



# **The City of Winnipeg**

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**Manitoba Hydro  
General Rate Application  
2017/18 and 2018/19**

# Manitoba Hydro GRA

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- Manitoba Hydro has applied for a 7.9% rate increase effective August 1, 2017/18 as well as a 7.9% rate increase effective April 1, 2018.
- On September 5, 2017, Manitoba Hydro indicated that it projects rate increases of 7.9% for six years (fiscal years 2018/19 – 2023/24) followed by a one year rate increase of 4.54%, and thereafter rate increases at 2%.
- These rate increase will apply to all components of the rates for all customer classes
- How has Manitoba Hydro characterized its proposed rate increases?
  - “We acknowledge that a 7.9 percent increase is an exceptional rate increase in the province of Manitoba” [emphasis added]<sup>1</sup>
  - “a 7.9 percent increase is larger than any previous increase sought from the Public Utilities Board by Manitoba Hydro” [emphasis added]<sup>2</sup>
  - “We certainly recognize that the rate increases we've asked for and the future rate increases that are forecasted will not be ... without consequence” [emphasis added]<sup>3</sup>

1. Opening statement of Manitoba Hydro Counsel, December 4, 2017
2. Opening statement of Manitoba Hydro Counsel, December 4, 2017
3. Opening statement of Manitoba Hydro President and CEO, December 4, 2017

# What are the Consequences for Winnipeg?

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- **Manitoba Hydro's proposed rate increases, if approved, will impact the City of Winnipeg in 4 material ways:**
  - **Direct electrical costs: negative impact**
  - **Indirect costs (increased price of goods and services purchased by Winnipeg): negative impact**
  - **Electricity tax revenues: positive (but not offsetting) impact**
  - **Winnipeg Gross Domestic Product: negative impact**

# City of Winnipeg: Background

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- **Capital of the Province of Manitoba**
- **Largest city / municipality in Manitoba – population of approximately 750,000 (approximately 59% of the population of Manitoba)**
- **Municipal corporation pursuant to *The City of Winnipeg Charter Act***
  - **Purpose of the City set out in section 5(1):**
    - 5(1)The purposes of the city are
      - (a) to provide good government for the city;
      - (b) to provide services, facilities or other things that council considers to be necessary or desirable for all or part of the city;
      - (c) to develop and maintain safe, orderly, viable and sustainable communities; and
      - (d) to promote and maintain the health, safety, and welfare of the inhabitants.
  - **City carries out its mandate through provision of goods and services to individuals and businesses of Winnipeg**
  - **Accomplished through annual budgeting process – both an operating budget and a capital budget**

# City of Winnipeg: Background cont'd

- **Operating budget: annual estimate of the City's cost expenditures together with the revenue sources to fund those costs**

- Governed by section 285 of *The City of Winnipeg Charter Act*

285(1) Every operating budget of the city for a fiscal year shall include estimates of

(a) all operating revenue for the year, including all

(i) amounts, that under this or any other Act, are required to be raised in the year by imposing taxes, and

(ii) transfers from the previous year's surplus or a reserve fund;

(b) all operating expenditures for the year, including all amounts

(i) to be transferred in the year to the capital budget or a reserve fund,

(ii) needed to eliminate any deficit incurred in respect of the previous fiscal year, and

(iii) needed to defray the cost of collection of taxes, the abatement of and discounts on taxes and taxes considered by council to be uncollectible; and

(c) all amounts required to pay principal and interest payments falling due within the year on any debt of the city.

Expenditures not to exceed revenues

285(2) adopting an operating budget, council must ensure that the estimated expenditures for a fiscal year do not exceed the estimated revenues for the year. [emphasis added]

- **Operating budget is a “zero-sum” process; revenues = expenditures**

- By way of example, City 2018 Preliminary Operating Budget: revenues of \$1.08 billion = expenditures of \$1.08 billion

# City of Winnipeg: Background cont'd

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- **Both City direct electricity costs and City indirect costs (costs of goods and services purchased by the City) are part of the City's annual operating expenditures**
  
- **City operating revenues generally split between taxation (property and business taxes), fees and charges, and grants from other levels of government**
  - For City 2018 Preliminary Budget, property and business taxes represent approximately 60% of Total Revenues
  - For City 2018 Preliminary Budget, government grants represent approximately 12% of Total Revenues
    - Amount of annual government grants are not guaranteed; rather they are funding decisions made at that other government level
    - By way of example, the recent provincial government decision to eliminate its commitment to cover 50% of the operating costs for municipal transit systems
  
- **City operating expenditures cover a broad range of goods and services**
  - For example, Police Service, Fire and Paramedic Service, contribution to Winnipeg Transit, debt and financing charges, Community Services
  - Certain expenditures afford little or no room to cut, such as Police Services, Fire and Paramedic Services, debt and financing charges.

