Agenda – Executive Policy Committee – June 18, 2020

REPORTS

Item No. 14 Addressing the Financial Challenges of COVID-19 – Additional Proposed Actions out of the COVID-19 Crisis Cash Flow Management Plan

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

1. That Council replace cash to capital funding for 28 capital projects as detailed in Appendix 2 of this Report with $18.412 million external borrowing and that Council enact a borrowing by-law, attached as Appendix 3, to achieve this.

2. That all debt and finance charges resulting from approval of Recommendation 1 be included in the 2021 and subsequent operating budgets (approximately $2 million annually).

3. That Council approve transfers in 2020 from the Land Operating Reserve to the General Revenue Fund to a maximum of $8 million, provided the Land Operating Reserve's unallocated equity balance does not enter into a deficit balance.

4. That Council authorize the Chief Administrative Officer (CAO), or the CAO's designate, to waive late charges on fees and fines imposed by the City of Winnipeg for individuals or businesses until September 30, 2020.

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

ADMINISTRATIVE REPORT

Title: Addressing the Financial Challenges of COVID-19 – Additional Proposed Actions out of the COVID-19 Crisis Cash Flow Management Plan

Critical Path: Executive Policy Committee - Council

AUTHORIZATION

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

EXECUTIVE SUMMARY

On April 27, 2020, the presentation "*Addressing the Financial Challenges of COVID-19"* was received as information by the Standing Policy Committee on Finance. This presentation identified three tiers of levers (actions) already pulled or under consideration for being pulled under the COVID-19 Crisis Cash Flow Management Plan.

This report is identifying actions to be taken on additional Tier One levers, designed to preserve the Financial Stabilization Reserve Fund and City liquidity. The levers total approximately $28 million and include the following:

- replacing cash to capital funding with debt funding ($18 million);
- transfers from the Land Operating Reserve to the General Revenue Fund (up to $8 million); and
- deferral of transfer to fund Community Centre Renovation Grant Program (CCRGP) until 2021 ($2 million) (NOTE: This will have no impact on the capital program – grants will continue to be made from the CCRGP budgets in accordance with program terms and conditions. It is the timing of the funding transfer to this program that is being deferred until 2021).

In addition the Public Service is also advising of an increase to the emergency operating line of credit from $75 million to $150 million.

An extension of the authority delegated to the Chief Administrative Officer on the waiving of late payment charges on all fees imposed by the City (including, but not limited to, water bills, parking tickets, ambulance fees, etc.) is also being recommended. The CAO was provided authority on March 20 by Council but the waiver expires on June 30, 2020. This extended delegation will provide additional financial support to those individuals and businesses that need the support until September 30, 2020.

RECOMMENDATIONS

1. That Council replace cash to capital funding for 28 capital projects as detailed in Appendix 2 of this Report with $18.412 million external borrowing and that Council enact a borrowing by-law, attached as Appendix 3, to achieve this.

2. That all debt and finance charges resulting from approval of Recommendation 1 be included in the 2021 and subsequent operating budgets (approximately $2 million annually).

3. That Council approve transfers in 2020 from the Land Operating Reserve to the General Revenue Fund to a maximum of $8 million, provided the Land Operating Reserve's unallocated equity balance does not enter into a deficit balance.

4. That Council authorize the Chief Administrative Officer (CAO), or the CAO's designate, to waive late charges on fees and fines imposed by the City of Winnipeg for individuals or businesses until September 30, 2020.

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

REASON FOR THE REPORT

Amendments to the Capital Budget (new debt), new borrowing authority and new transfers between funds require the approval of Council.

An extension of the time period granted of Council's delegated authority for waiver of late payment charges imposed on fees requires Council's approval.

IMPLICATIONS OF THE RECOMMENDATIONS

Acting on additional Tier One levers including those in recommendations 1 and 3 will mitigate financial impacts of the COVID-19 event to the General Revenue and Transit Funds in 2020. In turn, the Tier One levers to be pulled as identified in this report will reduce the financial impact to the Financial Stabilization Reserve Fund by approximately $28 million.

For recommendations 1 and 2, the additional debt servicing expenditures estimated to be approximately $2 million commencing in 2021 will need to be added to the 2021 operating budgets and thereafter.

The projected transfer from the Land Operating Reserve Fund is dependent on this amount materializing through current year operations. Further, if fully drawn, this amount will not be available to meet Corporate efficiencies' targets in 2021 or other funding requests should they present in 2020.

