

COVID-19 2022 FINANCIAL IMPACTS AND FUNDING STRATEGY

RECOMMENDATION

1. That a special dividend of \$10.3 million be approved as permitted by section 5(2) of Bylaw 11713, TheEd Tel Endowment Fund Bylaw, payable in 2022, and that the special dividend be used to partially offset the COVID-19 2022 financial impacts as reflected in Attachment 2 of the November 22, 2021, Financial and Corporate Services report FCS00828.
2. That the 2022 operating budget be adjusted on a one-time basis to reflect the adjustments to individual branch revenue and expenditure budgets as reflected in Attachment 2 of the November 22, 2021, Financial and Corporate Services report FCS00828, as a result of the COVID-19 financial impacts and funding strategies.

Report Purpose

Council decision required.

Council is being asked to approve recommended one-time adjustments to the 2022 operating budget, in order to manage the impacts of COVID-19 on the City's operations.

Executive Summary

- The total projected financial impact of COVID-19 on the City's 2022 operating budget is \$96.7 million.
- To offset this impact, Administration is recommending a combination of one-time funding strategies totalling \$96.7 million.
- Section 5(2) of Bylaw 11713, The Ed Tel Endowment Fund Bylaw states that Council may authorize the payment of a special dividend, calculated as 25 per cent of the regular dividend paid in the preceding year, when the market value of the fund is more than 15 per cent above the inflation-adjusted principal. As of June 30, 2021, the Ed Tel Endowment fund market value was greater than 15 per cent of the inflation-adjusted principal. The special dividend available for 2022 would be \$10.8 million. Administration is recommending that

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Council authorize the special dividend and approve its use to offset a portion of the financial impacts from the COVID-19 pandemic in 2022.

- The proposed funding strategies will manage the financial impacts of COVID-19 without an increase to the tax levy in 2022.
- The November 22, 2021, Financial and Corporate Services report FCS00817, Fall 2021 Supplemental Operating Budget Adjustment provides ongoing proposed budget adjustments to limit the 2022 tax increase to the approved 1.8 per cent, and does not include one-time budget impacts or funding strategies related to COVID-19.

REPORT

Overall Approach to COVID-19

Administration continues to use the following principles developed early in the pandemic in order to manage the impacts of COVID-19 on City operations.

- **Safety** - The public's safety is a top priority and will not be sacrificed while managing the COVID-19 related financial impacts.
- **Combining funding strategies** - Revenue reductions and additional costs as a result of the pandemic will be addressed with a combination of one-time funding strategies as well as strategic decisions on spending.
- **Long range focus** - Funding strategies will be mindful of the impact on the City's long-term financial sustainability.
- **Local economy** - Continue to support stabilization of the local economy.
- **Honour relationships** - Any workforce strategies implemented as a part of the expense management strategies will be fair and respectful to City employees.
- **City building** - Administration will evaluate our capital plans to determine projects that can be cancelled, paused, adjusted and advanced in response to health restrictions and/or to reallocate funds to offset financial impacts of COVID-19. Administration is not proposing any changes to the capital plan in response to the pandemic.
- **Limit property tax increases** - The recommended funding plan to offset the impacts of COVID-19 included no additional tax increases in 2020 and 2021. Similarly, Administration is not proposing any additional tax increase in 2022 to manage the financial impacts of COVID-19.

Budget Approach to COVID-19

Administration will manage the effect of the COVID-19 pandemic on the 2022 operating budget through a one-time budget adjustment that matches the anticipated shortfall with an offsetting funding strategy and has no impact on the 2022 tax levy. The long-term effects of the pandemic on citizens' needs and preferences, including how they use City services, are unclear. The budget impacts of COVID-19 will be treated as one-time changes until there is greater certainty of the permanent impact on City services, or it is clear that one-time funding strategies are no longer practical or viable. This approach helps limit the impact to residents and businesses by utilizing all available one-time options to fund temporary impacts before considering increases to the tax-levy. Administration is currently assessing the long-term impacts of COVID-19 on City services

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and will address these on an ongoing basis through the 2023-2026 budget presented to City Council in the fall of 2022.

