Agenda – Council – June 23, 2022

Report – Standing Policy Committee on Finance – June 13, 2022

Item No. 1 Financial Status and Forecast Report to March 31, 2022

STANDING COMMITTEE RECOMMENDATION:

On June 15, 2022, the Executive Policy Committee concurred in the recommendation of the Standing Policy Committee on Finance and submitted the following to Council:

1. That the Financial Status and Forecast Report to March 31, 2022, 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 following tier two levers of the COVID-19 Crisis Cash Flow Management Plan 2022 Update be implemented:

    A. Reduce the 2022 General Revenue Fund transfer to Animal Services by up to $400,000.

    B. Increase the 2022 Winnipeg Parking Authority transfer to General Revenue Fund by up to $2 million.

    C. Increase the 2022 Water and Sewage Funds dividend transfer to General Revenue Fund by $893,120.

    D. Eliminate Solid Waste tipping fees charged to tax-supported departments (Public Works, Planning, Property and Development and Transit) for the remainder of 2022.

    E. Increase the following transfers from Reserves to the General Revenue Fund up to:

        i. Insurance Reserve Fund - $1.5 million

        ii. Workers Compensation Reserve Fund - $1 million

4. 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 – June 13, 2022

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On June 15, 2022, 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 June 13, 2022, 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 March 31, 2022

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 March 31, 2022, currently anticipates forecasted deficits of $53.9 million for the tax-support budget (General Revenue Fund) and $10.5 million for Transit.

COVID-19 continues to cause shortfalls in the General Revenue Fund, Transit, Utility funds and Special Operating Agencies (SOAs). $41.3 million of COVID-19 financial impacts were built into the 2022 Budget. An additional $15.3 million in COVID-19 financial impacts for 2022 have been identified in this report.

Activation of tier two levers from the COVID-19 Crisis Cash Flow Management Plan will generate approximately $7.0 million in savings to the Financial Stabilization Reserve.

RECOMMENDATIONS

1. That the Financial Status and Forecast Report to March 31, 2022, 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, effective with Council approval, the following tier two levers of the COVID-19 Crisis Cash Flow Management Plan 2022 Update be implemented:

    A. Reduce the 2022 General Revenue Fund transfer to Animal Services by up to $400,000.

    B. Increase the 2022 Winnipeg Parking Authority transfer to General Revenue Fund by up to $2 million.

C. Increase the 2022 Water and Sewage Funds dividend transfer to General Revenue Fund by $893,120.

D. Eliminate Solid Waste tipping fees charged to tax-supported departments (Public Works, Planning, Property and Development and Transit) for the remainder of 2022.

E. Increase the following transfers from Reserves to the General Revenue Fund up to:
    i. Insurance Reserve Fund - $1.5 million
    ii. Workers Compensation Reserve Fund - $1 million

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 December 17, 1997, 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.

IMPLICATIONS OF THE RECOMMENDATIONS

At this time, the Public Service anticipates a forecasted deficit of $53.9 million for the tax-supported budget (General Revenue Fund). The Public Service is monitoring the General Revenue Fund on an ongoing basis.

Historically, the first quarter deficits have been eliminated or decreased over the remainder of the year. The average change over the last five years between the first quarter and year-end is $18.2 million, ranging from improvements of $35.1 million to a decrease of $9.6 million.

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, 2022, the Public Service is recommending a transfer from the Financial Stabilization Reserve Fund to fund that deficit.

Approval of the tier two levers will assist in minimizing the forecasted General Revenue Fund 2022 deficit.

HISTORY/DISCUSSION

The forecasted results at March 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 March 31	Surplus (deficit) in millions at December 31 before Final Transfers
2021	$ (12.7)	$ (22.3)
2020	(25.8)	2.5
2019	(9.8)	(1.1)
2018	(15.6)	19.5
2017	(13.6)	15.0

It is noteworthy that this year's forecasted General Revenue Fund deficit of $53.9 million is more than double the largest deficit projected at March 31 for the previous five years.

This continues to be monitored and options are being 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 2023 budget update. The Financial Stabilization Reserve is projected to be $42.5 million lower than the Council mandated minimum balance of 6% of the tax-supported budgeted expenditures after budgeted transfers and additional transfers to balance the projected deficit at December 31, 2022 (see Schedule 6, attached). Recommendation 2 of this report, is to allow an additional transfer from the Financial Stabilization Reserve Fund in the event of a 2022 General Revenue Fund deficit. Recommendation 3 of this report will reduce the deficit and thus the required additional transfer from the Financial Stabilization Reserve.