# City of Winnipeg: Background cont'd

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- **Capital budget: provides financing for minor and major capital projects**

- *Governed by section 286 of **The City of Winnipeg Charter Act***

- The capital budget of the city for each fiscal year and each five year capital forecast of the city shall include estimates of

- (a) the amount needed to acquire or construct each of the works proposed in the budget or forecast; and
    - (b) the anticipated sources of the amount needed for each of those works.

- **Examples: Southwest Rapid Transitway, purchase of Winnipeg Transit fleet, purchase of Police, Fire and Paramedic fleet**
  - **Financing raised through contributions of federal and provincial governments, developer contributions and City of Winnipeg contributions**
  - **City of Winnipeg contributions generally financed through debt**
    - **Interest payable on debt forms part of the operating budget expenses**

# City of Winnipeg: Background cont'd

## ➤ Budgetary Challenges:

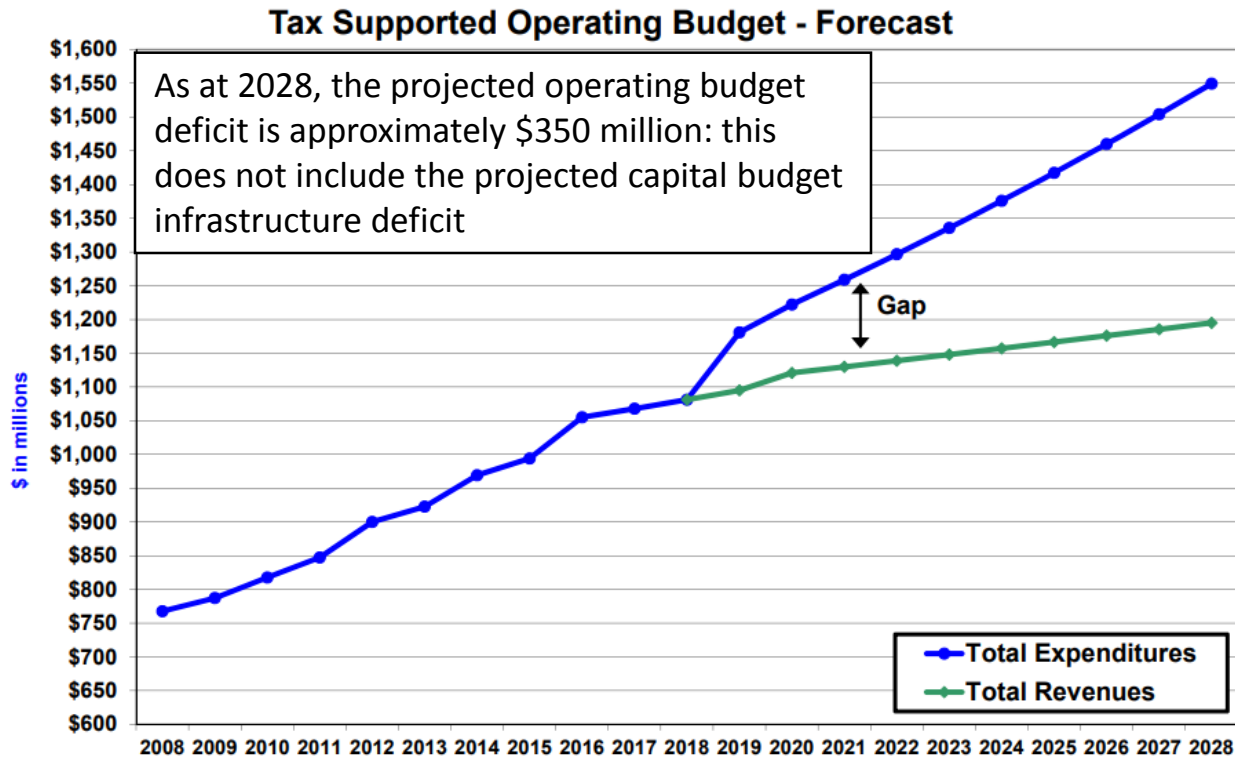
- “The City’s tax supported budget has a structural deficit: sustainable revenue streams do not cover required expenditures.”– 2018 Preliminary Budget
  - As of Oct 31, 2017, the City was facing a operating budget structural deficit of approximately \$89 million. In order to balance the 2018 budget, cuts to service departments and cash expenditures to capital were made.
  - As set out below, the current 2019 and 2020 operating budget projections show deficits of \$85.9 million and \$101.3 million, respectively. See chart below:

In Millions of \$	2018 Preliminary Budget	2019 Projection	2020 Projection
<b>REVENUE</b>			
Property Taxes	\$ 585.6	\$ 606.4	\$ 626.7
Business Taxes	56.9	56.9	56.9
Other	438.6	431.6	437.3
<b>TOTAL REVENUE</b>	<b>\$ 1,081.1</b>	<b>1,094.9</b>	<b>1,120.9</b>
<b>EXPENDITURES</b>			
Departmental	1,008.3	1,080.1	1,110.1
Corporate	72.8	100.7	112.1
<b>TOTAL EXPENDITURES</b>	<b>1,081.1</b>	<b>1,180.8</b>	<b>1,222.2</b>
<b>SURPLUS / (DEFICIT)</b>	<b>\$ -</b>	<b>(85.9)</b>	<b>(101.3)</b>



# City of Winnipeg: Background cont'd

- Going forward, through to 2028, it is projected that the operating budget deficit will continue to grow.

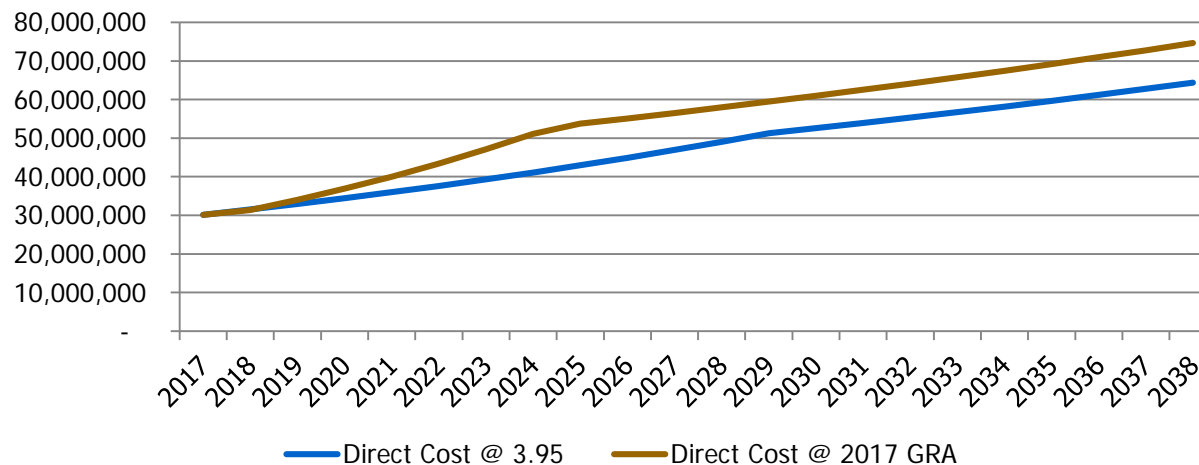


- These projections do not include any increased electricity costs the City would incur if Manitoba Hydro's proposed rate increases are approved.

# Electricity Direct Costs

- 2016 City of Winnipeg paid approximately \$29 million for electricity which accounted for approximately 2.2% of all direct expenses.
- Historically, City of Winnipeg electricity expenses have grown at an average compound rate of 3.7%.
- Adjusting for past electricity price increases, City of Winnipeg real electricity consumption has historically grown by 0.5% per year.
- The following chart demonstrates to City direct electricity expenses if Manitoba Hydro's proposed rate increases are approved:

**Direct Electricity Billings (\$)**



# Electricity Direct Costs Cont'd

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- The total cumulative increase in direct electricity costs over the period 2017 to 2038 amounts to: \$162,349,160.

