Council Briefing

October 18, 2019

Multi-year Budget (2020 to 2023)
Multi-year Budget (2020 to 2023)

Agenda

- Multi-year Budget Context
- Multi-year Budget Process
- EPC Recommended Operating and Capital Targets to Balance
Multi-year Budget (2020 to 2023)

Multi-year Budget Context
The 1990s: A Challenging Decade

Winnipeg’s current fiscal policies were custom tailored to the situation it faced in the 1990s

- Population Decline
- Negative experiences (Flood of 1997, Winnipeg Jets leaving)
- Low Revenue Growth
- High Dependence on property taxes
- Among the highest property taxes in Canada
The 1990s: A Challenging Decade

As a result, the City hoped to stop, or manage, the decline with:

- Years of property tax freezes
- Restricted Capital Investment
- Expenditure Reductions
- Reduced FTE’s
- Reduced Debt
- Withdrawals from reserves
The 2010s: A Decade of Growth

Winnipeg’s economic challenges have reversed since the 1990s. One of main challenges now is **meeting the demands of a growing city**.

- Fastest population growth since the 1950’s
- Second fastest Real GDP in 2018 out of major cities
- Lowest municipal property tax of any major Canadian city
- Low reliance on property tax
- Low debt payments
The 2010s: A Decade of Growth

As a result, we are now experiencing *growing pains that we have to address* to keep our population moving forward.

- There is a structural imbalance between revenues and the costs generated by growth (including new infrastructure)
- Failure to meet this challenge could impede on future growth and the desirability of Winnipeg as a destination for prospective residents and businesses
Present: New Solutions are Needed

The solutions the City adopted in the 1990s are no longer working

- Low property tax revenue has led to deferred capital investment and constrained service delivery
- Dedicated property tax increases (2.33%) has led to an improvement in street renewal and transit infrastructure
- Options for closing the gap between operating revenues and expenditures with funding from reduced debt payments and drawing from reserves is limited and unreliable going forward
Present: New Solutions are Needed

The City has **hard** fiscal choices to make.

- Deferral of capital investment means the infrastructure gap will grow, and key community needs won’t be met – a civic competitiveness issue
- Continued operating expenditure constraints, and FTE reductions mean making hard choices about service priorities and cuts
How does Winnipeg’s current growth compare to our past?
Is Winnipeg Growing?

Yes, the fastest it has in recent history.

Over the past 9 years, Winnipeg has grown by over 90,000 people, or roughly 27 people per day.

In the 2000’s, Winnipeg grew by 33,000 people, equivalent to 9 people per day.

In the 1990’s, Winnipeg grew by 14,000 people, equivalent to 4 people per day.
City of Winnipeg’s Population: 1871 to 2018

Please note that prior to 1986, population values outside of census years are linearly interpolated and census undercount values are assumed to be 1.5% of the census population.
City of Winnipeg’s Population: 1980 to 2018

Population is growing at 3 times the rate this decade than in the previous decade.

- 1990: 620,000 (0.2%)
- 2000: 660,000 (0.4%)
- 2010: 740,000 (1.2%)
- 2018: 800,000

Please note that prior to 1986, population values outside of census years are linearly interpolated and census undercount values are assumed to be 1.5% of the census population.
### Population Growth Across Canada

<table>
<thead>
<tr>
<th>City</th>
<th>Total Population Growth 2011 to 2016 (CY)</th>
<th>Total Population Growth Projections 2018 to 2023 (CMA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Edmonton</td>
<td>14.8%</td>
<td>10.6%</td>
</tr>
<tr>
<td>Calgary</td>
<td>13.0%</td>
<td>10.3%</td>
</tr>
<tr>
<td>Regina</td>
<td>11.4%</td>
<td>10.0%</td>
</tr>
<tr>
<td>Saskatoon</td>
<td>10.9%</td>
<td>9.3%</td>
</tr>
<tr>
<td>Winnipeg</td>
<td>6.3%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Ottawa</td>
<td>4.6%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Vancouver</td>
<td>4.5%</td>
<td>6.8%</td>
</tr>
<tr>
<td>Toronto</td>
<td>3.3%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Montreal</td>
<td>3.3%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Halifax</td>
<td>3.3%</td>
<td>3.9%</td>
</tr>
<tr>
<td>Hamilton</td>
<td>3.0%</td>
<td>3.9%</td>
</tr>
<tr>
<td>Quebec City</td>
<td>2%</td>
<td>3.9%</td>
</tr>
</tbody>
</table>

Winnipeg was the fastest growing *non-energy based* city in Canada.

What was our financial situation like in the 1990s?
In the mid-1990’s, residents and businesses were becoming increasingly concerned about 3 things within the City:

1. Winnipeg had high property taxes:
   
   "Our taxes are among the highest in the country - moving out of the city to avoid those taxes has been a trend for years."

2. Winnipeg had a higher proportion of its revenue coming from property taxes:

3. Winnipeg had high debt servicing costs:

   "The Committee has concluded there is no room for additional taxes from the citizens of Winnipeg and that current tax levels must be reduced. Inevitably, this requires significant measures to be undertaken regarding expenditures."

