

# Municipal Sustainability Initiative

## Summary of Historical Cuts to Operating and Capital Dollars - Local Impacts of Alberta Budget 2021

### Recommendation

That the June 7, 2021, Financial and Corporate Services Report FCS00480rev, be received for information.

### Previous Council/Committee Action

At the April 19, 2021 City Council meeting the following motion was passed:

That the April 19, 2021, Financial and Corporate Services report FCS00480, be referred to the Spring 2021 Supplemental Capital Budget Adjustment to consider the addition of further detail in Table 1 related to the commitments column.

At the March 4, 2021 City Council meeting the following motion was passed:

That Administration provide a report on the following:

1. A summary of historical cuts to operating and capital dollars, dating back to the beginning of the Municipal Sustainability Initiative (MSI).
2. The cumulative impact of 2021 Provincial budget cuts to the City of Edmonton, post-secondary institutions, and public services on jobs and the economic health of the city and region.

### Executive Summary

The Municipal Sustainability Initiative (MSI) program is the primary provincial funding source for Alberta municipalities' core capital infrastructure needs. MSI was launched in 2007 as a 10-year program originally anticipated to end in 2016. Through multiple budgets and amending agreements, payments under the program were spread out over an additional five years to the end of 2021 and were lower than originally committed at the end of 2021 by \$60.2 million.

As MSI was scheduled to end, in 2018 the provincial government agreed to a replacement program for the province's two largest cities, Edmonton and Calgary, in the City Charter Fiscal Framework, which offered a lower level of funding compared to funding under the original MSI program. This framework was subsequently replaced in

2019 by the Local Government Fiscal Framework (LGFF). While the program was expanded to incorporate all municipalities within Alberta, it came with lower baseline funding for the cities of Edmonton and Calgary and was calculated based on a different methodology than the City Charters, which again resulted in a reduced level of funding for the City of Edmonton.

Most recently the Government of Alberta's 2021 budget, tabled on February 25, 2021, deferred LGFF to start in 2024 at a lower baseline compared to the previous LGFF, and extended MSI into 2021 and 2022 at a significantly reduced level when compared to the original MSI agreement.

From 2007 to 2024, the City was expecting to receive close to \$4,207.4 million in MSI funding (including its replacement from 2022 to 2024). However, based on payments to date and estimated funding as a result of the Government of Alberta's most recent 2021 budget, the City now anticipates receiving \$3,807.2 million, \$400.2 million less than anticipated.

The report also includes a summary of job and economic impacts from the Government of Alberta's 2021 budget. Budget 2021 indicated a reduction of 750 full-time equivalents (FTEs) to postsecondary institutions (PSIs) and reduced provincial operating support for PSIs by \$141.4 million (6.5 percent) in 2021-22 from the 2020-21 forecast. Reduced funding to postsecondary institutions may have negative impacts to Edmonton's economic recovery from the pandemic and medium- to long-term growth prospects.

## **Report**

### **Historical Reductions to Municipal Sustainability Initiative**

The Municipal Sustainability Initiative (MSI) program is intended to demonstrate the Government of Alberta's role as a partner with municipalities to manage growth pressures, provide sustainable funding, and support infrastructure needs.

MSI is the City's most significant unconstrained capital grant funding source and is fundamental to funding a variety of civic projects. Since its inception in 2007, MSI has primarily supported core infrastructure needs. In the 2019-2022 capital cycle, 13.1 percent of Edmonton's capital program is contingent on MSI: 30.8 percent of the City's renewal budget is funded by MSI, and 6.0 percent of the City's growth budget is funded by MSI. Examples of infrastructure the City has funded with MSI through the life of the program include:

- major roads renewal and rehabilitation;
- reinvestment in fleet (including transit stations and vehicles);

- structural and roof refurbishment for recreation centres, arenas, pools, police stations, etc.;
- new fire stations; and
- replacement of public libraries.

The table below summarizes the commitments under the original MSI program as well as anticipated funding to the end of 2024. Estimates are included to the end of 2024 to align with the forecast period of the 2021 provincial budget.

Edmonton received a one-time MSI operating allocation of \$7.3 million in 2007, as the City made the decision to receive all future funding through the capital component of the MSI program. As such, the figures in this report do not reflect any MSI operating funding.

