Agenda – Executive Policy Committee – June 17, 2025

REPORTS

Item No. 10 Financial Stabilization Reserve Replenishment Plan – Interim Measures

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

1. That, effective immediately, the following interim measures be adopted in order to replenish the Financial Stabilization Reserve:

    A. Transfer of prior years' capital surplus of $3.7 million from the Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass Payment Reserve;

    B. Transfer of 2024 operational surplus from:

        i. Winnipeg Transit $5.4 million;

        ii. Animal Services $1.8 million.

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

ADMINISTRATIVE REPORT

Title: Financial Stabilization Reserve Replenishment Plan – Interim Measures

Critical Path: Executive Policy Committee – Council

AUTHORIZATION

Author	Department Head	CFO	CAO
L. Pablo / T. Graham	T. Graham	T. Graham	S. Armbruster, Interim CAO

EXECUTIVE SUMMARY

The Financial Stabilization Reserve Fund ("FSR") has been impacted by several factors, including the COVID-19 pandemic, inflationary pressures, significant snow events, over expenditures in key departments, delays in implementing new revenue streams and other cost pressures. As a result, the FSR has fallen below the Council mandated minimum six percent of tax-supported operating expenditures.

Council's Financial Management Plan requires the preparation of a plan to replenish the FSR when it breaches the minimum mandated level. This occurred in 2022 with an ending balance of $2.1 million compared to the minimum required level of $71.7 million.

The FSR ending balance for 2024 is $17.6 million while the 2025 adopted budget balance is $18.6 million. The minimum threshold balance for this reserve in 2025 is $85.1 million, resulting in a shortfall of $66.5 million. To address this, the Public Service is proposing interim measures to partially replenish the FSR effective immediately:

1. Transfer of prior years' capital surplus of $3.7 million from the Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass Payment Reserve ("SWRT Reserve");

2. Transfer of 2024 operational surplus from:
    - Winnipeg Transit $5.4 million
    - Animal Services $1.8 million

The first measure requires a two-thirds Council vote while the remaining measures can proceed with a majority vote. These measures are vital to safeguard the 2025 financial projections against the risks noted in Attachment 2 of the 2025 Budget Recommendations.

Additionally, the Province of Manitoba had also announced $6.9 million in new unconditional revenue for the One Manitoba Growth Fund. This will be allocated to the FSR to help manage risks at 2025 year-end and was not included in the 2025 adopted budget balance.

Assuming no other changes to these financial assumptions and the proposed interim measures are approved, the projected FSR 2025 ending balance would be $36.4 million, leaving $48.7 million to meet the mandated minimum balance.

In the 2025 Budget, Council directed the Public Service to continue the culture of continuous improvements to meet the budgeted efficiencies and address the structural deficit in city operations. The Public Service will continue to work on replenishing the FSR as part of the 2026 budget process.

RECOMMENDATIONS

1. That, effective immediately, the following interim measures be adopted in order to replenish the Financial Stabilization Reserve:

    A. Transfer of prior years' capital surplus of $3.7 million from the Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass Payment Reserve;

    B. Transfer of 2024 operational surplus from:
        i. Winnipeg Transit $5.4 million;
        ii. Animal Services $1.8 million.

2. 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

The balance in the Financial Stabilization Reserve Fund is below the minimum threshold required by current Council Policy at the end of the 2024 fiscal year. According to the Financial Management Plan, Council must adopt a replenishment plan if the FSR balance falls below the target percentage of tax-supported expenditures.

IMPLICATIONS OF THE RECOMMENDATIONS

Given that specific actions will be necessary in order to replenish the FSR, interim measures are provided for approval in 2025.

This report proposes transferring $3.7 million from the SWRT Reserve to the FSR. The risk associated with this transfer is the potential insufficiency of funds in later years to cover the Public Private Partnership ("P3") costs as per the model. The SWRT Reserve will have a forecasted balance of $13.2 million after this proposed transfer in 2025. Public Service will continue to monitor the SWRT funding model as part of 2026 and future budget processes.

As on-going budget discussions happen in 2025, additional measures will be brought forward for Council approval and/or as part of 2026 budget process.