COVID-19 Pandemic

As part of the 2022 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 forecast, above what is budgeted, due to COVID-19.

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

Table 1

In millions of $	COVID-19 Impact in 2022 Budget	Additional COVID-19 Impact Forecasted	COVID-19 Total Impact
Tax Supported (General Revenue Fund)	($9.7)	($3.1)	($12.8)
Transit	(26.4)	(10.0)	(36.4)
SOA's and Utilities	(5.2)	(2.2)	(7.4)
TOTAL	**($41.3)**	**($15.3)**	**($56.6)**

The amounts are the result of best available interpretations made as to reason for variance.

A COVID-19 Crisis Cash Flow Management Plan was presented at the March 10, 2022, Standing Policy Committee on Finance meeting. This report identified three tiers of levers to be actioned to mitigate various risks identified with negative implications to the Financial Stabilization Reserve Fund. Tier one levers are already in place and represent actions that have been ongoing since the onset of the pandemic in 2020.

Tier one levers actioned include:

- Continued diligence with vacancy management;
- Continued restricting travel, conference and training spending;
- Continue limiting other discretionary spending;
- Transit expenditure management.

COVID-19 Crisis Cash Flow Management Plan 2022 Update – Tier Two Levers

With the forecasted financial results contained in this report, it is recommended that the following tier two levers be actioned effective immediately:

Table 2

Tier Two Levers		Estimated Impact on:	
		Financial Stabilization Reserve	Liquidity
1	Defer transfer for Community Centre Renovation Grant Program (CCRGP) capital	$1.0m	-
2	Additional transfers from SOAs	$2.4m	-
3	Additional transfer from Water & Waste	$0.9m	-
4	Eliminate tipping fee for tax supported departments in 2022	$0.2m	-
5	Transfers from Reserves (Insurance and Workers Compensation)	$2.5m	-
	TOTAL	**$7.0m**	-

The deferral to 2023 of the transfer from the Financial Stabilization Reserve Fund for the CCRGP will not impact the program's 2022 budget. Expenditures will remain authorized up to the Council approved 2022 budget ($2 million). This initiative will defer the funding of the expenditures and can be actioned by the Public Service without further Council authorization.

The additional transfer from two Special Operating Agencies (SOAs) (Animal Services and Winnipeg Parking Authority) represent transfer adjustments funded out of SOA accumulated surplus. This will:

- Decrease the 2022 budgeted General Revenue Fund transfer to Animal Services from $771,219 to $371,219.
- Increase the 2022 budgeted General Revenue Fund transfer from Winnipeg Parking Authority from $1.211 million to $3.211 million.

The transfer adjustments are budgeted to leave a minimum $500,000 in their respective retained earnings accounts, as prescribed by Council-approved SOA Dividend Policy. This is based on 2022 operating results equaling budget. There is a risk that results may be worse than budgeted. Winnipeg Parking Authority is reporting revenues are lagging behind budget.

On March 20, 2019, Council approved the amended Water and Sewer Utility Dividend Policy with dividend payments of 11% of budgeted gross sales be transferred annually to the City, effective January 1, 2019. Water and sewer consumption in 2020 was higher than budgeted, resulting in higher revenues. The additional transfer from Water and Waste represents a one-time transfer based on actual sales revenue for 2020 versus the budgeted amount, at the existing rate of 11%. Given this would be based on actual revenues versus budgeted revenues, Council approval is necessary.

The tipping fee elimination will eliminate tipping fees effective immediately for tax-supported departments (Public Works, Planning, Property and Development and Transit). In total, this is estimated to be $200,000, mostly in Public Works.

These actions will not impact the Water and Waste department's operating or capital plans.

The transfers from reserves represent amounts in excess of recommended or approved balances. Clause 289(4) of the City of Winnipeg 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.

The financial impacts of these actions have not been incorporated into the forecasted financial results contained here-in. Future reports will reflect these actions if Council approves the recommendations in this report.

Transit

Transit continues to see lower ridership levels, this year averaging approximately 48% below normal levels to date. The recovery is slower than had been forecasted causing revenues to be less than budget. Transit is forecasting a deficit of $10.5 million (not including the impact of forecasted higher fuel rates – discussed under "Fuel" below). The department has $6.6 million in retained earnings to fund this, and is exploring additional options to manage this shortfall.

Note the financial forecast does not include the impact of the Government of Canada's announced $750 million to support municipalities facing transit operating shortfalls. In this regard, the Governments of Canada and Manitoba subsequently have reached an agreement that will see Federal funding of $20.7 million transferred to Manitoba.

