Agenda – Executive Policy Committee – September 21, 2021

Report – Standing Policy Committee on Finance – September 17 2021

Moved by Councillor

That Rule 10(3) of The Procedure By-law No. 50/2007 be suspended in order that the following item, which was received less than four business days preceding the committee meeting, be considered by Committee.

Item No. 1 Financial Status and Forecast Report to June 30, 2021

STANDING COMMITTEE RECOMMENDATION:

On September 17, 2021, the Standing Policy Committee on Finance concurred in the recommendation of the Winnipeg Public Service and submitted the following to Council:

1. That the Financial Status and Forecast Report to June 30, 2021 be received as information.

2. That, in the event the General Revenue Fund reports a deficit at year-end, the Financial Stabilization Reserve Fund transfer to the General Revenue Fund the amount required to avoid a deficit in the General Revenue Fund.

3. 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 – September 21, 2021

Report – Standing Policy Committee on Finance – September 17 2021

DECISION MAKING HISTORY:

STANDING COMMITTEE RECOMMENDATION:

On September 17, 2021, 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: **Financial Status and Forecast Report to June 30, 2021**

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

AUTHORIZATION

Author	Department Head	CFO	CAO
P. Olafson	C. Kloepfer	C. Kloepfer	M. Jack

EXECUTIVE SUMMARY

The Financial Status Report and Forecast to June 30, 2021 currently anticipates forecasted deficits of $14.3 million for the tax-support budget (General Revenue Fund) and $12.4 million for Transit.

COVID-19 continues to cause shortfalls in the General Revenue Fund, Transit, Utility funds and Special Operating Agencies (SOAs). $61.2 million of COVID-19 financial impacts were built into the 2021 Budget. An additional $23.6 million in COVID-19 financial impacts have been identified in this report, resulting in an estimated total $84.8 million financial impact.

The Financial Stabilization Reserve Fund can be used to cover the forecasted shortfall in the General Revenue Fund (Schedule 7), if necessary. Entering 2021, the Financial Stabilization Reserve Fund was prudently positioned to respond to the ongoing financial uncertainties associated with the ongoing pandemic. To this end, this report also contains a recommendation concerning usage of the Financial Stabilization Reserve Fund should the General Revenue Fund report a deficit at year-end. This recommendation is administrative in nature and is requested on an annual basis.

RECOMMENDATIONS

1. That the Financial Status and Forecast Report to June 30, 2021 be received as information.

2. That, in the event the General Revenue Fund reports a deficit at year-end, the Financial Stabilization Reserve Fund transfer to the General Revenue Fund the amount required to avoid a deficit in the General Revenue Fund.

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

On December 17, 1997, City Council approved clause 1 of the report of the Standing Committee on Fiscal Issues, which requires that a periodic report be approved on a quarterly basis by the Standing Committee on Fiscal Issues. Since that time, the Standing Committee on Fiscal Issues has been renamed Standing Policy Committee on Finance.

Recommendation 2 of this report concerns transfers amongst City of Winnipeg funds and, under Section 288(1) of The City of Winnipeg Charter, this requires the approval of City Council.

IMPLICATIONS OF THE RECOMMENDATIONS

At this time, the Public Service anticipates a forecasted deficit of $14.3 million for the tax-support budget (General Revenue Fund). The Public Service is monitoring the General Revenue Fund on an ongoing basis.

Historically, the second quarter deficits have been eliminated or decreased over the remainder of the year. The average change over the last five years between the second quarter and year-end is $11.1 million, improvements ranging from $0.3 million to $23.2 million. However, due to the uncertainty related to the pandemic, this trend may not hold true in the current year.

As approved by Council, annual operating General Revenue Fund surpluses automatically transfer to the Financial Stabilization Reserve Fund. In the event the General Revenue Fund reports a deficit as at December 31, 2021, the Public Service is recommending a transfer from the Financial Stabilization Reserve Fund to fund that deficit.

HISTORY/DISCUSSION

The forecasted results at June and the year-end position before final transfers for the General Revenue Fund for the past five years were as follows:

Year	Deficit in millions at June 30	Surplus (deficit) in millions at December 31 before Final Transfers
2020	$ (0.7)	$ 2.5
2019	(7.7)	(1.1)
2018	(2.7)	19.5
2017	(8.2)	15.0
2016	(5.4)	(5.1)

It is noteworthy that this year's forecasted General Revenue Fund deficit is 74% higher than the largest deficit projected at June 30 for the previous five years.