Recommendation 4 will extend to September 30, 2020 the delegated authority to the CAO to waive all late charges on payment of City fees and fines (including, but not limited to, water bills,

parking tickets, ambulance fees, etc.) and will clarify that this authority is available for all late payment charges of City fees and fines.

HISTORY/DISCUSSION

On April 3, 2020, City Council approved the recommendations of the report "*Temporary Waiver of Penalties and Administrative Fees on Business and Property Taxes and Financial Implications to the City".* This report identified possible measures to be taken on reaching financial triggers that are being monitored closely by the Public Service. Maintaining the Financial Stabilization Reserve Fund above the prescribed floor amount of $68.6 million and liquidity above 30% are important for the City to ensure it can maintain service delivery and flexibility to address emergencies.

On April 27, 2020, the presentation "*Addressing the Financial Challenges of COVID-19"* was received as information by the Standing Policy Committee on Finance. This presentation identified three tiers of levers (actions) forming a COVID-19 Crisis Cash Flow Management Plan already pulled or considerations for pulling to assist in mitigating the financial impact of COVID-19 on 2020 operations. Table 1 denotes Tier One levers already pulled and their estimated financial impact:

Table 1

	Tier One Lever Pulled *	Month Pulled	Estimated Impact on: Financial Stabilization Reserve	Liquidity
1	Reduce discretionary spending	March	$0.5m	$0.5m
2	Temporary layoff of non-permanent Community Services staff	April	$4.4m	$4.4m
3	Freeze on fleet purchases	April	$1m	$5m
4	Hiring freeze for remainder of year	April	$2m	$5m
5	Freeze of Senior Management Team salaries	April	$0.5m	$0.5m
6	Voluntary furlough program	April	$0.5m	$0.5m
7	Temporary reduction of Transit service	May	$5m	$5m

Considering the Low Economic Scenario Analysis in "*Addressing the Financial Challenges of COVID-19"*, along with other significant financial impacts identified to April 28, 2020, the updated financial projections (with no levers being pulled) are as follows (also refer to Appendix 1):

Table 2

Estimated Financial Impact (with No Levers Pulled)

(in millions of dollars)	*forecast prepared May 11, 2020* **Current Forecast**	*forecast prepared April 16, 2020* **Report to SPC Finance, April 27, 2020**
Estimated financial projections budget impact		
Tax Supported	$ (33.7)	$ (40.5)
Transit	(31.1)	(30.3)
Special Operating Agency	(8.7)	(7.3)
Utilities and Other	6.8	-
	$ (66.7)	$ (78.1)

The improvements noted in “Tax Supported” and “Utilities and Other” estimated financial projections budget impact are due primarily to non-COVID changes resulting from the preparation of the City’s March Financial Status and Forecast Report.

The Financial Stabilization Reserve Fund can be drawn upon to cover a tax-supported budget shortfall. The following table forecasts the impacts of the current year tax-supported and Transit operations on the Financial Stabilization Reserve Fund (with no levers pulled):

Table 3

Estimated Impacts to the Financial Stabilization Reserve Fund (with No Levers Pulled)

(in millions of dollars)	*forecast prepared May 11, 2020* Current Forecast	*forecast prepared April 16, 2020* Report to SPC Finance, April 27, 2020
Estimated Impacts to the Financial Stabilization Reserve Fund		
Opening balance - Financial Stabilization Reserve	$ 107.8	$ 107.8
Add:		
Estimated net interest earnings	0.8	0.7
Transfer from the Financial Stabilization Reserve Fund for shortfall in Net Taxes Added	(4.5)	-
Budgeted transfer from the General Revenue Fund	5.4	5.4
Less:		
Transfer for Community Center Renovation Grant program	(2.1)	(2.1)
Tax Supported - estimated financial projections budget impact	(33.7)	(40.5)
Transit - estimated financial projections budget impact	(31.1)	(30.3)
less: usage of Transit unaudited unallocated retained earnings	9.6	9.6
	(21.5)	(20.7)
Estimated closing balance - Financial Stabilization Reserve	$ 52.1	$ 50.5

There has been a lot of discussion across the country concerning cities' authority to incur operating deficits. It should be noted that section 285(1) of the *City of Winnipeg Charter,* denoting the content of the operating budget, includes all operating expenditures for the year, including all amounts needed to eliminate any deficit incurred in respect of the previous fiscal year.

By virtue of using the Financial Stabilization Reserve Fund to backstop operating deficits, there won't be an operating deficit in the tax-supported budget. The purpose of the Financial Stabilization Reserve Fund is to counteract the budgetary effect of fluctuations from year to year in property and business taxes and/or fund deficits in the General Revenue Fund.

