

## Operating Financial Update – June 30, 2021

### Recommendation

That the September 7, 2021, Financial and Corporate Services report FCS00754, be received for information.

### Executive Summary

Administration provides Operating financial updates three times a year. Consistent, transparent and timely financial reporting to Council is part of managing the corporation for the community. This report provides the June 30, 2021, Operating Financial Update; including year-to-date operating results and projected year-end results compared to the approved budget for tax-supported, enterprise/utility and Community Revitalization Levy (CRL) programs. An update is also provided on certain reserves. June 30, 2021 results for tax-supported operations reflect a net favourable year-end variance of \$37.9 million and a projected net favourable year-end variance of \$18.7 million. The projections are based on the year-to-date results and other available information. There continues to be uncertainty related to the impacts of the COVID-19 pandemic, so projected results could change.

### Report

Attachment 1 provides the June 30, 2021 year to date and projected year-end operating financial results compared to the approved budget for tax-supported, enterprise/utility and Community Revitalization Levy (CRL) programs.

### Continued Financial Uncertainty in the Global Pandemic

In the early months of the pandemic, Administration recognized the impact COVID-19 could have on the City's operations and recommended adjustments for the 2020 budget. Through the December 7, 2020 Financial and Corporate Services report FCS00181, COVID-19 2021 Financial Impacts and Funding Strategy, City Council also adjusted the 2021 operating budget on a one time basis to address the continuing effects of the pandemic on civic operations. The 2021 tax supported budget was adjusted by \$142 million, consisting of a \$111 million reduction to the revenue budget and \$30 million in additional COVID related expenses. The adjustment was offset by \$49 million of expense reductions and \$92.7 million of funding from the Appropriated Financial Stabilization Reserve.

Year-to-date results for tax-supported operations show a surplus of approximately \$37.9 million as at June 30, 2021. With some uncertainty due to the pandemic, the year to date projected results estimate a potential surplus of \$18.7 million at year end. The projected favourable variance represents less than one percent of the City's \$3.0 billion budget. While Administration never intends to run a deficit or generate a surplus, there is still considerable financial risk for the City's pandemic recovery. Without committed funding from other orders of government, it is important that the City maintains its surplus to have financial flexibility for the ongoing impacts of the pandemic through 2022.

One of the more significant impacts on the financial results has been operating transit at regular service levels with significantly lower ridership and other COVID-19 related expenses such as personal protective equipment. Despite one-time adjustments to the budget, Edmonton Transit Services revenue are projected to be \$8.7 million unfavourable at year end. The branch has managed expenditures to mitigate the revenue shortfall and is projecting a year end net favourable budget variance of \$1.5 million (against the adjusted budget). Revenue is not expected to recover to pre-pandemic levels until 2024. Current estimates for 2022 ridership revenue are \$30 million lower than the currently approved budget.

There are different financial implications depending on the varied opening and service levels for recreation facilities. Operating recreation facilities during the pandemic required the City to limit attendance in the facilities and programs, resulting in less revenue from user fees and higher expenses for additional cleaning. The timing of recreation facility reopening was later in 2021 than anticipated when the budget was established, impacting year to date results and projected year end results. Despite the adjustments to the 2021 budget, Community and Recreation Facility revenue is projected to be \$13.5 million unfavourable at year end. While Administration has mitigated this revenue shortfall through lower expenditures while the facilities were closed, revenue is not expected to recover to pre-pandemic levels in the near term. Significant uncertainty remains for recreation centre revenue due to the pandemic. The timing of facility opening and the pace of the return of patrons will have a significant impact on the financial results for Community and Recreation Facilities.

With each quarterly financial update, operational areas review actual results against the budget and make projections for year-end results based on the best available information. The COVID-19 pandemic has made estimating difficult as the corporation continues to adjust to changes in public health orders and consumer patterns that have impacted City operations, especially for transit and recreation facilities. Final 2021 financial results will depend, in large part, on the actual service levels.

The long term financial impact of the pandemic is still uncertain. While Administration is working to ensure a smooth reopening of facilities and encouraging the return of transit riders, it is unlikely that revenues in these areas will fully recover to pre-pandemic levels in 2022. Administration continues to advocate for funding from

other orders of government, particularly for transit, as there is uncertainty of additional funding within 2021 and 2022.

### **Fall Supplementary Budget Adjustments**

Administration continues to monitor the financial results and is controlling expenditures to balance the delivery of services with continued financial and economic risks in the pandemic recovery. On June 7, 2021, Administration provided Financial and Corporate Services report FCS00671, a verbal report on Emerging Financial Items. The presentation identified upcoming budget pressures for 2022, including approximately \$50 million in reduced transit, recreation facility and assessment growth revenues as a result of COVID-19. Updated analysis suggests that 2022 COVID-19 related pressures could result in a forecasted shortfall of \$75 million, including additional cost impacts, with the majority of the pressure from anticipated reduction in transit and recreation facility revenue. Administration continues to assess the 2022 forecast and will adjust the estimates in the Fall.

Administration is examining currently committed 2021 COVID funding to assess whether the funding is still required in 2021 or if a portion of this funding can be redirected to address the anticipated 2022 funding shortfall. The 2021 Fall Supplemental Operating Budget Adjustment will include one-time adjustments to the 2022 operating budget to address the forecasted impacts of the pandemic. The currently approved four-year budget includes a 1.8 percent tax increase in 2022. Given the uncertainty that remains, Administration is working to preserve the surplus to offset the continuing financial effects of COVID-19 pandemic in 2022. Applying fiscal discipline and considering reallocations of funding will limit the effect of the anticipated 2022 shortfall on the planned tax levy increase.

### **Economic Update**

An Economic Update is included as Attachment 2. It highlights economic indicators relevant to Edmonton's economic recovery, including employment growth and quarterly housing starts. Even though growth is projected, uncertainty about the course of the pandemic, the potential for future waves, and continued progress towards broad immunization are factors likely to affect Edmonton's economic performance. The economic uncertainty underscores the need to secure surplus funds for the City's pandemic response.

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

**Corporate Outcome(s): The City of Edmonton has a resilient financial position**

| Outcome(s)  | Measure(s)   | Result(s)  | Target(s)  |
|---|--|--|--|
| Financial reporting demonstrates corporate accountability and performance | Actual year-to-date variance to budget for tax-supported operations (actual revenue net of actual expenses)      | Favourable Budget Variance: \$37.9 million (as of June 30, 2021) | Financial results are in line with approved budgets. |
|   | Projected year-end variance to budget for tax-supported operations (projected revenue net of projected expenses) | Favourable Budget Variance: \$18.7 million (as of June 30, 2021) |  |

### Attachments

1. Operating Financial Update - June 30, 2021
2. Q2 2021 Economic Update

### Others Reviewing this Report

- C. Owen, Deputy City Manager, Communications and Engagement
- G. Cebryk, Deputy City Manager, City Operations
- A. Laughlin, Deputy City Manager, Integrated Infrastructure Services
- K. Armstrong, Deputy City Manager, Employee Services
- R. Smyth, Deputy City Manager, Citizen Services
- S. McCabe, Deputy City Manager, Urban Planning and Economy
- K. Fallis-Howell, Acting City Solicitor