**Table 1: MSI - Comparison to Commitments - 2007-2021**

(\$millions)	Commitment	Payments	Difference
MSI Actuals (2007-2021)	\$3,517.4	\$3,457.2	(\$60.2)
MSI Estimates (2022-2024) *	\$690.0	\$350.0	(\$340.0)
<b>Total</b>	<b>\$4,207.4</b>	<b>\$3,807.2</b>	<b>\$400.2</b>
*2022-2024 commitments reflect are estimates based on average annual funding equivalent to the last 10 years of commitments (2012 to 2021). Payment estimates from 2022-2024 are based on the most recent 2021 provincial budget.			

### *MSI Actuals (2007-2021)*

The MSI program was launched in 2007 as a 10-year program intended to end in 2016, with a total funding commitment of \$2,071.5 million. Through a series of amending agreements, the payments were spread out over an additional five years to the end of 2021. Overall funding received through the program was reduced by \$60.2 million from the original commitment as reflected in Table 1 above. The commitment and payment figures shown also include the Basic Municipal Transportation Grant (BMTG) from 2007 to 2021 for a total of \$1,445.8 million, resulting in an overall commitment and payment of \$3,517.4 million and \$3,457.2 million respectively. In 2014, the BMTG was officially transferred to the Ministry of Municipal Affairs and its management was incorporated into the MSI program administration. BMTG is allocated based on a five cents per litre tax on actual fuel sales within the municipality in the prior year.

The reduction to the committed funding impacted the City's capital plans. As well, spreading the payments over more time reduced the purchasing power of committed funding and slowed down the City's infrastructure growth and renewal plans.

### *MSI Estimates (2022-2024)*

Based on the average commitment over the last 10 years from 2012-2021, the annual amount received after 2021 would be approximately \$230 million, for a total of \$690 million over the period 2022-2024 as reflected in Table 1.

Table 2 below reflects the various amendments to the MSI replacement funds starting in 2022, from the City Charters, to the Local Government Fiscal Framework, to the most recent 2021 provincial budget. With each iteration, the funding commitment to the City decreased.

**Table 2: MSI Estimates - 2022-2024**

(\$ millions)	10 Year Average Commitment (2012-2021)	City Charters	Local Government Fiscal Framework	Budget 2021
Total (2022-2024)	\$690.0	\$654.0	\$555.0	\$350.0
Annual Average (2022-2024)	\$230.0	\$218.0	\$185.0	\$116.7

### City Charters Fiscal Framework

Originally, with MSI planned to end in 2021, the City Charters Fiscal Framework was approved in 2018 as a replacement for the City of Calgary and Edmonton starting in 2022. Under the City Charters Fiscal Framework, \$500 million in funding was available specifically for Edmonton and Calgary. The \$500 million was to be allocated based on a revenue component (based on the original MSI formula) and a fuel component allocated to each city. The revenue component grew with provincial revenues starting at 50 percent of the growth in 2022 and increasing by five percent each year after that, reaching 100 percent in year 10. The fuel component also grew based on a fuel index factor that was linked to provincial fuel revenues: formula of five cents per liter allocated to the two cities based on a set percentage.

Under the Charters, the City estimated it would receive on average \$218 million per year, a decrease compared to the funding level of \$230 million per year based on a 10-year average of payments.

### Local Government Fiscal Framework

In 2019, the provincial government replaced the City Charters Fiscal Framework with the Local Government Fiscal Framework, which reduced the overall funding for Calgary and Edmonton to \$455 million. The annual growth in funding was limited to 50 percent of the growth of provincial revenues and the amount for the two cities was allocated using only the revenue component based on the original MSI formula. Using only one component of funding reduced Edmonton's proportional share of the combined funding. Based on estimates, funding to the City of Edmonton under the Local Government Fiscal Framework was projected to be \$185 million per year over the period 2022-2024. This is a significant decline from the \$230 million per year in funding based on a 10-year average of payments, and a reduction based on the average of \$218 million per year assumed under the City Charters.

### 2021 Provincial Budget

On February 25, 2021 the provincial government released its 2021 budget, which also reduced existing committed capital funding under LGFF. On March 11, 2021, Bill 56 - Local Measures Statutes Amendment Act, 2021, was introduced in the legislature, which would enable the changes introduced in the 2021 budget.