HISTORY/DISCUSSION

Financial Stabilization Reserve

On March 23, 2011, Council adopted the Financial Management Plan which established a target for the combined balance in the Mill Rate Stabilization and Fiscal Stabilization reserves at a minimum of eight percent of tax-supported expenditures.

On September 28, 2011, Council adopted the combining of the Fiscal Stabilization Reserve and the Mill Rate Stabilization Reserve into the Financial Stabilization Reserve Fund (FSR), with the following regulations, which replace all previous regulations for the Fiscal Stabilization Reserve and the Mill Rate Stabilization Reserve:

- **Purpose**: To counteract the budgetary fluctuations in property and business taxes and/or fund deficits in the General Revenue Fund to assist in the stabilization of the City's mill rate and/or property tax requirements.

- **Sources of funds:** Excess actual total taxes billed compared to budget, surpluses in the General Revenue Fund, unspent amounts in the Commitment Reserve Fund (after approval by the Fund Manager) and/or interest earned.

- **Usage of Funds:** To cover shortfalls in actual total taxes billed compared to budget, major unforeseen expenditures (once the target level is exceeded), year-end deficits in General Revenue Fund, and/or one-time expenditures (once the target level has been reached).

- **Restrictions**: No transfers to the General Revenue Fund to fund ongoing operations.

- **Accessing Fund:** Funds above the eight percent target may be used for major unforeseen expenditures and deficits, requiring Council approval if the required draw reduces the reserve balance below the eight percent target.

- **Replenishment Plan:** If the FSR falls below the eight percent target, Council must adopt a replenishment plan.

On March 23, 2015, Council lowered the minimum balance for the FSR from eight percent to six percent of tax-supported expenditures.

On March 20, 2020, Council amended the purpose to allow transfers between the FSR and the General Revenue Fund, subject to maintaining required annual minimum balances in the FSR, to ensure that the tax-supported operating budget is balanced.

On January 29, 2025, Council approved that the sources of funding for the FSR include transfer of surplus amount from any fund (operating or reserve).

The FSR has been impacted by several factors, including the COVID-19 pandemic, inflationary pressures, significant snow events, over expenditures in key departments, delays in implementing new revenue streams and other cost pressures. Some of these unbudgeted cost pressures are listed in Attachment 2 of the 2025 Budget Recommendations. As a result, the FSR has fallen below the Council mandated minimum six percent of tax-supported operating expenditures.

The FSR ending balance for 2024 is $17.6 million while the 2025 adopted budget balance is $18.6 million. The minimum threshold balance for this reserve in 2025 is $85.1 million, resulting in a shortfall of $66.5 million.

To address this, the Public Service is proposing interim measures to begin replenishing the FSR immediately:

1. Transfer of prior years' capital surplus of $3.7 million from the Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass Payment Reserve;

2. Transfer of 2024 operational surplus from:
    - Winnipeg Transit $5.4 million
    - Animal Services $1.8 million

The first measure requires a two-thirds Council vote while the remaining measures can proceed with a majority vote. These measures, though not ideal, are vital to safeguard the 2025 financial projections against the risks noted in Attachment 2 of the 2025 Budget Recommendations (estimated total of $85 million).

Additionally, the Province of Manitoba announced $6.9 million in new unconditional revenue for the newly established One Manitoba Growth Fund. This will be allocated to the FSR to help manage risks at the end of 2025.

Assuming no other changes to these financial assumptions and the interim measures in this report are approved, the projected FSR ending balance for 2025 would be $36.4 million. This leaves a shortfall of $48.7 million to meet the mandated minimum balance.

Financial Stabilization Reserve	**in millions of $**
2025 Adopted Budget Ending Balance	18.6
One Manitoba Growth Fund	6.9
Add: Interim measures	
Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass Payment Reserve	3.7
2024 Transit operational surplus	5.4
2024 Animal Services operational surplus	1.8
2025 Projected Ending Balance	**36.4**
Minimum Target Level (6% of $1,418,655,442)	85.1
Shortfall against Target Level	**48.7**

In the 2025 Budget, Council directed the Public Service to continue to adopt a culture of continuous improvements to meet the budgeted efficiencies (~$52 million in 2025) and address the structural deficit (~$85 million in 2025) in City operations.

