated annual surplus exceeded budget by $58 million.

Expenses were $54 million less than budget. This is due, in part, to the aforementioned cost mitigation measures implemented during the year.

The City's 2017 budget also benefited from various collective agreements settled this past year as well as the aforementioned savings in landfill and contaminated site expenses.

The City's net financial liabilities have decreased from $660 million to $631 million. Net financial liabilities are an indicator of how much a government will be relying on future revenues to fund current services and infrastructure. In its credit rating report issued in November 2017 affirming the City's AA credit rating, S&P Global cites "Winnipeg exhibits strong financial management, which has a positive impact on the ratings. The management team is what we consider experienced and qualified to effectively enact fiscal policies, as well as effectively respond to external risks." Among other practices that positively reflect on the City's credit rating process are the development and adherence to long-term financial and capital improvement plans, and the maintenance of an adequate level of operating reserves.

FINANCIAL IMPACT

Financial Impact Statement **Date:** April 30, 2018

Project Name:

Annual Consolidated Financial Statements of the City of Winnipeg, for the year ended December 31, 2017.

COMMENTS:

This report is for information purposes.

Approved by Paul Olafson, CPA, CA

Corporate Controller

CONSULTATION

This Report has been prepared in consultation with:

All City of Winnipeg Departments and Agencies (in preparing the consolidated financial statements)

OURWINNIPEG POLICY ALIGNMENT

01-3 Prosperity Direction 1 Provide Efficient and Focused Civic Administration and Governance

This report supports demonstration of accountability by the City's public service through reporting

SUBMITTED BY

Department: Corporate Finance
Division: Corporate Controller's
Prepared by: Paul Olafson
Date: April 30, 2018
File No: 2017 Year End

Attachments:

2017 Consolidated Financial Statements

Audit Findings