The November 22, 2021, Financial and Corporate Services report FCS00817, Fall 2021 Supplemental Operating Budget Adjustment provides ongoing proposed budget adjustments to limit the 2022 tax increase to 1.8 per cent, and does not include one-time budget impacts or funding strategies related to COVID-19.

Historical COVID-19 Adjustments

2020 COVID-19 Financial Impacts and Funding Strategy

The estimated budget impact of COVID-19 on the City's 2020 operating budget was \$152.9 million, largely due to decreases in community recreation facility program, admission and rental revenue, transit fare revenue, parking revenue, and additional costs in the pandemic such as cleaning and personal protective equipment (PPE).

On July 17, 2020, the Government of Canada announced its COVID-19 Safe Restart funding program to support municipal operating and public transit expenditures. On July 28, 2020, the Government of Alberta announced it would match the federal contribution. The funding was provided through the Municipal Operating Support Transfer (MOST) program. Before the MOST funding was finalized and transferred to municipalities, Council had already approved \$152.9 million in funding strategies at the April 27, 2020, City Council meeting (Financial and Corporate Services report CR_8228, COVID-19 Financial Impacts and Funding Strategy) to offset revenue loss and increased expenses. As the MOST funding could be applied to eligible pandemic-related costs in 2020, the previously approved \$152.9 million in funding strategies were held and applied to offset the anticipated impact of the pandemic in 2021. The budget adjustment is summarized in the table below:

COVID-19 2020 Estimated Budget Impact and Funding Strategy	
(\$millions)	2020
Revenue reductions	\$(143.2)
Additional COVID-19 related costs	\$(9.7)
Total COVID-19 Financial Impact	\$(152.9)
Funding Strategies: Municipal Operating Support Transfer	\$152.9
COVID- 19 2020 Funding Shortfall	-

2021 COVID-19 Financial Impacts and Funding Strategy

At the December 7, 2020, City Council meeting Council made one-time adjustments to its 2021 operating budget for the impacts of the pandemic through report FCS00181, COVID-19 2021 Financial Impacts and Funding Strategy. The total corporate impact for 2021 was estimated to be

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\$152.0 million, comprising \$121.5 million in reduced revenues and \$30.5 million in additional costs. Similar to 2020, the more significant impacts to the 2021 budget included reductions in transit revenue, reduced community and recreation facility admission, program and rental revenue, and parking revenue.

The budget adjustment for 2021 is summarized in the table below. The impact was offset by expense management strategies, support from boards and authorities, an increase in the Land Enterprise Dividend, and other strategies. In addition to those funding strategies, savings from the 2020 funding strategies approved by Council were used to address the 2021 impacts of COVID-19. This is shown as the \$98.8 million transfer from the COVID -19 funds appropriated in the Financial Stabilization Reserve (FSR) in the table.

COVID-19 2021 Estimated Budget Impact and Funding Strategy	
(\$millions)	2021
Revenue reductions	\$(121.5)
Additional COVID-19 related costs	\$(30.5)
Total COVID-19 Financial Impact	\$(152.0)
Funding Strategies:	
Expense management	\$50.3
Boards and authorities	\$0.9
Land Enterprise dividend and other	\$2.0
Transfer from appropriated FSR (COVID-19 Funds)	\$98.8
COVID-19 2021 Funding Shortfall	-

COVID-19 funds in the appropriated FSR were also used during 2021 to address additional funding pressures internal to the City, and to support the business community and revitalize downtown.

At the time of writing this report, \$39.0 million remains within the COVID-19 funds. The recommendations in this report propose using \$31 million of these one-time funds to offset the 2022 impacts of COVID-19.

2022 COVID-19 Budget Impacts and Funding Strategy

Public health response measures continue to affect the finances of many individuals and organizations, including the City's budgeted revenues and expenses.