The interim measures noted above are one-time transfers. Public Service will continue to work on replenishing the FSR as part of the 2026 budget process.

Transfer of Prior Years' capital surplus from the Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass Payment Reserve

On a yearly basis, Public Service reviews open capital projects and remaining project balances are addressed as part of the annual budget process. In the 2024 capital closing process, which was reviewed in the 2025 budget process, the Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass (SWRT Reserve) 2022 Public Private Partnership ("P3") payment had a budget of $13,335,000 with actual costs amounting to $9,566,376, leaving a surplus of $3,768,624. This surplus will go back to the SWRT Reserve. The 2025 preliminary budget proposed transferring these surplus funds to the FSR. However, this transfer requires a two-thirds Council vote, which was not approved in the 2025 budget. Consequently, the surplus funds remain in the SWRT Reserve.

The SWRT (Stage 2) and Pembina Highway Underpass Payment Reserve was established to fund the P3 annual service/financing payments for the SWRT (Stage 2) and Pembina Highway Underpass capital project. The funding model for this project anticipates surpluses in the earlier years to potentially fund deficits in the later years, ensuring long-term funding model for the City's obligations under the P3 contract.

This report proposes transferring $3.7 million from the SWRT Reserve to the FSR. The risk associated with this transfer is the potential insufficiency of funds in later years to cover the P3 costs as per the model. The SWRT Reserve will have a forecasted balance of $13.2 million after this proposed transfer in 2025. Public Service will continue to monitor the SWRT funding model as part of 2026 and future budget processes.

2024 Operational Surplus from Winnipeg Transit and Animal Services SOA

Operational surpluses from 2024 include $5.4 million for Winnipeg Transit and $1.8 million from Animal Services SOA. These surplus funds are currently held in their respective Retained Earnings. This report proposes transferring a total of $7.2 million from these funds to the FSR, effective immediately.

On April 24, 1996, Council approved the establishment of Retained Earnings for the Transit Utility. Surplus retained earnings over six percent of expenditures should be set aside for special operating and capital purposes. Transit's 2025 budgeted expenditures are $261.5 million, six percent of which is $15.7 million. Transit's unappropriated retained earnings at the end of 2024 is $12.5 million, including this proposed $5.4 million transfer. If this transfer is approved, Transit would have unappropriated retained earnings of about $7.1 million or 2.7 percent of budgeted expenditures.

The purpose of Transit's retained earnings is to cover future operating deficits. Transit has a number of operating budget pressures including fare revenue, that were identified as outstanding risk items in the in Attachment 2 of the 2025 Budget Recommendations. In the event there is insufficient unallocated Transit retained earnings to cover a year end operating deficit, the amount would be covered through a transfer out of the Financial Stabilization Reserve.

On February 27, 2020, Council established the SOA (Special Operating Agency) Dividend Policy which includes these provisions (not inclusive):

- No dividend may be transferred to the City's General Revenue Fund if doing so would reduce the Accumulated Surplus of the SOA below $500,000; and

- The decision to transfer a dividend and the amount of any dividend transferred from an SOA shall only take place as a result of the annual budget process.

Animal Services' accumulated surplus (unappropriated retained earnings) at the end of 2024 is $3.4 million, inclusive of the proposed transfer. If this transfer is approved, retained earnings will approximately be $1.6 million. The 2025 Business Plan anticipates operational deficits starting in 2025 and going up to 2028. Any available retained earnings subsequent to the proposed transfer are intended to offset these projected deficits and will be dealt with during the 2026 budget process.

Current Outlook of FSR Balances

The table below compares the year-end balance in the FSR to the minimum threshold (in thousands of $):

Year	Year-End Balance	Minimum Target Balance	On Target
2015*	75,632	59,646	✅
2016	67,410	63,307	✅
2017	79,764	64,770	✅
2018	110,961	64,925	✅
2019	107,766	67,497	✅
2020	119,891	68,637	✅
2021	75,092	70,819	✅
2022	2,135	71,673	❌
2023	15,712	78,000	❌
2024	17,575	81,254	❌

*In 2015 the minimum balance target changed from eight percent of tax-supported expenditures to six percent.

