Agenda - Executive Policy Committee - December 8, 2004

Report - Standing Committee on Fiscal Issues - December 7, 2004

Item No. 2 Deficit Avoidance - Commitment Reserve, Waterworks System, Sewage Disposal System and the Equipment and Material Services Funds
File FE-5

STANDING COMMITTEE RECOMMENDATION:

On December 7, 2004, the Standing Committee on Fiscal Issues concurred in the administrative recommendation and submits the following to Council:

1. That for the year-ended December 31, 2004, commitments considered surplus be transferred from the Commitment Reserve to the General Revenue Fund in accordance with Clause 289(4)(a) of The City of Winnipeg Charter.

2. That for the year-ended December 31, 2004, a maximum of $0.5 million in deficit avoidance savings be transferred from the Waterworks System and Sewage Disposal System Funds to the General Revenue Fund in accordance with Section 288 of The City of Winnipeg Charter.

3. That for the year-ended December 31, 2004, $1.6 million be transferred from the Equipment and Material Services Fund to the General Revenue Fund in accordance with Section 288 of The City of Winnipeg Charter.

4. 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 - December 8, 2004

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DECISION MAKING HISTORY:

STANDING COMMITTEE RECOMMENDATION:

On December 7, 2004, the Standing Committee on Fiscal Issues concurred in the administrative recommendation and submitted the matter to the Executive Policy Committee and Council.

ADMINISTRATIVE REPORT

RE: Deficit Avoidance – Commitment Reserve, Waterworks System, Sewage Disposal System and the Equipment and Material Services Funds

FOR SUBMISSION TO: Standing Committee on Fiscal Issues

ORIGINAL REPORT SIGNED BY: Chief Financial Officer

REPORT DATE: December 7, 2004

RECOMMENDATIONS:

(1) That for the year-ended December 31, 2004, commitments considered surplus be transferred from the Commitment Reserve to the General Revenue Fund in accordance with clause 289(4)(a) of The City of Winnipeg Charter;
(2) That for the year-ended December 31, 2004, a maximum of $0.5 million in deficit avoidance savings be transferred from the Waterworks System and Sewage Disposal System Funds to the General Revenue Fund in accordance with Section 288 of The City of Winnipeg Charter; and
(3) That for the year-ended December 31, 2004, $1.6 million be transferred from the Equipment and Material Services Fund to the General Revenue Fund in accordance with Section 288 of The City of Winnipeg Charter.

REPORT SUMMARY:

Key Issues:

A 2004 deficit is being projected for the General Revenue Fund. Some of the initiatives that have been identified to avoid a deficit include transfers from several City of Winnipeg funds. These transfers require Council approval.

Implications of the Recommendation(s):

General implications:
X **None**
□ **For the organization overall &/or for other departments**
□ **For the community and/or organizations external to the City**
□ **Involves a multi-year contract**
Comment(s):

Policy implications:
X **No**
□ **Yes** **Comment(s):**

Environmental implications:
X **No**
□ **Yes Comment(s):**

Human Resources implications:
X **No**
□ **Yes Comment(s):**

Financial implications:
□ **Within approved current and/or capital budget**
X Current and/or capital budget adjustment required
Comment(s): Council approval is required to approve the transfer amongst City of Winnipeg Funds.

REASON FOR THE REPORT:

As at June 30, 2004, the City forecasted a 2004 General Revenue Fund deficit of $19.2 million. Based on the forecast the Administration identified several deficit avoidance initiatives. Some of the initiatives were: delaying the filling of vacant positions; curtailing discretionary spending; and the transfer of funding from various City of Winnipeg Funds to the General Revenue Fund. Under Section 288(1) of The City of Winnipeg Charter, Council approval is required for the transfer amongst Funds.

