Agenda – Council – December 15, 2022

Report – Standing Policy Committee on Finance and Economic Development – December 1, 2022

Item No. 1 Over-Expenditure Authorization for Winnipeg Transit 2022 Operating Budget

STANDING COMMITTEE RECOMMENDATION:

On December 7, 2022, the Executive Policy Committee concurred in the recommendation of the Standing Policy Committee on Finance and Economic Development and submitted the following to Council:

1. That approval be given to Winnipeg Transit to over-expend its 2022 operating expenditures budget by up to $11.0 million.

2. That approval be given to utilize $6,636,000 of Transit retained earnings to partially fund this over-expenditure.

3. That in the event Transit reports a deficit at year-end, after the use of retained earnings, the Financial Stabilization Reserve Fund transfer to the Transit Fund, the amount required to avoid a deficit in the Transit Fund.

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

Report – Standing Policy Committee on Finance and Economic Development – December 1, 2022

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On December 7, 2022, the Executive Policy Committee concurred in the recommendation of the Standing Policy Committee on Finance and Economic Development and submitted the matter to Council.

STANDING COMMITTEE RECOMMENDATION:

On December 1, 2022, the Standing Policy Committee on Finance and Economic Development concurred in the recommendation of the Winnipeg Public Service and submitted the matter to the Executive Policy Committee and Council.

David Grant submitted a communication with respect to the matter.

ADMINISTRATIVE REPORT

Title: Over-Expenditure Authorization for Winnipeg Transit 2022 Operating Budget

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

AUTHORIZATION

Author	Department Head	CFO	CAO
L. Fisher	G. Ewankiw	C. Kloepfer	M. Jack

EXECUTIVE SUMMARY

Transit is forecasting a total operating deficit for 2022 of $17.2 million, comprised of $6.2 million in revenue shortfall and $11.0 million in operating over-expenditures.

Transit is forecasting a revenue shortfall as a result of lower ridership levels than originally budgeted. Although ridership continues to recover and is averaging approximately 35% below normal levels to the end of September, ridership was lower than expected from January through April which resulted in lost fare revenue beyond what will be able to be recovered this year.

Transit's operating expenses are forecasted to be overspent as a result of the following:

- Higher fuel prices for diesel.
- COVID-related impacts beyond the amounts included in the budget.
- Not realizing enough operational savings as a result of discretionary spending controls, hiring freezes and other measures to meet the budgeted expenditure management target.

Transit has $6.6 million in retained earnings to partially offset the forecasted over-expenditure amount. Further, the Government of Canada has announced $750 million to support municipalities facing transit operating shortfalls, with an expectation for Provincial matching support. In this regard, the Governments of Canada and Manitoba reached an agreement that will see Federal funding of $20.7 million transferred to Manitoba. However, as of the date of this report, confirmation of the funding allocated for Winnipeg Transit is outstanding and it is assumed the balance will be funded through the Financial Stabilization Reserve Fund at this time.

Approval from the Standing Policy Committee on Finance and Economic Development is needed in order for Transit to overspend its operating expenditure budget in the amount of $11.0 million.

Council approval is required to use the Financial Stabilization Reserve to fund the year-end deficit.

RECOMMENDATIONS

1. That approval be given to Winnipeg Transit to over-expend its 2022 operating expenditures budget by up to $11.0 million.

2. That approval be given to utilize $6,636,000 of Transit retained earnings to partially fund this over-expenditure.

3. That in the event Transit reports a deficit at year-end, after the use of retained earnings, the Financial Stabilization Reserve Fund transfer to the Transit Fund, the amount required to avoid a deficit in the Transit Fund.

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

REASON FOR THE REPORT

Clause 9.1 of By-Law No. 7100/97 states that 'The Standing Policy Committee on Finance and Economic Development may approve additional appropriations to an operating budget including approval of reallocations of funds provided in an operating budget of the city for a purpose other than that set out in the budget, and approval of additional operating expenditures.'