# Electricity Indirect Costs

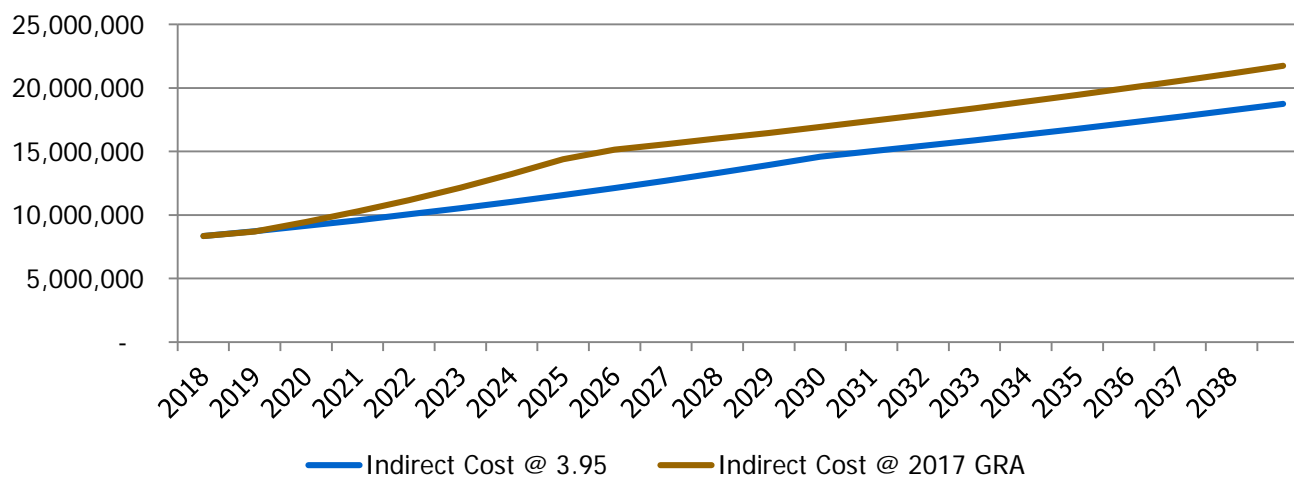
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- The City of Winnipeg has approximately 21,000 suppliers who have approved status. Of these, approximately 9,000 are uniquely identified as having account payable addresses located in Manitoba.
- In 2016, the City of Winnipeg issued payment to these approximate 9,000 local Manitoban businesses, of a total approximately \$600 million, not including PST or GST.
- It is generally accepted that these businesses use electricity in providing their services and products, and they will pass this expense plus a margin onto the City of Winnipeg in order to achieve their desired return on investment.
- Based on Statistics Canada Supply and Use Tables, average use of electricity as an input is approximately 1.4%.
- Therefore, of the \$600 million in billings, electricity costs would mean in 2016, \$8.4 million in billings were related to electricity costs of City suppliers.
- Assuming a conservative 5% profit margin, the pure Hydro amount is approximately \$8 million.

# Electricity Indirect Costs Cont'd

- If Manitoba Hydro increases its rate by the proposed rate increases, the following chart demonstrates what would occur to the City's electricity indirect costs:

### City of Winnipeg - Electricity Indirect Costs

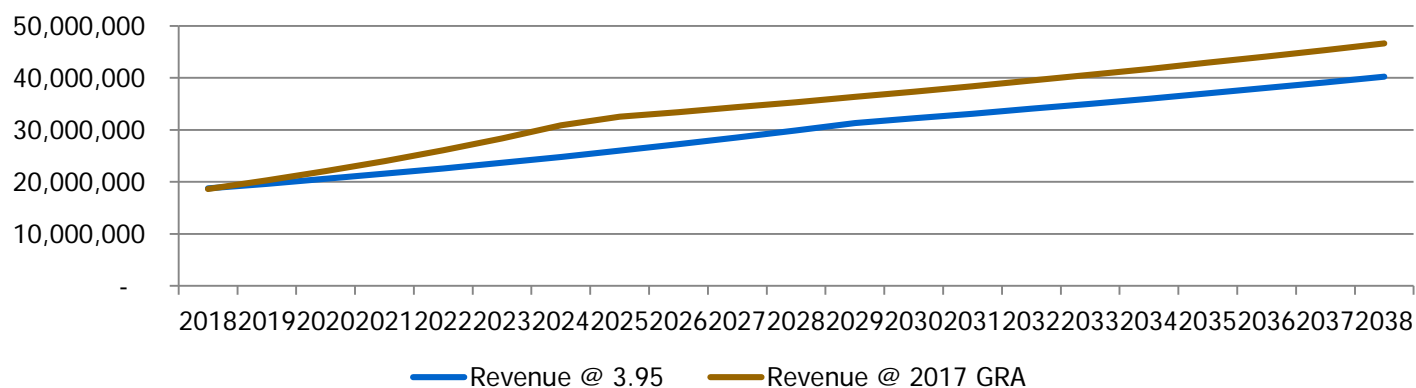


- Total increase in indirect electricity costs 2017 to 2038 amounts to \$46,317,533.