   - City of Winnipeg Committee on Tax Reform, “Rethinking Taxation: Making Winnipeg Competitive”, June 1998
   - The City’s debt consumes about 20% of its revenues, compared to an average of 11% in most other Canadian cities.

   City of Winnipeg 1999 Budget, Appendix 10
Third highest average municipal property tax in 1998

Source: City of Edmonton Property Tax Survey Data, 1985 to 2000
Sources of Revenue - Dependence on Property Tax - 1998

- Property Taxes: 40%
- Water & Sewer User Fees: 15%
- Operating Grants: 11%
- User Fees & Charges: 10%
- Business Tax: 6%
- Interest, Land Sales & Other: 6%
- Transit Fares: 5%
- Capital Grants: 5%
- Other Taxes: 4%

Source: City of Winnipeg Annual Financial 1998 Report
Proportion of Budget toward Debt and Finance - 1998

Source: City of Winnipeg 1998 Tax-supported Operating Budget

- All Other Expenditures: $546,999,816 (81%)
- Total Debt and Finance Charges: $127,800,990 (19%)
How did the City respond?
Reduced mill rates

Source: City of Winnipeg Assessment and Taxation Department
Stopped taking on debt, reduced debt payments

Total operating funds that have been reallocated from debt payments since 1995: $130 million

Source: City of Winnipeg Department of Corporate Finance
Reduced Cash to Capital

Adopted Cash to Capital
Cut Cash to Capital

Source: City of Winnipeg Department of Corporate Finance
Reduced expenditures and reserve withdrawals

Expenditure reductions and transfers from other funds and reserves vary in size and availability each year. They’ve averaged $88 million over the past 5 years.
Started a Utility Dividend in 2011

Utility Dividends used to help balance the tax-supported operating budget have averaged $34 million in the last 5 years.
Used additional revenue for capital projects

Compared to 2008, revenues are up $357 million. 36% of this increase, or $128 million in annual revenue, has been dedicated to public works, street renewal, and BRT.

Source: City of Winnipeg Adopted Tax-Supported Operating Budget Documents, 1985 to 2018
Of the $431 million increase in the tax supported operating budget since 2004, $300 million, or 70% is due to Salary and Benefits.
This is due, in part, to an increase in average salary and benefit expenditure per FTE by area.
and also a shift in the quantity of FTEs by area.

Source: City of Winnipeg Adopted Tax-Supported Operating Budget Documents, 1998 to 2018
Finally, of the $300 million increase in salary and benefits expenditure, $233 million (78%) was allocated to Emergency Services

Increase in Tax Supported Expenditures on Salary and Benefit by Area, Relative to 2004

Source: City of Winnipeg Adopted Tax-Supported Operating Budget Documents, 2004 to 2019
What was the result of these changes and how do we compare to other cities?
Between 2000 and 2018, Winnipeg reduced its mill rate by 60%. Only Headingley reduced theirs more, by 65%.

Source: City of Winnipeg Assessment and Taxation Department, various Rural Municipality’s 2018 Financial Plans.
In 2019, Winnipeg had the lowest average municipal property taxes out of 12 major Canadian cities.
Ottawa
Toronto
Victoria
Vancouver
Québec
Edmonton
Regina
Saskatoon
Calgary
Halifax
Winnipeg

Lowest Average Municipal Property Tax - 2019

Source: Cities Assessment and Taxation Websites and various other media sources
Low proportion of property tax non-residentially

Winnipeg has among the lowest proportion of its tax revenue coming from non-residential properties.

Source: City of Calgary Property Tax Survey, 2017

* Note: Revenue received from Business taxes in Calgary and Winnipeg are included in the total amount of taxes received from non-residential properties.
Less reliant on tax, more reliant on transfers

More reliant on capital grants from other levels of government as well as user fees and charges.

Less reliant on property tax revenue and Business Tax.

Source: City of Winnipeg 1998 and 2016 Annual Financial Reports
Lowered debt and finance charges

Total Debt and Finance Charges reduced from $124 million to $35 million of the Tax-Supported operating budget

Source: City of Winnipeg Tax-Supported Operating Budgets, 1994 to 2019
Net Tax Supported Debt is Increasing

Source: City of Winnipeg Treasury Department
Lowest expenditures per capita

Source: Cities’ 2017 Tax-Supported Operating Budgets and Annual Reports
Low capital investment per capita

Source: 2012 to 2017 Cities Annual Financial Reports

Average: $963 per capita
Low revenue per capita

Source: Cities’ 2017 Tax-Supported Operating Budgets, Utility Budgets, and Annual Reports
* Note: The City of Edmonton figures for water and sewer includes land drainage only. This does not include water and sewer revenue collected by the EPCOR utility.
Past approaches are no longer sustainable to meet the needs of a growing City.
The structural fiscal deficit: 2008-2028

This gap would not exist in a multi-year budget. In the short term, future years would also need to be balanced, not just the current one.