Council approval is required to use the Financial Stabilization Reserve to fund the year-end deficit.

IMPLICATIONS OF THE RECOMMENDATIONS

If approved, additional operating budget will be allocated to Winnipeg Transit to address the over-expenditures that are being incurred in 2022. The deficit is recommended to be partially offset with Transit's retained earnings balance with the balance funded from the Financial Stabilization Reserve Fund.

HISTORY/DISCUSSION

Based on actuals incurred to the end of September 2022, Winnipeg Transit is forecasting a total operating deficit for 2022 in the amount of $17.2 million. The total forecasted deficit is a combination of both a shortfall in revenue ($6.2 million) resulting from lower fare revenue realized as a result of a slower ridership recovery rate and higher operating expenditures beyond budgeted amounts ($11.0 million).

Approval from the Standing Policy Committee on Finance and Economic Development is required for the over-expenditure of operating expenses. Council approval is needed to transfer from the Financial Stabilization Reserve Fund.

Fare Revenue

The 2022 operating budget assumed ridership levels would grow from 60% to 75% by the end of the year (or from 40% to 25% below normal levels). Although Transit ridership at the end of September was at 78% of baseline (2019) levels (22% below normal) and is on track to exceed the year-end target, the ridership levels experienced from January through April were less than what was needed to meet the budgeted fare revenue targets as illustrated in the graph below:



During the year, Transit worked to grow ridership through a number of initiatives including:

- Creating a two-part 'come back to Transit' marketing campaign which included print, radio, digital and outdoor advertising to reach as many people as possible. The first phase launched on June 6 and the second phase launched on September 19.

- Maintaining measures that were implemented throughout COVID aimed at keeping passengers safe, including the enhanced bus cleaning program and the recommendation that face masks continue to be worn.

Fare revenue is forecasted to be $6.3 million under budget for 2022 which, combined with variances in other revenue accounts, net to a total revenue shortfall of $6.2 million.

Operating Expenditures

The operating budget shortfall is summarized as follows (in millions):

Fuel	($8.0)
COVID Impact	($2.5)
Shortfall in Meeting Expenditure Management Target	($0.5)
Operating Expenditures Budget Shortfall	($11.0)

Fuel

The fuel budget assumed a fuel rate of $1.1343/litre for diesel (including carbon tax). To the end of September, Transit has paid an average rate of $1.5935/litre for diesel fuel; with a forecasted average rate for the year of $1.6368/litre. Rates are not expected to significantly change through the end of this year, which will result in Transit's diesel fuel budget to be overspent by $8.0 million.

The total over-expenditure resulting from the higher rate is partially offset by a small savings from fewer litres being used than budgeted.

The diesel fuel variance is summarized as follows:

	Average Rate (incl. carbon tax)	Litres	Total Cost
Budget[1]	$1.1343	16,380,000	$18.6 million
Forecast	$1.6368	16,253,500	$26.6 million
		Net Shortfall - Diesel	($8.0 million)

[1] 2022 fuel budget reflects the estimated impact of the 6% service reduction

COVID Impact

The 2022 budget included the estimated impact COVID was expected to have on Transit in the net amount of $26.4 million. This impact included lower fares ($27.4 million), higher costs for enhanced bus cleaning ($645,000) as well as savings in the Transit Plus contractor expenses from providing fewer rides as a result of lower ridership ($1.7 million).

The further impact the pandemic has had on fare revenue, beyond what had been budgeted, has been described earlier in this report. On the expense side the actual costs related to COVID have exceeded the budgeted amount by $2.5 million in two key areas:

- The total savings included in the budget for Transit Plus contracts was $1.7 million, which assumed a savings in service hours from lower ridership levels. However, in order to provide rides for all trip requests in 2022, and to the greatest extent possible eliminate unaccommodated trips, service hours are being incurred beyond what had been estimated, even though ridership remains below pre-pandemic levels. The higher service hours are resulting in a budget shortfall in the amount of $1.1 million for this service. Note, the service hours forecasted for 2022 remain below normal pre-pandemic baseline levels.