Jurisdictional Scan

When preparing a replenishment plan, the Public Service surveyed other jurisdictions regarding financial stabilization practices.

The Province of Manitoba has a Financial Stabilization Account often referred to as the 'Rainy Day Fund' with a minimum legislated balance of five percent of government department operating expenditures. Since provincial governments have the capacity to borrow to fund operational requirements, it is logical that the reserve balance is based on a lower percentage of operating budgets than that used by the City of Winnipeg.

Municipal Comparatives:

- **Abbotsford** has a Rate Stabilization Reserve to mitigate operating surpluses or deficits set at a minimum of five percent of annual revenues or a maximum of 20 percent of annual revenues.
- **Vancouver**'s Revenue Stabilization Reserve is maintained to respond to potential future events with a target balance between eight percent and 16 percent of non-utility revenues.
- **Edmonton** has a Financial Stabilization Reserve based on five percent minimum up to 8.3 percent maximum of the current tax-supported operating expenses (excluding non-cash items such as amortization and gain/loss of the sale of tangible capital assets).
- **Calgary** has a Financial Stabilization Reserve set at five percent of the City's tax-supported gross operating expenditure excluding the utilities.
- **Toronto** has a Tax Rate Stabilization Reserve with a minimum target of two percent of property tax revenues.
- **Ottawa** also has a Tax Stabilization Reserve set to one percent of tax-supported spending (not including Police spending).

In general, the targets are based on a set percentage of either property tax revenues or on operating expenditures. For those linked to operating expenditures, as is done in Winnipeg, the range is from a low of one percent to a high of five percent. Winnipeg's Financial Stabilization Reserve minimum threshold is one percent higher at six percent of tax-supported operating expenditures.

If the City of Winnipeg used some of the above target calculation methods, the minimum balance in the FSR could be:

Reference Jurisdiction	Method	FSR Balance If used by Winnipeg in 2024
Calgary	5% of tax-supported expenses (not including utilities)	$ 67,711,000
Ottawa	1% of tax-supported spending (not including police)	$ 10,223,000
Winnipeg	Current method 6% of tax-supported expenditures	$ 81,254,000

Replenishment Plan Options

To fully replenish the FSR, the following measures could be used:

1. Change the required minimum balance;
2. Change the terms and conditions of the reserve;
3. Implement continuous improvements initiatives;
4. Cost/service reductions;
5. Property tax increase;
6. Implement additional tax measures or new revenue sources;
7. One-time contributions;
8. Transfers from other reserves; and
9. Use a combination of all the above.

Further detail on each measure will be considered in the future.

FINANCIAL IMPACT

Financial Impact Statement

Date: May 5, 2025

Project Name:
Financial Stabilization Reserve Replenishment Plan – Interim Measures

COMMENTS:

Approval of the recommendations will result in transfers to the Financial Stabilization Reserve of:

- $3.7 million transfer of prior years' capital surplus from the Southwest Rapid Transit (Stage 2) and Pembina Highway Underpass Payment Reserve,
- $5.4 million transfer of 2024 operational surplus from Winnipeg Transit, and
- $1.8 million transfer of 2024 operational surplus from Animal Services.

Including $6.9 million from One Manitoba Growth, the Financial Stabilization Reserve 2025 ending balance is projected to be $36.4 million.

Randy Bernard

Randy Bernard, CPA, CMA
Manager of Finance & Administration (Campus)
Corporate Finance Department

CONSULTATION

This Report has been prepared in consultation with:

- Legal Services

OURWINNIPEG POLICY ALIGNMENT

Goal: Leadership and Good Governance
1.6 Results-Based Budgeting: Use this Plan as a foundation for municipal budget priorities to achieve integrated, intergenerational life-cycle planning that maximizes community return on investment.

1.8 Accountable Revenue Generation: Pursue municipal revenue generation based on a predictable, equitable and evidence-informed methodology that offsets service costs while achieving this Plans' sustainability goals.

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 it was determined that the PRS is not applicable to this specific report.

SUBMITTED BY

Department: Corporate Finance
Division: Financial Planning and Review
Prepared by: Liza Pablo
Date: May 6, 2025