Agenda – Executive Policy Committee – February 18, 2020

Report – Standing Policy Committee on Innovation and Economic Development – February 10, 2020

Item No. 1 Special Operating Agency (SOA) Dividends

STANDING COMMITTEE RECOMMENDATION:

On February 10, 2020, the Standing Policy Committee on Innovation and Economic Development concurred in the recommendation of the Winnipeg Public Service and submitted the following to Council:

1. That the attached Special Operating Agency (SOA) Dividend Policy, attached as Appendix 1, be approved.

2. That the annual operating and capital budget requests of SOAs be considered as part of the annual budget decision-making process.

3. That the Operating Charter of each SOA be amended to allow transfers of surpluses to the General Revenue Fund in compliance with the attached Policy.

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 – February 18, 2020

Report – Standing Policy Committee on Innovation and Economic Development – February 10, 2020

DECISION MAKING HISTORY:

STANDING COMMITTEE RECOMMENDATION:

On February 10, 2020, the Standing Policy Committee on Innovation and Economic Development concurred in the recommendation of the Winnipeg Public Service and submitted the matter to the Executive Policy Committee and Council.

P. Olafson, Interim Chief Financial Officer, submitted Appendix 3 – SOA Historical Dividend Transfers to General Revenue Fund, with respect to the matter.

ADMINISTRATIVE REPORT

Title: Special Operating Agency (SOA) Dividends

Critical Path: Standing Policy Committee on Innovation and Economic Development - Executive Policy Committee - Council

AUTHORIZATION

Author	Department Head	CFO	CAO
L. Pablo	P. Olafson	P. Olafson, Interim CFO	M. Ruta, Interim CAO

EXECUTIVE SUMMARY

The Public Service is seeking approval for a new policy related to dividends from Special Operating Agencies (SOAs).

The new policy will ensure that Council decisions regarding dividends from Special Operating Agencies are predictable and sustainable in the long-term; simplifying planning, and ensuring financial transparency and fiscal sustainability.

RECOMMENDATIONS

1. That the attached Special Operating Agency (SOA) Dividend Policy, attached as Appendix 1, be approved.

2. That the annual operating and capital budget requests of SOAs be considered as part of the annual budget decision-making process.

3. That the Operating Charter of each SOA be amended to allow transfers of surpluses to the General Revenue Fund in compliance with the attached Policy.

4. 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

On March 20, 2019, as part of the 2020 multi-year budget process, Council directed the Public Service to review the use of Special Operating Agency dividends. Recommendation V.i.a. of the Council Adopted 2019 Budget directed the Chief Administrative Officer to report back to the appropriate committee of Council with a review of the use of SOA dividends.

On December 3, 2019, Executive Policy Committee granted an extension of up to 90 days for the Winnipeg Public Service to report back.

IMPLICATIONS OF THE RECOMMENDATIONS

Approval of the recommendations will result in a framework for the use of dividends from SOA's that ensures transparency and financial sustainability of the entities.

HISTORY/DISCUSSION

Discussion

Section 215 of The City of Winnipeg Charter authorizes Council to create special service units, which the City of Winnipeg refers to as special operating agencies (SOAs). As of 2020, the City of Winnipeg operates four SOAs:

- Animal Services, established in 2000;
- Golf Services (WGS), established in 2002;
- Winnipeg Fleet Management Agency (WFMA), established in 2003; and
- the Winnipeg Parking Authority (WPA), established in 2004.

Council also established Glacial Sand and Gravel as an SOA in 2001, but Council dissolved this SOA on December 31, 2007.

City of Winnipeg SOAs present a unique position as service providers. While the WPA has accrued surpluses, Golf and Animal services have historically required an operating subsidy from the City.

2019 Budgeted SOA Dividend / Mill Rate Support		
Special Operating Agency	**Dividends**	**Mill Rate Support**
Animal Services	$ -	$771,219
Golf Services	-	729,777
Fleet Management Agency	241,942	-
Parking Authority	9,912,081	-
Total	**$10,154,023**	**$1,500,996**

While SOAs are expected to run in an efficient and business-like manner while providing civic services, only the WPA can be characterized as self-sustaining and profitable; the WFMA recovers costs through City departments by way of overheads on fuel costs and other services and Animal Services and Golf Services require mill rate support.

SOAs are not utilized in most other municipalities. Rather, other municipalities either deliver the services from within the general public service or through separate standalone entities – with their own boards of directors and the ability to generate profits and contribute surpluses to the general civic funds. A review of other municipalities can be found in Appendix 2.