Source: City of Winnipeg Economic Research Office Budget Model
We can no longer rely on reduced debt

Tax-Supported Funds Freed up from Expired Debt Payments

Source: City of Winnipeg Department of Corporate Finance
We can no longer rely on cutting cash to capital

Under the current projections, all cash to capital would need to be cut to get us closer to a balanced budget.

Source: City of Winnipeg Department of Corporate Finance
Expenditure reductions and transfers from reserves are unreliable

Expenditure reductions and transfers from other funds and reserves vary in size and availability each year.

Funds available in reserves are hard to predict and not necessarily sustainable as we use them up.

Source: City of Winnipeg Department of Corporate Finance
Utility dividends face growth pressure

Utility dividends may be increasing but there is pressure to reduce them

(Note: dotted line current assumes 11% dividend on projected WWD sales as in the 2019 rate report)
But even with these measures, we still have a gap – and this does not include unfunded capital. The challenge is structural.
The Structural Deficit

**Structural Deficit:** A permanent deficit that results from an underlying imbalance in government revenues and expenditures.

**City 2020 Budgeted Deficit Submissions:**

- 2020: $89.6 million
- 2021: $119.9 million
- 2022: $158.6 million
- 2023: $174.9 million
Conclusion:

• The 1990’s were a challenging decade: Low population growth, negative shocks, high property tax and debt;

• The City hoped to stop the decline with tax and operating/capital expenditure deferrals and reductions;

• Currently, we are facing an inverse situation: exceptional population growth and the lowest property tax and spending per capita;

• The context has changed; the solutions used in the past are no longer reliable
Multi-year Budget (2020 to 2023)

Multi-year Budget Process
Introducing a four year balanced budget process will help the City with long-term, sustainable planning. This multi-year balanced budget aims to:

- control expenses,
- invest in priority services,
- drive efficiencies, and
- achieve sustainability and greater certainty for taxpayers, stakeholders, and the Federal and Provincial governments.

Citizen needs and expectations are evolving. This multi-year balanced budget process provides an opportunity to develop a transformative budget that creates a sustainable financial plan to meet the dynamic needs of a growing city.
Multi-year Budget Process

- October 18 – EPC setting of multi-year budget parameters including expenditure targets
- November 12 to December 9 – SPCs, EPC, Police Board meetings
  - November 12 to November 20 – Multi-year Budget presentations
  - November 22 to November 27 – Multi-year Budget delegations
  - November 28 to December 9 – Multi-year Budget recommendations
- January 2020 – BWG / EPC deliberate on budget recommendations from SPCs
- February 2020
  - EPC tables preliminary multi-year budget
  - SPC and Board preliminary budget review meetings
- March 2020 – Council approval of multi-year budget
- Annual review of future budgets
Multi-year Budget (2020 to 2023)

EPC Recommended Operating and Capital Targets to Balance
Key Assumptions

These proposed recommended targets present a balanced tax-supported operating budget from 2020 to 2023

1. Property Tax Increases: 2.33% annually (road renewal and BRT)
2. Fees and Charges: Inflationary increases annually
3. Natural Assessment Base Growth: 1.2% annually
4. Efficiencies/Vacancy Management: $17 Million annually
5. Additional Transfers/Savings: $32.5 million in 2020 growing to $40 million by 2023
6. Provincial Operating Grants: Flat at $149.7 million annually (2016 level)
7. Utility dividend rate: 11% of Water and Sewer Sales
8. Remaining Tax Supported Debt Room: $150 million in total
EPC Recommended Target To 4-Year Balance

## Department Operating Budget Growth Rates

<table>
<thead>
<tr>
<th>Services</th>
<th>Annual Budget Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Police, Fire, Transit, Water &amp; Waste</td>
<td>2.0%</td>
</tr>
<tr>
<td>Public Works</td>
<td>1.5%</td>
</tr>
<tr>
<td>Community Services</td>
<td>0.5%</td>
</tr>
<tr>
<td>Property, Planning, and Development, SOAs, and Internal Services</td>
<td>0.0%</td>
</tr>
<tr>
<td>(Corporate, Audit, Innovation, Assessment &amp; Taxation)</td>
<td></td>
</tr>
</tbody>
</table>

## Capital Financing: reduced to $20 million annually

<table>
<thead>
<tr>
<th>Capital Financing Source</th>
<th>Annual Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash to Capital</td>
<td>$20M</td>
</tr>
<tr>
<td>Debt Financing (incremental to capital budget forecast)</td>
<td>$0</td>
</tr>
</tbody>
</table>
Information Provided to Councillors to assist with budget process:

- OurWinnipeg
- Adopted Capital Budgets (2016-2019)
- Adopted Operating Budgets (2016-2019)
- Annual Reports (2016-2018)
- Detailed Financial Statements (2016-2018)
- State of the Infrastructure Report
- City Asset Management Plan
- Open Budget (Open Capital Projects)
- Unfunded Capital Projects
- Legislated & Non-Legislated Services List
- PeopleSoft General Ledger Balances (training to be provided)