The 2021 provincial budget deferred the LGFF to start in 2024, with overall funding for Calgary and Edmonton being reduced to \$382 million from \$455 million in the original LGFF commitment. In addition to LGFF being deferred by two years, MSI was extended for 2022 and 2023 at a reduced amount compared to funding expected under LGFF. The total funding the City is expecting to receive from 2022 to 2024 (MSI in 2022 and 2023, LGFF in 2024) is \$350 million, with an average payment of \$116.7 million each year. A significant decrease when compared to any of the other anticipated funding levels.

A full outline of historical funding changes is provided in Attachment 1.

### **Economic Impact of 2021 Provincial Budget**

The economic health of Edmonton and the region can be gauged by the performance of indicators like real gross domestic product, labour market conditions, incomes, and population growth. Investment in infrastructure is a key factor in supporting Edmonton's economic health.

### *Impacts to the City of Edmonton*

Capital funding reductions introduced in Budget 2021 could result in estimated cuts to Edmonton's capital budget of about \$30 million in 2021 and 2022, and further reductions in 2023 and 2024 of \$120 million. Though specifics on how the reduction

will be allocated have yet to be determined, the cumulative capital budget reduction could mean up to 885 fewer jobs<sup>1</sup> created through the City's capital plans.

### *Impacts to the public sector*

The public sector (comprising educational services, healthcare and social assistance, and public administration) accounted for 27.6 percent of Edmonton census metropolitan area (CMA) employment in 2019. Its share increased to 28.6 percent in 2020 despite annual employment losses in the healthcare and social assistance, and public administration sectors as employment losses were more concentrated in the private sector (e.g., accommodation and food services, and business, building and other support services sectors). The public administration sector includes the federal, provincial, local, municipal and regional public administration subsectors; however, subsector employment data for the Edmonton region are not available.

Between Alberta's two largest centres<sup>2</sup>, any provincial budget changes related to its departmental workforce would have a slightly greater impact on provincial administration employment levels in the Edmonton CMA due to its larger relative share of total employment compared to the Calgary CMA. The total change in department full-time equivalents (FTEs) in Budget 2021<sup>3</sup> was a reduction of 311 positions in 2021-22 estimates compared to the 2020-21 budget. The total change in FTEs including agencies, schools, universities, colleges, Alberta Health Services (AHS), and other operationally-independent entities was a net addition of 1,873, driven by an estimated increase of 2,940 FTEs for AHS.

The 2021 provincial budget noted that operating expenses for health will be held flat from 2021-22 levels to 2023-24 as AHS continues to bring spending closer to comparator provinces. AHS is one of Edmonton's largest employers, meaning that despite the year-over-year increase in FTEs for 2021-22, lower spending in subsequent years will likely mean limited to no growth in provincial health employment and/or reductions to salaries. For the broader provincial public sector, the provincial government indicated that adjusting compensation is critical to achieving the government's fiscal objectives. Adjusting compensation spending is possible through further workforce reductions, rollbacks of salaries, wages and employee benefits or a combination.

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<sup>1</sup> Source: Statistics Canada. Table 36-10-0595-01 Input-output multipliers, provincial and territorial, detail level (2017). Note: The multipliers used are for Alberta and are the only available multipliers that can be used at the required level of detail to estimate economic impacts for Edmonton and the region. The multipliers may be slightly lower for the city due to higher import leakages (i.e., greater reliance on inputs purchased outside of Edmonton and the region's boundaries) as the city and region are smaller economies compared to the province

<sup>2</sup> Employment in Alberta's two CMAs combined accounted for 70 percent of total provincial employment in 2020.

<sup>3</sup> Government of Alberta Budget 2021 Fiscal Plan: Protecting Lives and Livelihoods, 2021-24, page 182



### *Impacts to Edmonton Postsecondary Institutions*

The Province's 2021 budget indicated a reduction of 750 FTEs<sup>4</sup> to postsecondary institutions (PSIs) and reduced provincial operating support for PSIs by \$141.4 million (6.5 percent) in 2021-22 from the 2020-21 forecast<sup>5</sup>. The reductions are part of the provincial government's efforts to bring spending in-line with other jurisdictions as recommended in the MacKinnon Report on Alberta's Finances. For 2021-22, the share of PSIs' own-source revenues or reserves to cover operating expenses is expected to rise to 49 percent from a forecast of 47 percent in 2020-21, and a further 52 percent by 2023-24<sup>6</sup>. Increased PSI spending between 2020-24 will need to be funded through additional revenue from sources other than the provincial government. Further details on the available changes in PSI funding can be found in Attachment 2.