The City is projecting a significant decline in revenue in 2022, coupled with additional costs incurred related to the City's pandemic response. The ongoing pandemic response impacts the

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City's operations and budget and a balanced approach is required to manage the City's financial viability.

In estimating the budget impacts and developing the funding strategy, the following assumptions were used for City services that are most affected by the pandemic response:

Assumptions

Duration:

Given the difficulty predicting the duration of the pandemic, and uncertainty related to the percentage of the population vaccinated, this report assumes the pandemic will impact City services for the duration of 2022. The City's business areas have estimated the impact on revenues and expenditures based on trends experienced in 2020 and 2021.

Service Levels:

Services are assumed to be operating at full service levels with public health restrictions in place. Operations have been adapted to operating under current health restrictions, including use of the Restriction Exemption Program. With the assumption of normal service levels, the 2022 financial response to COVID-19 does not contemplate any workforce related strategies.

Both Edmonton Transit and Community and Recreation Facility Services will be operating at full service levels, but will experience reduced revenues due to demand for the services. Return to normal demand levels will be heavily based on individuals and their preferences and behaviours post-pandemic.

Given the difficulty predicting the duration of the pandemic and the uncertainty related to the health guidance, actual impacts may vary from these assumptions. If impacts are greater than estimated for 2022, Administration may return to Council during the year to propose additional funding strategies. Alternatively, if the impact is less than anticipated, proposed funding in this report to offset the COVID-19 impact will be returned to the COVID-19 funds within the appropriated FSR to manage future impacts.

For 2022, the total corporate impact is estimated to be \$96.7 million, comprised of \$80.6 million in reduced revenues and \$16.1 million in additional costs. One-time offsetting funding strategies totaling \$96.7 million are recommended to manage the 2022 financial impacts of COVID-19.

COVID-19 2022 Budget Impact and Funding Strategy	
(\$millions)	2022
Revenue reductions (Attachment 1 & 2)	\$(80.6)
Additional COVID-19 related costs (Attachment 1& 2)	\$(16.1)
Total COVID-19 Financial Impact	\$(96.7)
Funding Strategies (one-time):	
Transfer from appropriated FSR (COVID-19 Funds)	\$31.0

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Reallocation from Financial Strategies	\$23.0
Annuity Plan funds (City's estimated portion)	\$13.7
Ed Tel Endowment Fund - special dividend	\$10.8
Expense management strategies (reduction in consulting, contractor, hosting, training, travel)	\$4.3
Land Enterprise dividend	\$3.3
Tax penalty revenues	\$2.6
Reduction in Community and Recreation Facility and Edmonton Transit branch costs	\$1.6
Transfer from unappropriated Financial Stabilization Reserve (Year-end tax-supported surplus)	\$6.4
Total COVID-19 Funding Strategies	\$96.7
COVID- 19 2022 Funding Shortfall	-

To offset the COVID-19 estimated 2022 impact of \$96.7 million, Administration recommends the following one-time funding strategies:

- \$31.0 million - Transfer from appropriated FSR - These funds were previously held within the FSR by City Council to fund the financial impacts of COVID-19. If approved by City Council, this strategy would use the remaining COVID-19 funds within the appropriated FSR and no funds would remain in the reserve for COVID-19 purposes.
- \$23.0 million - Reallocation from Financial Strategies - Financial Strategies is an emergent items operating budget intended to manage cost impacts of unforeseen operational items, such as sudden, sharp increases in fuel and utility costs. Based on a current assessment of budget risks, Administration is proposing that \$23.0 million be used from Financial Strategies on a one-time basis in 2022 to help offset the impacts of COVID-19.
- \$13.7 million - Annuity Plan funds - The multi-employer Annuity Fund provided lifetime benefits to retired members and beneficiaries of the plan. As of December 4, 2014, there are no longer any beneficiaries of this plan and the fund is closed to new members. The plan is being wound up and distribution of the surplus funds in accordance with the 1984 Court decision attributable to the City is being finalized. The City's portion is expected to be \$13.7 million and could be used to offset a portion of the financial impacts from the COVID-19 pandemic.
- \$10.8 million - Ed Tel Endowment Fund special dividend - Section 5(2) of Bylaw 11713 The Ed Tel Endowment Fund Bylaw, includes a mechanism to allocate excess earnings via a special dividend when investment returns exceed expectations. Council may authorize the payment of a special dividend, calculated as 25 per cent of the regular dividend paid in the preceding year, when the market value of the fund is more than 15 per cent above the inflation-adjusted principal. The City normally uses the special dividend to fund capital projects in alignment with the budget strategy to redirect investment earnings to capital. At