The Financial Stabilization Reserve Fund has a balance of $107.8 million as at December 31, 2019. The minimum Council prescribed balance of 6% of tax-supported expenditures is $68.6 million (the "floor amount"). A transfer can be made that results in a balance less than the prescribed floor amount but doing so will require Council approval of a replenishment plan. In establishing the Financial Stabilization Reserve Fund, Council's approved terms include requiring a replenishment plan be adopted by Council if the Financial Stabilization Reserve Fund's balance is reduced below 6% of tax-supported expenditures. The replenishment plan can extend over any period Council approves.

This report is seeking Council's required approval to undertake additional actions identified in "*Addressing the Financial Challenges of COVID-19"* as follows:

Table 4

	Tier One Levers to be Pulled	Estimated Date	Estimated Impact on: Financial Stabilization Reserve	Liquidity
8	Replace 2020 cash to capital funding with other financing	June	$18m	$18m
9	Transfer unallocated equity from Land Operating Reserve	June	$8m	-
10	Defer transfer for CCRGP to 2021	June	$2m	-

Replace 2020 cash to capital funding with other financing

On March 20, 2020, Council approved the 2020-2023 Multi-Year Operating and Capital Budget Recommendations. Included in the 2020 Capital Budget were several projects to be funded by cash to capital. Details on these are included in Appendix 2 of this report. In total, $22.846 million in cash to capital has been budgeted to fund 32 tax-supported (including Municipal Accommodations and Transit) capital projects. Included in this is cash to capital funding for four P3 projects. These projects, totaling $4.434 million, will be excluded and will continue to be funded by cash to capital in the amounts budgeted. As such, $18.412 million in 2020 cash to capital funding is being proposed to be replaced by external borrowing.

A borrowing by-law will be required (See Appendix 3). The additional debt charges associated with this is approximately $2 million on an annualized basis beginning in 2021 and is recommended to be added to the 2021 and subsequent budgets.

Transfer unallocated equity from Land Operating Reserve

Disbursements from the Land Operating Reserve Fund are limited to the acquisition cost of properties for resale and any other expenses directly related to the acquisition, sale and improvement of disposable City properties. The Land Operating Reserve Fund is estimated to have approximately $8 million in unallocated equity as at December 31, 2020, as follows:

Table 5

Total Unallocated Equity Balance as at December 31, 2019		**$ 11,288,700**
2020 Budget Submission		
Total revenue	$ 18,108,731	
Total expenditures	(19,698,651)	
	(1,589,920)	
Expenditures funded by Allocated Equity:		
St. James Community Recreation Amenities	1,400,000	
Allocated department costs	594,000	404,080
Additional transactions identified for 2020		
St. Boniface Industrial Park		
Estimated cost of services installed	(5,500,000)	
Estimated sales revenue related to lands serviced in 2020	2,000,000	(3,500,000)
Total Projected Unallocated Equity as at December 31, 2020		**$ 8,192,780**

Clause 289(4) of the Charter permits Council to expend these funds for other purposes if the Chief Financial Officer certifies that the amount in the fund is currently greater than the amount required for the purpose for which the fund was established. Accordingly, recommendation 3 proposes to transfer up to $8 million in unallocated equity from the Land Operating Reserve Fund to the General Revenue Fund. This is in addition to the $8.750 million approved as part of the 2020 Budget.

This transfer won't be made immediately and will likely wait until late in the year. This will provide additional time to better understand the financial impacts of COVID-19 with actual results, as well as, understanding the financial status of the Land Operating Reserve.

It is noteworthy that included in the Council approved 2020–2023 multi-year budget are Corporate efficiency targets. For 2021, the Corporate efficiency target is $39.7 million. Transfers of unallocated equity from the Land Operating Reserve Fund would be a source used to assist in achieving this target. If fully drawn, transferring this amount to assist the 2020 operating budget makes it unavailable for 2021 or other funding requests should they present in 2020.

Further, this balance is a projected balance and the actual unallocated equity will vary. Should the Land Operating Reserve Fund's unallocated equity result in a shortfall position at December 31, 2020 as a result of this transfer, the amount transferred will be adjusted to that amount necessary to avoid the shortfall.