Even though reductions in Budget 2021 are consistent with the provincial government's efforts to bring down its expenditures in-line with other jurisdictions, the further cuts to PSIs were unexpected given economic conditions have weakened substantially due to the COVID-19 pandemic. It is important to note that Edmonton's PSIs have been anticipating and adapting to cuts since Budget 2020. The reductions are expected to impact Edmonton's PSIs' operations and add pressure to increase revenues to make up the deficit. Based on publicly available information from Edmonton's PSIs and the provincial government, strategies may include:

- Expenditure reduction strategies, including reducing discretionary costs, wage freezes and salary caps;
- Staff reductions and/or postponement of hiring additional staff, including support staff;
- Investment reductions, including to research and innovation centres<sup>7</sup>; and
- Potentially higher costs to students, including changes to program charges and other fees.

More specific details on PSI reductions based on publicly available early responses can be found in Attachment 2. As Edmonton's PSIs continue to work through understanding the full implications of the budget on their organization, more information is expected to be released publicly. There were no funding reductions to student aid in Budget 2021, which includes student aid grants, scholarships and awards. However, the real value of budgeted funding dollars decreases when inflation is considered, as well as any potential cost increases that will be borne by students.

<sup>4</sup> Government of Alberta Budget 2021 Fiscal Plan: Protecting Lives and Livelihoods, 2021-24, page 182

<sup>5</sup> Government of Alberta 2021-22 Government Estimates

<sup>6</sup> Government of Alberta Budget 2021 Fiscal Plan: Protecting Lives and Livelihoods, 2021-24, page 104

<sup>7</sup> An increase in grant funding for the Alberta Innovates Corporation in 2021-22 of \$14.6M may help to mitigate any planned changes by PSIs in research budgets as a result of reduced provincial operating funding.

The operation of PSIs contribute up to \$900,000<sup>8</sup> in value added to the local economy per million dollars of output. However, these institutions help develop human capital (e.g., knowledge, skill sets and experience) suited for the changing economy, and influence the development of intellectual capital through investments in research and innovation. The economic recovery is expected to proceed at varying paces across industries and worker skill levels, with industries more agile to changing work demands (e.g., facilitating remote work) expected to recover faster than others. As well, workers with high human capital are observed to have fared better during the pandemic. This points to an increased need for higher education and training opportunities to enable workers to develop skills that will add to their resilience in times of economic stress. The provincial government has indicated plans to transform the “adult learning system to focus on providing the high-quality education, skills and training needed to get Albertans back to work, meeting current and future labour market demands, and driving innovation to make Alberta competitive in a 21st century global economy.”

Planned reductions to provincial administration employment, public sector compensation, and provincial operating grants to PSIs point to potential downward pressure on public sector consumption and employment growth, which may have negative impacts to Edmonton’s economic recovery from the pandemic and medium to long-term growth prospects.

### **Government Capital Investment in Alberta: An Economic Perspective**

The City’s position on government capital investment in Alberta, specifically in response to the Blue Ribbon Panel on Alberta’s Finances, is included in Attachment 3.

### **Corporate Outcomes and Performance Management**

<b>Corporate Outcome(s): Edmonton has a diverse and prosperous economy that thrives locally and globally</b>			
<b>Outcome(s)</b>	<b>Measure(s)</b>	<b>Result(s)</b>	<b>Target(s)</b>
Edmonton has a diverse and prosperous economy that thrives locally and globally	Estimated growth of Edmonton’s real gross domestic product (GDP) as an indicator of economic performance	-7.6% (2020)	n/a

### **Attachments**

1. Municipal Sustainability Initiative Program - Comparison to Original Commitments

<sup>8</sup>Source: Statistics Canada. Table 36-10-0595-01 Input-output multipliers, provincial and territorial, detail level (2017; real gross domestic product in basic prices)



2. Funding Changes to Postsecondary Institutions
3. Government Capital Investment in Alberta: An Economic Perspective

**Others Reviewing this Report**

- C. Owen, Deputy City Manager, Communications and Engagement
- A. Laughlin, Deputy City Manager, Integrated Infrastructure Services
- K. Fallis-Howell, Acting City Solicitor