Agenda - Executive Policy Committee - December 8, 2004

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

Item No. 4 Deficit Avoidance - Fiscal Stabilization Reserve and Mill Rate Stabilization Reserve Funds
File FE-1

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 the Fiscal Stabilization and Mill Rate Stabilization Reserves forgo their 2004 interest earnings up to the amount required to avoid a deficit in the General Revenue Fund.

2. That the 2004 photo enforcement program revenue budget shortfall, which is recorded in the General Revenue Fund, be funded from the Fiscal Stabilization Reserve as an unforeseen expense.

3. That the transfer from the Fiscal Stabilization Reserve to the General Revenue Fund for the year-ended December 31, 2004, be the amount required to avoid a deficit in the General Revenue Fund up to the maximum amount of the photo enforcement program revenue budget shortfall.

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

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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 – Fiscal Stabilization Reserve and Mill Rate Stabilization Reserve Funds

FOR SUBMISSION TO: Standing Committee on Fiscal Issues

ORIGINAL REPORT SIGNED BY: Chief Financial Officer

REPORT DATE: December 7 2004

RECOMMENDATIONS:

(1) That the Fiscal Stabilization and Mill Rate Stabilization Reserves forgo their 2004 interest earnings up to the amount required to avoid a deficit in the General Revenue Fund;
(2) The 2004 photo enforcement program revenue budget shortfall, which is recorded in the General Revenue Fund, be funded from the Fiscal Stabilization Reserve as an unforeseen expense; and
(3) The transfer from the Fiscal Stabilization Reserve to the General Revenue Fund for the year-ended December 31, 2004, be the amount required to avoid a deficit in the General Revenue Fund up to the maximum amount of the photo enforcement program revenue budget shortfall.

REPORT SUMMARY:

Key Issues:

A 2004 deficit is being projected in the General Revenue Fund. The initiatives identified to avoid a deficit 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): Reduces the Stabilization Reserves' - Fiscal Stabilization Reserve and Mill Rate Stabilization Reserve - retained surplus. The reduction will impact the pace of increase in the Stabilization Reserves as approved in the Financial Management Plan.

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. 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. The deficit was partially the result of a $4.0 million budget shortfall in photo enforcement revenue, which has risen to $6.9 million as of the September 30, 2004 forecast.

DISCUSSION:

Recommendation (1)

The City of Winnipeg operates a centralized treasury function with a single operating bank account in the General Revenue Fund. Consequently, the Stabilization Reserves – the Fiscal Stabilization Reserve and the Mill Rate Stabilization Reserve – do not have a separate bank account. Cash transactions are credited or charged to the "Due from the General Revenue Fund" in each reserve. Interest revenue is credited to the reserves based on the City's average short-

term earnings. This first recommendation increases the interest revenue in the General Revenue Fund by forgoing interest revenue in the Stabilization Reserves up to the amount of the deficit.

Recommendations (2) and (3)

On May 16, 1973, Council approved the creation of the Future Tax Levies Reserve Fund to counteract the budgetary effects of fluctuations from year to year in tax revenue caused by additions to and deletions from the tax roll due to new construction, demolitions or improvements to land. On March 20, 1997, Council approved the name of the fund be changed to the Fiscal Stabilization Reserve and it was subject to the following financial regulations with respect to the use of the fund:

- No transfers from the Reserve be made to the General Revenue Fund to fund current operations;
- The current funding arrangement through net taxes added be maintained;
- The target level of the Reserve be established at a minimum level of 5% of the General Revenue Fund's adopted budget expenses;
- Once the Reserve balance exceed 5% of the General Revenue Fund's adopted budgeted expenses, the excess amount be considered for utilization only to provide for major unforeseen expenses; and
- The use of these funds in any given year be limited to no more than 20% of the prior year's Reserve balance.

On December 13, 2000, Council approved that the regulations governing the Fiscal Stabilization Reserve be amended to provide for transfers to or from the reserve to offset any variances in the tax projections used in the development of the annual estimates and the actual amounts billed in the spring of each year.

On May 23, 2001, Council again amended the above regulations. Beginning in 2002, the Reserve is limited to interest earned and the revenue from net supplementary taxes added in a year is recorded as revenue in the General Revenue Fund. Council also added a provision for the use of any surplus after the Stabilization Reserves reach a combined total of 10% of Tax-Supported expenditures as being available for one-time expenditures.

During 2001, $7.0 million was transferred to the Fiscal Stabilization Reserve from the Pension Stabilization Reserve. The purpose of the Pension Stabilization Reserve was to support general operating expenditures thereby reducing the amount of revenue to be raised through property taxation, in order to share the benefits of the surplus with the citizens of Winnipeg. The use of funds from the Reserve was contingent upon approval by Council. Including the $7.0 million contribution, the Fiscal Stabilization Reserve had a retained surplus balance as at December 31, 2001 of $32.5 million. As at December 31, 2003, the balance has risen to $34.2 million.

The photo enforcement program commenced in the fall of 2002 with the construction of photo radar infrastructure at strategic sites throughout the city. Photo radar was activated on January 1, 2003 with the ticketing of infractions at these sites.

The 2003 and 2004 photo enforcement budget was based on information gathered by the contractor from other Canadian municipalities. However, the budget was impacted by various events including the staffing of mobile units, weather, changes to speed limits and construction. This resulted in a 2004 forecasted budget shortfall of $6.9 million and a review of the 2005 and future revenue estimates. Given that the revenue shortfall has resulted from the City's evolving experience with the photo radar program, the budget shortfall represents an unforeseen occurrence that could be offset by funds available in the Fiscal Stabilization Reserve. Prior to 2001, the reserve could be used for unforeseen expenses if the reserve balance exceeded 5% of the General Revenue Fund's budget. As noted above, a further $7.0 million was transferred from the Pension Stabilization Reserve. Prior to this transfer, there were no spending limitations on the $7.0 million other than Council's approval. It is therefore recommended that the Fiscal Stabilization Reserve's retained surplus, in particular the amount transferred from the Pension Stabilization Reserve fund the revenue shortfall if the deficit exceeds the amount of interest forgone by the Stabilization Reserves.

If Council approves the recommendation, it will impact the Financial Management Plan adopted by Council on April 25, 2001. The Plan outlines seven key financial goals. One of the goals is to "Ensure Adequate Reserves" with a target that the City's Stabilization Reserves are to be at a minimum of 10% of Tax-Supported expenditures by 2009 on a combined basis or approximately $70.0 million based on the 2004 Tax-Supported budget. As at December 31, 2003, the Fiscal Stabilization Reserve balance was at a level of 5% of Tax-Supported expenditures, while the Mill Rate Stabilization Reserve was at 3.8% for a combined 8.8% or $60.6 million. Any significant draw on either of these reserves will make achieving this goal difficult.

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

Project Name:
Deficit Avoidance Plan

First Year of Program **2004**

	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:

Legal Services – Corporate Services

THIS REPORT SUBMITTED BY:

Prepared by: Pat Bodnar
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