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June 30, 2021, the Ed Tel Endowment fund market value was greater than 15 per cent of the inflation-adjusted principal. The special dividend available for 2022 would be \$10.8 million. Administration is recommending that Council authorize the special dividend and approve its use to offset a portion of the financial impacts from the COVID-19 pandemic in 2022.

- \$4.3 million - Expense management strategies implemented to reduce spending on contractors, consulting, training, hosting and business travel across the corporation.
- \$3.3 million - Increase in the Land Enterprise dividend provided to tax-supported operations in 2022 as a result of better than expected 2021 operating results.
- \$2.6 million - Increased tax penalty revenues due to higher outstanding tax levy balances. The increased outstanding balances are from reduced payments likely due to the COVID-19 pandemic and other economic factors.
- \$1.6 million - Reduced community and recreation facility and transit operating costs as a result of the pandemic.
- \$6.4 million - Transfer from the unappropriated FSR (2021 year-end surplus) - Similar to the strategy used in 2021, Administration is proposing to reallocate a portion of the year-end tax-supported surplus to offset the financial impacts of COVID-19. Based on the total estimated financial impact of COVID-19 in 2022 of \$96.7 million and the total of all other funding strategies proposed above, the recommendation is to reallocate at least \$6.4 million of the 2021 year-end tax-supported surplus to the COVID-19 funds within the appropriated FSR. In accordance with City Policy C217D Reserve and Equity Accounts, the annual year-end tax-supported surplus is transferred to the unappropriated FSR through the 2021 preliminary year-end financial results report, which will be presented to Council in March of 2022. If the tax-supported surplus is less than \$6.4 million at year-end, Administration will return with additional one-time funding strategies to offset the balance of COVID-19 impact. The City has been carefully scrutinizing its expenditures over the course of 2021 and managing spending in order to drive a budget surplus, where appropriate and possible. Based on year-end projections as of September 30, 2021, Administration believes sufficient tax-supported surplus will be available at year-end to manage 2022 COVID-19 impacts.

Additional detail on the COVID-19 2022 financial impacts and funding strategy is included in Attachment 1. To reflect the financial strategy in the 2022 operation budget, Administration is recommending that branch revenue budgets be reduced and expenditure budgets be increased on a one-time basis, as reflected in Attachment 2. Additional details on revenue and additional cost impacts, as well as funding strategies are also explained in Attachment 2.

In line with the approach used in 2021, based on year-end preliminary results, Administration may propose to reallocate a portion of any year-end tax-supported surplus to the COVID-19 funds within the appropriated FSR to help offset future financial impacts of COVID-19. This surplus would be transferred to the unappropriated FSR through the 2021 preliminary year-end financial results report, which will be presented to Council in March 2022.

Individually and jointly with other municipalities, the City continues to have discussions with other orders of government about further financial support to ease the impacts of COVID-19, specifically related to a reduction in transit revenues. To date, no additional financial support for municipalities has been committed.

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Winter Pandemic Response

Due to the fourth wave of the COVID-19 pandemic in Alberta, public health restrictions were put in place — these restrictions, limited shelter capacity and available indoor options for people requiring a safe place to seek respite from the outdoors during the winter months. Relative to the 2021/2022 winter season, and based on consultation with the homeless-serving sector, Homeward Trust and the Government of Alberta, Administration is projecting that fewer overnight shelter and daytime spaces will be available despite an increase in the overall number of people experiencing homelessness who require shelter.