Transit service levels are 6% less than what is normally offered as per the 2022 Adopted budget update.

Snow Removal and Ice Control

A significant amount of precipitation fell in Winnipeg during the first quarter of 2022.

Table 3

In millions of $	Snow (centimeters)	Snow and ice control costs	Amount in excess of budget
January	43.2	$14.1	$7.8
February	50.4	25.3	20.2
March	11.8	11.0	6.2
TOTAL	**105.4**	**$50.4**	**$34.2**

A significant portion of the costs incurred in March were directly attributable to the large amounts of snow that accumulated over the winter. Significant costs were incurred for hauling activities related to the removal of snow banks, to operate snow disposal sites to accommodate the large amounts of snow, as well as costs associated with “thawing” activities which include opening ditches and culverts prior to the spring melt, and the thawing of frozen catch basins.

Snow removal and ice control services are delivered to the levels identified within the Council Approved Policy on Snow Removal and Ice Control. An over-expenditure approval of $34.2 million was approved by the Standing Policy Committee on Finance at its meeting of April 21, 2022.

2022 – Inflation Outlook

Ongoing supply chain issues, rising crude oil prices and the invasion of Ukraine have resulted in inflation rates not seen in three decades. In its monetary policy report in January, the Bank of Canada forecast an annual inflation rate of 5.1% in Q1 2022 and an average of close to 5% through the first half of 2022.

Statistics Canada reported last month that the annual inflation rate in February climbed to 5.7%, up from 5.1% in January. This marked the largest gain since August 1991. Price increases were broad-based in February, pinching the pocketbooks of Canadians. Consumers paid higher prices for gasoline and groceries in February 2022 compared with the same month a year earlier. Shelter costs continued to trend higher, rising at the fastest year-over-year pace since August 1983.

Excluding gasoline, the CPI rose 4.7% year-over-year in February, surpassing the gain in January (4.3%) when the index increased at the fastest pace since its introduction in 1999.

Canadian motorists paid 32.3% more at the pump compared with February 2021. Monthly gasoline prices increased 6.9% amid geopolitical conflict in Eastern Europe and the Middle East, as uncertainty surrounding global oil supply put upward pressure on prices.

As noted in Schedule 1, 2022 budgeted tax-supported expenditures are $1.2 billion. Included in this value are the following that are largely immune to inflation increases in the short-term:

- Salaries and benefits - $696.3 million
    - Rate increases used for this budget are determined by collective bargaining agreements.
- Grants and transfers - $286.5 million
    - Transfers and grants are largely fixed to budget and are approved by Council.
- Debt and finance charges - $41.0 million
    - Impacts largely limited to only the timing of debenture borrowing.

Current year impact of inflation increases is primarily limited to fuel and other materials and services.

Impacts of Fuel Prices

As noted above, fuel prices have escalated beyond the expectations factored in the 2022 Adopted Budget as noted in this table prepared by City economists with Transit and Winnipeg Fleet Management Agency (WFMA) input.

Table 4

*$/litre**	2022 Budget	2022 Forecast		
		Low	High	Average
Transit - diesel	$1.14	$1.25	$2.01	$1.63
Transit - unleaded	$1.19	$1.25	$2.14	$1.74
Fleet – diesel	$1.25	$1.37	$2.20	$1.78
Fleet – purple	$1.10	$1.21	$1.97	$1.60
Fleet - unleaded	$1.19	$1.29	$2.13	$1.73

* Including carbon taxes

Table 5, below, identifies indicative financial impacts based on the 2022 Adopted Budget. Included in the forecast report are actual fuel impacts for the first quarter. Due to the current volatility of fuel prices, departments have used the budget fuel rate for the forecasted period (April – December). The estimated financial impact on the forecast should the fuel rate meet the low, high and average rates is noted below. Transit high and low forecasts below are prepared using monthly consumption rates, the other departments using the annual consumption rates. If the future consumption rates are consistent with the forecasted consumption rates, the range of potential budget shortfalls in excess of that forecasted in this report is as follows:

Table 5

(in millions $)	2022 Forecast		
	Low	High	Average
Tax-supported	$0.5	$4.5	$2.6
Transit	$4.3	$8.9	$6.6
Water Utilities, SOAs and MA	$0.1	$1.2	$0.7

Note: no details available as to split between fuel types in Budget data.