HISTORY:

On December 17, 1997, Council approved Clause 1 of the report of the Standing Committee on Fiscal Issues, which requires that the Standing Committee on Fiscal Issues approve a periodic Financial Status and Forecast report. The December 31, 2004 Financial Status and Forecast report based on actuals for the six month period ended June 30, 2004 was presented at the September 14, 2004 meeting of the Standing Committee on Fiscal Issues. The report identified a $19.2 million forecasted deficit. Also presented at the meeting was a report entitled Deficit Avoidance Initiatives, which identified opportunities available to reduce the projected year-end deficit. Some of the opportunities identified included such initiatives as departmental cost savings and the transfer of revenue from various City funds to the General Revenue Fund.

DISCUSSION:

(1) Commitment Reserve Fund

Each year Council approves the current operating budget thereby giving departments the authority to incur expenses. However, according to generally accepted accounting principles, expenses are recognized as they are incurred and measurable based upon receipt of goods or services and/or the creation of a legal obligation to pay. As a result, actual expenses may not be realized in the same fiscal year as the adopted budget. Therefore, Council approved the

establishment of the Commitment Reserve Fund to allow departments to carry forward committed budget dollars to the succeeding fiscal year thereby eliminating the need to re-budget.

Council also approved that contributions to the Reserve must be spent in the year following the transfer. However, commitments can be retained in the Reserve beyond the following year only if approved by the Chief Financial Officer; otherwise the unspent amounts must be transferred to the Mill Rate Stabilization Reserve.

Under clause 289(4)(a) of The City of Winnipeg Charter, the chief financial officer can certify that the amount in the fund is greater than the amount required for the purpose for which the fund was established". The chief financial officer is in the process of examining the current balance in the Reserve along with the commitments relating to the Reserve and anticipates that surplus funds will be identified which will not be required for the purpose for which the funds were placed in the Reserve. Therefore, to avoid a deficit in the General Revenue Fund, Council is being requested to approve, for 2004, that unspent commitments certified by the chief financial officer as being surplus to the requirements of the Reserve be transferred to the General Revenue Fund.

At the time of preparing this report, the amount of saving which could be generating by this initiative is not known since departments are still incurring expenditures. The amount will be determined by mid-January 2005.

(2) Waterworks System and Sewage Disposal System Funds

On September 2, 2004, the CAO requested the assistance of Department Heads to identify opportunities to reduce the projected 2004 year-end deficit. The Water and Waste Department identified additional savings of up to $0.5 million in the Waterworks System and Sewage Disposal System Funds. As previously indicated, under Section 288(1) of The City of Winnipeg Charter, Council is being requested to approve that these savings be transferred to the General Revenue Fund.

(3) Equipment and Material Services Fund

Over the past several years all the operational elements of the Equipment and Material Services Fund have been transferred to Special Operating Agencies and the General Revenue Fund. There is a retained surplus in the Fund, which has been generated over a number of years and is not required to fund existing obligations.

Under Section 288(1) of The City of Winnipeg Charter, Council is being requested to approve that the currently available $1.6 million of the retained surplus be transferred from the Equipment and Material Services Fund to the General Revenue Fund for the year-ended December 31, 2004.

Financial Impact Statement **Date:** December 7, 2004

Project Name: **First Year of Program** **2004**

Deficit Avoidance Plan

	2004	2005	2006	2007	2008
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	$ -	$ -	$ -	$ -	$ -
Less: Incremental Revenue/Recovery	-	-	-	-	-
Net Cost/(Benefit)	$ -	$ -	$ -	$ -	$ -
Less: Existing Budget Amounts	-	-	-	-	-
Net Budget Adjustment Required	$ -	$ -	$ -	$ -	$ -

Additional Comments: At the time of issuing this report the financial impact on the General Revenue Fund is unknown. The impact will be determined by mid-January 2005, after the transactions are recorded in the Fund.

P. Bodnar
Senior Financial Accountant

IN PREPARING THIS REPORT THERE WAS CONSULTATION WITH, AND CONCURRENCE BY:

Public Works Department
Legal Services – Corporate Services Department
Water and Waste Department

THIS REPORT SUBMITTED BY:

Prepared by: Pat Bodnar
File No. 2004 deficit avoidance.doc