- Bus operator overtime costs are being experienced at levels beyond those normally incurred as a result of covering COVID-related absences, resulting in an over-expenditure of approximately $1.4 million.

When combined with the fare revenue shortfall ($6.3 million), Transit's total forecasted shortfall from COVID items is $8.8 million beyond what had been originally budgeted.

Expenditure Management Target

Transit's 2022 operating budget included an expenditure management target of $3.5 million. The Department implemented various measures throughout the year to try to meet the targeted savings, including limiting discretionary spending, deferral of purchases/repairs where possible, limiting overtime, and robust reviews for the hiring of all non-bus operator positions, which included deferring the filling of various positions.

The net savings achieved in various other accounts is forecasted to be $3.0 million, leaving the Department $500,000 short of meeting the expenditure management target. This shortfall is due in part to some unforeseen items that were realized in 2022, including:

- Higher consumption of natural gas in Q1 and Q2 due to colder weather as well as a rate increase that was implemented in May 2022.

- Increased repair costs for bus shelters to due unprecedented levels of damage and vandalism in 2022.

<u>Funding</u>

Transit has $6.6 million in retained earnings which is able to partially fund the forecasted deficit.

The remaining balance of the overall shortfall ($10.6 million) is recommended to be funded through the Financial Stabilization Reserve Fund. The Department will continue to monitor financial results and, should additional savings be realized during the year, these would reduce the amount of required over-expenditure.

The amount of this over-expenditure is forecasted based on actuals to the end of September 2022 and is intended to provide Transit with sufficient budget to continue operations through the end of the year.

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, with an expectation for Provincial matching support. In this regard, the Governments of Canada and Manitoba reached an agreement that will see Federal funding of $20.7 million transferred to Manitoba. As of the date of this report, confirmation of the funding for Winnipeg Transit is outstanding. Additional savings options within Transit require Council approval such as cancelling of previously-approved capital or transfers from Transit's reserves. These saving options are not being recommended at this time as Federal funding is anticipated.

FINANCIAL IMPACT

Financial Impact Statement

Date: October 26, 2022

Project Name:

Over-Expenditure Authorization for Winnipeg Transit 2022 Operating Budget

First Year of Program **2022**

	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	$ 17,200,000	$ -	$ -	$ -	$ -
Less: Incremental Revenue/Recovery	-	-	-	-	-
Net Cost/(Benefit)	$ 17,200,000	$ -	$ -	$ -	$ -
Less: Existing Budget Amounts	-	-	-	-	-
Net Budget Adjustment Required	$ 17,200,000	$ -	$ -	$ -	$ -

Additional Comments: The direct costs reflect the total forecasted deficit for Transit based on actuals to the end of September, 2022 and forecasted amounts for October-December. The deficit is comprised of $6.2 million in revenue shortfall and $11.0 million in over-expenditures. Transit has $6.6 million in retained earnings to partially offset the total amount. Confirmation of any available funding from the Governments of Canada and Manitoba have not been received at this time and as such the balance is recommended to be funded through a transfer from the Financial Stabilization Reserve Fund. Actual costs have not been fully finalized and may result in the final over-expenditure amount varying from the budget adjustment requested in this report.

Laurie Fisher October 26, 2022

Laurie Fisher, CPA, CA
Manager of Finance and Administration

CONSULTATION

This Report has been prepared in consultation with:

N/A

OURWINNIPEG POLICY ALIGNMENT

N/A

WINNIPEG CLIMATE ACTION PLAN ALIGNMENT

N/A

WINNIPEG POVERTY REDUCTION STRATEGY ALIGNMENT

N/A

SUBMITTED BY

Department: Transit
Division: Finance and Administration
Prepared by: Laurie Fisher, Manager of Finance and Administration
Date: October 28, 2022