This will continue to be monitored and options will be sought to eliminate the forecasted deficit. As a last resort, the Financial Stabilization Reserve Fund can be drawn on to cover any remaining shortfall or the deficit can be incorporated into the 2022 operating budget. The Financial Stabilization Reserve is projected to be $10.6 million higher than the Council mandated minimum balance of 6% of the tax-supported budgeted expenditures after budgeted

transfers and additional transfer to balance the projected deficit at December 31, 2021 (see Schedule 7). Recommendation 2 of this report, to allow an additional transfer from the Financial Stabilization Reserve Fund in the event of a 2021 General Revenue Fund deficit, requires Council approval.

COVID-19 Pandemic

As part of the 2021 budget update, a number of adjustments were made to account for the continued impact of the pandemic. There continues to be a significant impact on the forecasted financial results above what is budgeted due to COVID-19.

The table below summarizes the estimated total impact of COVID-19 on the current forecast.

In millions of $	COVID-19 Impact in 2021 Budget	Additional COVID-19 Impact Forecasted	COVID-19 Total Impact
Tax Supported (General Revenue Fund)	($13.9)	($4.4)	($18.3)
Transit	(41.4)	(16.7)	(58.1)
SOA's and Utilities	(5.9)	(2.5)	(8.4)
TOTAL	**($61.2)**	**($23.6)**	**($84.8)**

The amounts are the result of the best available interpretations made as to the reason for variance with some highlights noted as:

- Community Services Department's expenditures savings, largely salary and benefit related, in recreational and library services are forecasted to be $8.7 million less than budget. This will result primarily from temporary closures of facilities for periods longer than budgeted. In turn, recreational programming revenues are forecasted to be $3.9 million less than budget.

- As well, $3.8 million lower net enforcement revenues resulting from less traffic has been included in the Police Services forecast.

As presented at the March 12, 2021 Standing Policy Committee on Finance meeting, a number of levers to minimize the impact can be used. To date the following has been undertaken to minimize the impact of COVID-19:

- Utilization of Transit unallocated retained earnings
- Reduced discretionary spending (including non-discretionary travel)
- Review and approval of all vacancies ahead of position postings, delaying hiring when possible
- Voluntary furlough program
- Additional transfer from Financial Stabilization Reserve
- Delaying issuance of debt
- Reduced operating costs from Transit service reduction (2021 approved budget)
- One-time transfers from the Southwest Rapid Transit Corridor Reserve and Transit Bus Replacement Reserve (2021 approved budget)
- Reduction of services and supplies expenditures in Winnipeg Parking Authority

The Public Service will continue to monitor the financial position and determine what, if any additional, levers will be recommended for use in the second half of 2021.

Corporate

The Corporate accounts include general revenue and expense/savings budgets that are not directly attributable to any other public or internal service. They are largely presented in the Assessment, Taxation and Corporate service-based budget.

Included in these accounts are budgeted efficiency savings of $32.1 million. In prior years, these savings have materialized during budget development through Council-approved transfers from reserves. As well, these savings have been realized through any number of means resulting in year-end surpluses in the General Revenue Fund. Such savings arise in departmental budgets.

This report anticipates that $22.1 million in budgeted savings will be realized over the remainder of this year. The average change over the last five years between the second quarter and year-end is $11.1 million.

Also included in the Corporate forecast is $3 million in Economic Support Grants. On May 27, 2021, Council approved additional budget for a second round of the COVID-19 Economic Support Grant Program to assist eligible businesses and not-for-profit organizations through recent public health orders.

Winnipeg Police Service

Winnipeg Police Service's unfavourable variance is driven in part by higher police pension plan expenses resulting from an actuarial valuation, which amounts to an additional $5.7 million expense for 2021. Pension legislation requires preparing and filing with the Office of the Superintendent – Pension Commission an actuarial valuation of the plan at least once every three years. With the last valuation for the police pension plan filed as at December 31, 2017, a new valuation is due as at December 31, 2020. The valuation was completed in June 2021. Effective January 1, 2021, the employer contribution rate is 21.78% (increased from 18.31% [budgeted for 2021]). This change in contribution rate is due to non-discretionary actuary estimate changes in discount rate and investment returns as a result of low interest rates prevailing in the market. The valuation also reports a solvency deficiency which the City has secured with a letter of credit.

The unfavourable variance also includes shortfalls in meeting expenditure management savings. The 2021 Budget includes $6.1 million in expenditure management savings, increased from $1 million. The increase in budgeted expenditure management savings is attributable to replacing the budgeted savings from pension amendments lost pursuant to the arbitrator's March 2020 decision. Expenditure management budget is being met in part from savings attributed to overtime and higher rates of attrition.