Details on the City's pandemic response are also available in the Citizen Services reports CS00811 Homelessness 2021/2022 Winter Pandemic Response and CS00856 Winter Pandemic Response on the November 16, 2021 Executive Committee agenda.

Given the potential for significantly increased demand for services this winter as a result of higher numbers of people experiencing homelessness, provincial funding support is required to assist with extreme weather emergency response to the end of winter 2022, including:

- Southside Shelters - Three southside shelters run by The Mustard Seed Society have been funded by the Government of Alberta for November 2021. The Mustard Seed Society has requested Government of Alberta funding to operate them until the end of March 2022. Provincial funding has not been confirmed.
- Spectrum Building Shelter - The 24/7 shelter in the Spectrum building operated by Hope Mission has been approved for funding by the Government of Alberta for November 2021. A funding request to continue operations until the end of March 2022, which will retain the current capacity over the winter, has been submitted to the province but has not yet been approved.
- Commonwealth Stadium Shelter - the approval of the above additional spaces may not be sufficient to ensure there is adequate available day space and 24/7 or overnight shelter on an ongoing basis through the winter. The ongoing pressures associated with the significant increases in demand for services, ongoing need to mitigate COVID-19 transmission and the staffing pressures felt by front-line agencies 22 months into a global pandemic constrain the sector's ability to respond to demand and scale up new spaces on short notice, unlike in previous years. To provide additional 24/7 shelter capacity and build additional contingency into the system, Administration has offered to make the Commonwealth Stadium pods available to a provincially-funded shelter provider for 24/7 operation on a continuous basis all winter long.

The timely confirmation of provincial support for the above listed shelter capacity initiatives is urgently required to ensure timely activation before winter weather sets in.

In any event, Administration will continue to monitor shelter capacities through the winter and will work with our contacts at the Government of Alberta and Homeward Trust to activate additional spaces as required. If a shortage of shelter space occurs during periods of extreme cold, where a weather warning has been issued by Environment Canada or is expected to be issued, Administration will activate overflow emergency shelter space and overnight transportation support using City resources in accordance with City Policy C620 Supporting Vulnerable People During

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Extreme Weather. In the past additional costs for overflow emergency shelter space have been managed within the City's existing Citizen Services department operating budget.

Administration also continues to fund additional day service operations with Bissell Centre, The Boyle Street Service Society, and The Mustard Seed Society at several locations until December 31, 2021, using existing operating budget. Additional funding of \$1.4 million is being requested through Attachment 2 of this report to continue day services operations until the end of March 2022.

In addition, Homeward Trust will make approximately \$900,000 available to provide additional support and services to agencies through the winter.

COMMUNITY INSIGHT

The City recognizes ongoing effects of the pandemic on employment and business revenue in Edmonton. Administration will conduct an online survey to quantify these effects among property owners, business owners and the general public prior to the fall 2021 budget deliberations. Results will be provided to Council at the start of budget deliberations in December.

As part of the 2019-2022 operating and capital budgets development and approval process, education and engagement opportunities included event outreach, a My Budget survey and a non-statutory public hearing. The public can provide feedback on the 2022 Supplementary Operating Budget Adjustment at the Non-statutory Public Hearing on November 29, 2021.

GBA+

For budget adjustments, in-depth GBA+ analysis is applied at the project, service or profile level.

The recommendations in this report are intended to financially manage the past and ongoing actions to address COVID-19. The costs have been incurred in an effort to help many of Edmonton's most vulnerable residents. Some of the largest past and ongoing costs are to provide shelter spaces for those experiencing houselessness and to operate transit during a period of reduced revenues. People who rely on transit for employment and independence are more likely to be Edmontonians of more marginalized groups, such as women, gender minorities and intersectional identities based on age, income, education, housing, or family dynamics.

The funding strategies recommended in this report are not expected to impact or limit the City's financial support of programs or services that contribute to equity.

ATTACHMENTS

1. 2022 COVID-19 Financial Impacts
2. COVID-19 Financial Impacts and Funding Adjustment - 2022