Existing Dividend Policies

Currently there is no single dividend policy for SOAs, with transfers to the tax-supported fund being made on an ad hoc basis depending on the needs of the tax-supported fund and the availability of surpluses. Alternate Service Delivery Committee received as information the following recommendations in 2007:

> 1) Council adopt the principle that, beginning January 1, 2009, a SOA will not provide a transfer to the City's General Revenue Fund, to the extent that doing so would place it in an accumulated deficit position. (Note: The 2007 Operating Charter of the Winnipeg Fleet Management Agency (WFMA) already provides that WFMA will not make any transfers until it achieves at least a 4:1 debt-to-equity ratio).
> 2) Subject to Recommendation 1, Council approve the following transfer guidelines for the Special Operating Agencies:
> - Winnipeg Golf Services (WGS) will transfer a specified sum based on 10% of its projected gross revenues for the year;
> - Winnipeg Parking Authority (WPA) will transfer a specified sum based on 25% of its projected gross revenues for the year; and
> - Once WFMA achieves at least a 4:1 debt to equity ratio it will transfer a specified sum based on the Business Plan of the Agency

Financial Analysis[1]

Animal Services' annual mill rate support is one of the lowest in comparison to other municipalities as reported in Appendix D of their 2019 business plan.

Beginning in 2015, the WGS budget included $750,000 in mill rate support from the City of Winnipeg – General Revenue Fund (Note: Subsequently reduced to $729,777 (see table above)). This mill rate support was intended to enable the WGS line of credit balance to be repaid by the end of 2024. However, based on current projections, eliminating the outstanding inter-company balance within this timeframe represents a challenge, which WGS will endeavor to address by streamlining operations to the extent possible on a go-forward basis. The line of credit balance as at December 31, 2017 is $6.5 million (Note: $5.9 million as of December 31, 2018).

WFMA reported an accumulated surplus of approximately $21 million in each of 2017 and 2018. The majority of its accumulated surplus is reported as an investment in tangible capital assets. As such, a minimal dividend is available from this SOA under the proposed Policy.

As an SOA, the WPA is expected to operate according to sound business principles and fund its operations on a self-sustaining basis. WPA is expected to continue to provide transfers to the tax supported fund.

Proposed Policy

The following principles regarding SOA dividends are outlined in the proposed policy attached as Appendix 1:

- Council adopt the principle that, beginning January 1, 2020, an SOA will not provide a transfer to the City's General Revenue Fund (dividend) if doing so would reduce the accumulated operating surplus of the SOA below $500,000; and

[1] Source: 2019 Business Plan of each SOA as approved by Council on April 25, 2019.

- That the annual transfer to the General Revenue Fund (dividend) be determined as part of the annual budget process, without any restrictions on its uses.

For WPA as the only self-sustaining and profitable SOA, should dividends be approved leaving the SOA with $500,000 in accumulated surplus, it will limit their options to manage “in-year” operating deficits and identify a funding source for capital investment.

Budget Process

Each SOA is governed by an operating charter that outlines how the agency is to be governed and administered. While the operating charters of all SOAs exempt them from budgeting vacancy management, in recent budgets these agencies have established vacancy management amounts to help balance the tax-supported operating budget.

SOAs report to the Standing Policy (SPC) on Innovation and Economic Development (formerly the Alternate Service Delivery Committee) to seek Council approval for annual business plans and any amendments to operating charters. In recent years, each SOA has been required to present their annual operating and capital budgets to SPC Innovation and Economic Development during the annual budget process, in line with the process followed by City departments. This recommendation formalizes the current practice.

FINANCIAL IMPACT

Financial Impact Statement **Date:** January 21, 2020

Project Name:

Special Operating Agency Dividend Policy

COMMENTS:

There is no financial implication as this is a policy document. The Special Operating Agencies Dividend Policy provides framework for the calculation and use of dividends in a predictable and sustainable manner in order to simplify planning as well as ensuring financial transparency and fiscal sustainability. Any financial implication resulting from the implementation of this policy will be dealt with in the budget.

original signed by

Tanis Yanchishyn, CPA, CA
Manager of Finance (Campus)
Corporate Finance Department

CONSULTATION

This Report has been prepared in consultation with:

Animal Services
Golf Services
Winnipeg Fleet Management Agency
Winnipeg Parking Authority
Legal Services (as to legal issues)

OURWINNIPEG POLICY ALIGNMENT

Not Applicable

WINNIPEG CLIMATE ACTION PLAN ALIGNMENT

Not Applicable

SUBMITTED BY

Department: Corporate Finance
Division: Financial Planning & Review
Prepared by: C. Stewart
Date: 20 January 2019
File No:

Attachments:

Appendix 1 – SOA Dividend Policy

Appendix 2 – Jurisdictional Review