# City Tax Revenues from Electricity

- Sections 441-450 of *The City of Winnipeg Charter Act* give the City authority to charge tax on the consumption of electricity for non-heating purposes within the City limits.
- For 2017 the total electricity tax revenues of the City of Winnipeg were \$17,171,144.
- If Manitoba Hydro increases its rates by the proposed rate schedule, City of Winnipeg electricity tax revenues will increase.
- The following chart demonstrates what would occur with City of Winnipeg electricity tax revenues if Manitoba Hydro's rate increase is approved:

**City of Winnipeg Electricity Tax Revenue**



- The total increase in city electricity tax revenue over the period 2017 to 2038 amounts to \$99,415,628.

# Overall Impact of Proposed Rate Increase on City Finances

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- The net cumulative effect on City of Winnipeg finances of the estimated direct and indirect cost increases as well as the expected increases in revenue from the electricity tax amounts to additional costs of \$109,251,066.
- On a net present value basis assuming a 6% discount rate, this amounts to \$51,244,581.
- To put this in perspective, the net present value of the additional costs of the proposed Manitoba Hydro rate increases constitutes an additional 58% to the \$89 million operating budget deficit the City was faced with as at October 31, 2017.
- Assuming the proposed Manitoba Hydro rate increases are approved, and given the City's statutory obligation to have a balanced operating budget each year, the additional costs to City finances will have to be addressed in the annual budgetary process through either increases in taxation (property and business taxes) and/or fees and charges, and/or a reduction in operating expenditures.

# Overall Impact of Proposed Rate Increase on City Finances Cont'd

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- Given the projected operating budgetary challenges the City already faces, due to its structural deficit, reality is while some cost reductions may be achieved, not all will. Therefore, one option might be a reduction of capital spending.
- Any reduction in capital spending would be difficult given the City currently faces an infrastructure deficit of approximately \$ 7 billion.
- Furthermore, any additional cuts to infrastructure spending would have significant long-term impacts on the City's ability to deliver important services to Winnipeg.



# Impact on Winnipeg Gross Domestic Product

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- The overall importance of the economy of Winnipeg to the economy of Manitoba can be measured by the percentage of the Province's GDP that is made up of the City of Winnipeg's GDP.
- The City of Winnipeg GDP constitutes approximately 67% of Manitoba's GDP.
- The effect of the proposed Manitoba Hydro rate increase on the Manitoba economy (GDP) has been estimated to be a reduction between 2.1% - 3.6%:
  - "GDP is estimated to be 2.6% - 3.4% lower than we would expect with inflation-level hydro prices"
  - The Effect of the Proposed Manitoba Hydro Rate Increase on the Manitoba Economy, Simpson and Compton (2017) pages 15-16.
- Applying these percentage declines to the City of Winnipeg, by the end of the period from 2019 to 2025, the dollar value decline of City of Winnipeg GDP would be on the order of \$1,000,000,000 to \$1,500,000,000.
- This conclusion is consistent with the most recent Conference Board of Canada Metropolitan Outlook for the City of Winnipeg which demonstrates the percent change of retail sales in Manitoba, taking into account Manitoba Hydro's proposed rate increases would be a drop from a 5.2% increase in 2017, to only a 1.3% increase in 2021.

# Truisms

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- **The President and CEO of Manitoba Hydro, was correct in his opening remarks where he stated “...the Hydro rate increases being asked for will not be... without consequence.”**
- **For the City of Winnipeg, that consequence will be a significant negative one.**
  1. **There is no question the City of Winnipeg’s direct electricity expenses will increase. This represents a negative impact on the City’s operating budget.**
  2. **There is no question the City of Winnipeg's indirect costs (increased price of goods and services purchased by Winnipeg) will increase. This represents a negative impact on the City’s operating budget.**
  3. **While City electricity tax revenues will increase, the increase does not come even close to offsetting the negative impact on the City’s direct and indirect costs.**
  4. **There is no question the economy of the City of Winnipeg (the City’s gross domestic product) will be significantly impacted.**
- **As stated by the Chairperson, the Board's mandate is to set just and reasonable rates that are in the public interest. The City submits the “exceptional rate increase” which is “larger than any previous increase sought from the Public Utilities Board by Manitoba Hydro” is neither just nor reasonable nor in the public interest.**