Defer transfer for CCRGP until 2021

On March 20, 2019, in approving the 2019 budget, Council approved an annual transfer of $1.035 million from the Financial Stabilization Reserve Fund in 2019 to 2023 in support of larger Community Centre Renovation Grant Program ("CCRGP") budget. Included in the Council approved 2020-2023 multi-year budget is a transfer from the Financial Stabilization Reserve Fund to the General Capital Fund of $2.1 million (representing transfers for the 2019 and 2020 CCRGP capital budgets).

This will have no impact on the capital program – grants will continue to be made from the CCRGP budgets in accordance with program terms and conditions. It is the timing of the funding transfer to this program that is being deferred until 2021. As of the date of this report, approximately $270,000 had been charged to the 2019 capital budget (with a further approximately $870,000 committed). On June 10, 2020 the City announced approval of CCRGP applications totaling $1,158,740 from the Spring 2020 intake. These approved applications represent commitments against the 2020 capital budget.

Appendix 4 discloses the updated projections on the Financial Stabilization Reserve Fund and Liquidity. Projecting to March 31, 2021, the projected balance of the Financial Stabilization Reserve Fund is $93.8 million and the projected liquidity ratio is 39%.

Implications of Pulling these Levers

Through the previous actions taken to mitigate the financial impact of COVID-19 on the Financial Stabilization Reserve Fund, along with the foregoing actions, the projected balance of the Financial Stabilization Reserve Fund as at March 31, 2021 is $93.8 million. Included in that balance is $22.0 million to be used to balance the 2020-2023 multi-year budget.

The possibility of subsequent waves of COVID-19 and a reintroduction of stringent public health orders remain a possibility. It is prudent that the Financial Stabilization Reserve Fund continues above its floor limit of 6% of tax-supported expenditures as is presently projected to assist the City in mitigating this financial risk.

Waiving of late charges

On March 20, 2020, Council delegated to the Chief Administrative Officer, or the CAO's designate, between March 20, 2020 and June 30, 2020 the authority to waive late charges on fees imposed by The City of Winnipeg for individuals or businesses where the late payment is due to changes in City of Winnipeg payment procedures brought about by the COVID-19 pandemic. This does not apply to late payments of property and business taxes which Council separately approved on April 3, 2020.

The original delegation was designed to allow waivers of late payment fees where payment was made more difficult by City offices being closed or where changes due to COVID-19 otherwise posed obstacles to payment. It has been applied to late payment of a variety of fees and fines (e.g. water bills, parking and other by-law fines, ambulance services). In addition to being extended to September 30, the delegation is being clarified that this authority extends to late payment of all fees and fines payable to the City. This will make the delegation consistent with the property and business tax deferral approved by Council on April 3, 2020. The date of September 30 is consistent with that currently in place for property taxes. The estimated forgone revenue is $350,000, primarily in the Water and Waste Department for late payment

charges and turn on fees. The department has indicated that its budget can accommodate this forgone revenue.

Debt Strategy

On October 28, 2015, Council adopted a Debt Strategy for Tax Supported, Utilities and total City borrowing.

In addition to the debt implications from this report, this Debt Strategy section has been prepared considering one other report having debt implications:

- *Loan Guarantee for The Convention Centre Corporation*

Subject to approval of the recommendations of this report, additional borrowing authority of $18,412,000 is required.

$86 million of Tax Supported and $110 million of Utilities borrowing capacity will remain if Council approves the recommendations of both reports, including this one.

The impact of this debt financing falls within the debt limits established in the Council Policy as outlined in Table 6 below:

Table 6

Tax Supported net debt as a percentage of revenue not to exceed	80%
Forecasted peak rate including proposed debt from this report	66.6%
Utilities net debt as a percentage of revenue not to exceed	220%
Forecasted peak rate including proposed debt from this report	99.4%
Total City net debt as a percentage of revenue not to exceed	90%
Forecasted peak rate including proposed debt from this report	80.3%
Tax Supported debt servicing as a percent of revenue not to exceed	10%
Forecasted peak rate including proposed debt from this report	5.1%
Utilities debt servicing as a percent of revenue not to exceed	20%
Forecasted peak rate including proposed debt from this report	9.4%
Total City debt servicing as a percent of revenue not to exceed	11%
Forecasted peak rate including proposed debt from this report	6.6%
Tax Supported Debt per Capita not to exceed	1,500
Forecasted peak rate including proposed debt from this report	1,166
Utilities Debt per Capita not to exceed	1,500
Forecasted peak rate including proposed debt from this report	828
Total City Debt per Capita not to exceed	2,800
Forecasted peak rate including proposed debt from this report	2,095

Increasing emergency line of credit from $75 million to $150 million

"*Addressing the Financial Challenges of COVID-19"* identified a Tier Two lever – increasing the emergency operating line of credit from $75 million to $150 million. The City has rarely used the emergency operating line of credit. And in increasing the limit to $150 million, it is not expected the City will need to use it for the COVID-19 event. However, it is prudent to have this available to the City for emergency purposes at a cost of $18,750 for six months. The City has budget for this cost.