Impacts to Other Materials and Services

Selected forecasts of inflation for 2022 as at March 2022 (table 6) are noted below:

Table 6

	Geography	Forecasted Annual Inflation Rate
Royal Bank of Canada	Manitoba	4.7%
Bank of Nova Scotia	Manitoba	4.1%
Bank of Montreal	Manitoba	5.4%
Conference Board of Canada	Winnipeg	4.2%

- Range – 4.1% to 5.4%
- Average – 4.6%

The 2022 Adopted Budget generally used an inflation rate of 2% with exceptions:

- Salaries and benefits budgets are based on collective bargaining agreements.
- Grants are budgeted for Council approved amounts.
- Debt and financing charges are budgeted based on timing of borrowing

With those three exceptions factored out of the total adopted budget for the General Revenue Fund, that leaves a 2022 tax-supported budget of approximately $176 million, where inflation could have an impact. The theoretical impact of a 5% inflation rate for 2022 could be as high as $5 million.

Specific inflationary impacts departments are currently noting and reflected in this report include:

- Vehicle maintenance and parts and accessories
- External fleet rentals
- Natural gas

However, the impacts of rising inflation on other materials and services are being managed within budget. A significant component will have set prices under existing long-term contracts. As well, some expenses (e.g. maintenance) are being managed to scale to budget. This is being met in part through managing discretionary expenditures.

Corporate

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

Included in these accounts are budgeted efficiency savings of $30.8 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 including savings in departmental budgets. This report anticipates that $25.8 million in budgeted savings will be realized over the remainder of this year. The average change in savings over the last five years between the March forecast and year-end is $18.2 million.

Other

The Corporate Finance Department has prepared this report showing forecasted revenues and expenses to December 31, 2022, 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 March 31, 2022.

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 – Summary by Fund;
Schedule 4 – The City of Winnipeg – General Revenue Fund – Net Mill Rate by Department;
Schedule 5 – The City of Winnipeg – General Revenue Fund – Taxation Revenues; and
Schedule 6 – The City of Winnipeg – Forecasted Balance of the Financial Stabilization Reserve Fund

FINANCIAL IMPACT

Financial Impact Statement

Date: May 24, 2022

Project Name:

First Year of Program **2022**

COVID-19 Crisis Cash Flow Management Plan 2022 Update – Tier Two Levers

	2022	2023	2024	2025	2026
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	$ (600,000)				
Less: Incremental Revenue/Recovery	5,393,120				
Net Cost/(Benefit)	$ (5,993,120)	$ -	$ -	$ -	$ -
Less: Existing Budget Amounts	-				
Net Budget Adjustment Required	$ (5,993,120)	$ -	$ -	$ -	$ -

Additional Comments:

1. "Direct costs" above is the reduced transfer to Animal Services SOA ($400,000) from the General Revenue Fund and estimated savings in tipping fee for tax supported departments ($200,000).
2. "Incremental Revenue/Recovery" includes the additional transfers to the General Revenue Fund from the Winnipeg Parking Authority SOA ($2.0 million), Insurance Reserve ($1.5 million), Workers Compensation Reserve ($1.0 million) and Water and Sewage Funds ($893,120).
3. In addition to the above noted financial impact to the General Revenue Fund, the deferral to 2023 of CCRGP funding will save the Financial Stabilization Reserve $1.0 million in 2022.
4. Amounts are not included in the forecast schedules as they require Council approval, if approved they will be included in future reports and would improve current forecasted results. Amounts included are the maximum amount being approved in the recommendations, actual transfer amounts could be less.

"Original signed by:
Melissa Wensel, CPA, CA
Manager of Financial Reporting and Accounting Services
Corporate Finance

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.

Note: OurWinnipeg 2045 remains subject to third reading of Council.

WINNIPEG CLIMATE ACTION PLAN ALIGNMENT

Consideration was given as to whether this report connects to the Winnipeg Climate Action Plan (CAP) and it was determined that the CAP is not applicable to this specific report.

WINNIPEG POVERTY REDUCTION STRATEGY ALIGNMENT

Consideration was given as to whether this report connects to the Winnipeg Poverty Reduction Strategy (PRS) and its Goals and Objectives, and it was determined that the PRS is not applicable to this specific report.

SUBMITTED BY

Department: Corporate Finance
Division: Corporate Controller
Prepared by: Melissa Wensel
Date: May 26, 2022
File No: N/A

Attachments:

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 – Summary by Fund
Schedule 4 – The City of Winnipeg – General Revenue Fund – Net Mill Rate by Department
Schedule 5 – The City of Winnipeg – General Revenue Fund – Taxation Revenues
Schedule 6 – The City of Winnipeg – Forecasted Balance of the Financial Stabilization Reserve Fund