The financial impact of the pandemic is being realized in decreased net revenues from photo and traditional enforcement. With public health orders restricting retail operations and other businesses and many individuals working from home, traffic volumes are decreased from pre-pandemic conditions.

Finally, higher than planned expenses associated with P25 radio equipment is contributing to the expenditure management savings shortfall. Winnipeg Police Service relies on P25 compliant radios to provide a critical link between members in the field and their dispatch centre for real-time exchange of information, and improved safety for staff and citizens of Winnipeg. Current radio components are failing at a higher rate than expected which could potentially impact officer and public safety. To this end, the City is participating in a cooperative contract with the Government of Canada that will result in savings for the City. This is an “as required” contract and the Winnipeg Police Service will be making an investment in these radios in 2021.

Helping to mitigate these are increased revenues from police services. This is due primarily to special duty work at vaccination sites.

Fire Paramedic Service

On September 1, Shared Health issued its 2021 calendar year funding letter to the City. The funding commitment for 2021 is based on a Global Funding Allocation rather than previously utilized cost allocation formula and recovery process. Forecasted financial results in this report assume a funding model where Emergency Medical Services costs are fully recovered from Shared Health. This forecast includes amounts of additional Shared Health grant that will be required above the 2021 Global Funding Allocation in order to meet Council's full cost recovery mandate, which remains a risk to the City.

This Shared Health Global Funding Allocation includes a sustainability reduction to meet provincial government cost reduction requirements. While the reduction cited in the September 23, 2020 letter was $1.1 million (2021 calendar year prorated), the reduction included in the Global Funding Allocation is $0.9 million for the period April 1 to December 31, 2021. It eliminates standard funding of the same amount for salary and benefit increases. Shared Health notes it remains committed to work with Fire Paramedic Service to identify service changes to achieve the sustainability amount, given the salary and benefit increases are part of a collective bargaining process and will be incurred by the department.

The effects of COVID-19 are continuing into 2021 through increased costs associated with overtime, personal protective equipment (PPE) and additional service provision. These total $2.7 million and are forecasted in this report to be fully recovered as additional funding from Shared Health. A similar recovery from Shared Health occurred in 2020.

Transit

Transit continues to see ridership levels this year averaging approximately 57% below normal levels causing forecasted passenger revenues to be $17.6 million less than budget. Somewhat mitigating against this are cost savings, including salaries and benefits, bus parts and reduced demand for Transit Plus services. Transit is forecasting a deficit of $12.4 million. The department has $16.0 million in retained earnings to fund this.

Transit service levels are 6% less than what is normally offered (as is budgeted).

Other

The Corporate Finance Department has prepared this report showing forecasted revenues and expenses to December 31, 2021, for the General Revenue Fund, Utility Funds and Municipal

Accommodations Fund. This information was obtained from departments and was based on actual data as at June 30, 2021.

Attachments included are the following:

Schedule 1 – The City of Winnipeg – General Revenue Fund – Financial Status and Forecast Report;
Schedule 2 – The City of Winnipeg – General Revenue Fund – Budget Variances;
Schedule 3 – The City of Winnipeg – General Revenue Fund – Reconciliation of March to June forecast;
Schedule 4 – The City of Winnipeg – Summary by Fund;
Schedule 5 – The City of Winnipeg – General Revenue Fund – Net Mill Rate by Department;
Schedule 6 – The City of Winnipeg – General Revenue Fund – Taxation Revenues; and
Schedule 7 – The City of Winnipeg – Forecasted Balance of the Financial Stabilization Reserve Fund

FINANCIAL IMPACT

Financial Impact Statement Date: September 8, 2021

Project Name:

Financial Status and Forecast Report June 30, 2021

COMMENTS:

This report is prepared for information purposes.

"Original signed by:
Melissa Wensel
Manager of Financial Reporting and Accounting Services

CONSULTATION

This Report has been prepared in consultation with:

- All City of Winnipeg Departments

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.

WINNIPEG CLIMATE ACTION PLAN ALIGNMENT

N/A

SUBMITTED BY

Department: Corporate Finance
Division: Corporate Controller's
Prepared by: Melissa Wensel
Date: September 8, 2021
File No: N/A

Attachments:

Schedule 1 – The City of Winnipeg – General Revenue Fund – Financial Status and Forecast Report;
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