By-law 8163/2002 is a City by-law that provides for temporary borrowing in any year for capital and operating expenditures. Under this by-law, the Chief Financial Officer is authorized to borrow to meet any emergency condition, or for any other purposes for which the City is permitted to provide. The amount borrowed shall not, in any year, exceed the revenues estimated in the City's operating budget for the previous fiscal year. The proposal to increase the emergency line of credit to $150 million is well within the limit prescribed by-law.

Section 293 of the *City of Winnipeg Charter* authorizes Council to pass by-laws in respect of temporary borrowing. It is segregated from section 294 which deals with long-term borrowing. In that vein, the emergency line of credit is not considered as part of the City's debt management policy and the increase will not impact on the debt room. This is an operating facility for emergency purposes – it is not long-term debt financing which the debt management policy conducts.

Report on Business Taxes

In the report "*Temporary Waiver of Penalties and Administrative Fees on Business and Property Taxes and Financial Implications to the City",* Council approved the waiving of penalties on unpaid business taxes through August 31, 2020. Business taxes are due May 31.

As of May 28, 2,225 non-TIPP payments totaling $20.1 million had been received. Comparative numbers from 2019 had non-TIPP payments of 4,941 totaling $42.4 million. 2020 represents approximately 45% of the 2019 experience which approximates the expected impact being modelled for liquidity purposes. There are 3,787 non-TIPP accounts with a balance owing on business taxes and business taxes owing total $33.5 million (including TIPP accounts).

FINANCIAL IMPACT

Financial Impact Statement

Date: June 11, 2020

Project Name:

First Year of Program 2020

Addressing the Financial Challenges of COVID-19 – Additional Proposed Actions out of the COVID-19 Crisis Cash Flow Management Plan

(in thousands of dollars)

	2020	2021	2022	2023	2024
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	$ (20,563)	$ 2,041	$ 2,061	$ 2,061	$ 2,061
Less: Incremental Revenue/Recovery	7,650	-	-	-	-
Net Cost/(Benefit)	$ (28,213)	$ 2,041	$ 2,061	$ 2,061	$ 2,061
Less: Existing Budget Amounts	369	-	-	-	-
Net Budget Adjustment Required	$ (28,582)	$ 2,041	$ 2,061	$ 2,061	$ 2,061

Additional Comments:

1) "Direct Costs" includes the amount saved for not transferring cash to capital ($18.412 m) and the Financial Stabilization Reserve Fund saving on deferring the transfer for CCRGP ($2.170) less the incremental and ongoing debt servicing costs associated with new debt.

2) "Incremental Revenue/Recovery" includes the transfer from the Land Operating Reserve Fund ($8.0 m) less projected reduced penalty revenue from waiving of late charges on fees imposed by the City of Winnipeg. Most of the late fee revenue forgone is in the Water and Waste Department - late payment charges and turn on fees.

3)"Existing Budgeted Amounts" represent debt servicing costs and lost late payment fees that will be covered within current operations and/or existing departmental budgets.

4) 'Net Budget Adjustment Required" indicates the overall financial impact which the savings in 2020 to be applied towards the current projected deficit in the General Revenue Fund, and the additional costs for 2021-2024 which will be addressed through the 2021 budget process.

electronically signed by

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

CONSULTATION

This Report has been prepared in consultation with:
Planning, Property and Development Department
Legal Services (as to legal issues only)

OURWINNIPEG POLICY ALIGNMENT

01-2b Emergency Preparedness, Response and Recovery
01-3 Prosperity

WINNIPEG CLIMATE ACTION PLAN ALIGNMENT

N/A

SUBMITTED BY

Department: Corporate Finance
Division: Office of the CFO
Prepared by: Paul Olafson, CPA, CA
Date: June 11, 2020
File No: N/A
Attachments:

Appendix 1 – Financial (Budget) Projections

Appendix 2 – Cash to Capital Funded Capital Budgets – 2020 Capital Budget

Appendix 3 – Borrowing By-law

Appendix 4 – Charts – Projected Financial Stabilization Reserve Fund Balance and Liquidity Ratio