

OPERATING FINANCIAL UPDATE - DECEMBER 31, 2021

RECOMMENDATION

1. That the 2022 Operating Budget be adjusted to increase expenditures by \$8,516,000 offset by an equivalent transfer from amounts currently appropriated in the Financial Stabilization Reserve, to address the delay of expenditures into 2021, as outlined in Schedule A, Table 1, Attachment 2 of the March 14, 2022, Financial and Corporate Services report FCS00979.
2. That the 2022 Operating Budget be adjusted to increase expenditures by \$9,081,000 offset by an equivalent transfer from the Industrial Servicing Fund Reserve, to address the timing of expenditures within Development Services, Urban Planning and Economy, as outlined in Table 2, Attachment 2 of the March 14, 2022, Financial and Corporate Services report FCS00979.
3. That the 2022 Operating Budget be adjusted to increase expenditures by \$7,233,000 offset by an equivalent amount of revenue, to address the timing of expenditures for Rapid Housing Initiative, as outlined in Table 2, Attachment 2 of the March 14, 2022, Financial and Corporate Services report FCS00979.
4. That the 2022 Operating Budget be adjusted to increase expenditures by \$19,411,000 and to transfer the equivalent amount from the Financial Stabilization Reserve, to fund the carryforward of expenditures where 2021 program commitments exist, as outlined in Schedule E, Table 2, Attachment 2 of the March 14, 2022, Financial and Corporate Services report FCS00979.

Report Purpose

City Council decision required

City Council is being asked to approve adjustments to the 2022 Operating Budget based on 2021 operating financial results and recommendations to carry forward the unspent budget from the 2021 operating budget.

OPERATING FINANCIAL UPDATE - DECEMBER 31, 2021

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 outlines the preliminary 2021 operating financial results compared to the approved budgets (including one-time COVID-19 related adjustments) for tax-supported, enterprise/utility and Community Revitalization Levy (CRL) programs.
- December 31, 2021, results for tax-supported operations reflect a net favourable year-end variance of \$51.9 million (based on information available to February 28, 2022).
- This report provides recommendations for the carryforward of \$8.5 million (recommendation 1) of items previously approved by City Council with funding from the appropriated Financial Stabilization Reserve (FSR), and \$9.1 and \$7.2 million (recommendations 2 and 3) for items funded through other reserves and non-tax levy sources. These recommendations do not further impact the FSR or the tax-supported surplus.
- This report includes a recommendation to carryforward \$19.4 million in unused 2021 operating budget into 2022 (recommendation 4). The items recommended for carryforward reflect the 2021 budget for projects or initiatives that were not completed within the fiscal year, but require the remainder of the budget in 2022 to address the commitments associated with the project. The unused 2021 budget for these items contributes to the tax-supported surplus. In accordance with City Policy C629, Financial Stabilization Reserve, the entire 2021 tax-supported surplus is transferred to the FSR. Therefore, Administration recommends funding the 2021 expenses requested for carryforward into 2022 from the FSR.
- An economic update is also provided for the fourth quarter of 2022.
- Results are preliminary, unaudited and subject to change until the approval of the City's 2021 consolidated annual financial statement. Administration will provide the audited financial statements, presented on a public sector accounting basis as required for legislative reporting, to Audit Committee on April 12, 2022, and to City Council on April 19, 2022.

REPORT

Attachment 1 provides details on the preliminary 2021 operating financial results compared to the 2021 approved budget (after one-time adjustments required to address the COVID-19 pandemic) for tax-supported, enterprise/utility and Community Revitalization Levy (CRL) programs. Preliminary year-end results for tax-supported operations show a net favourable variance of approximately \$51.9 million as at December 31, 2021: a variance of 1.7 per cent of the City's \$3.0 billion tax-supported expense budget.

The FSR balance prior to the approval of recommendations and addition of the surplus is \$121.7 million. Considering the tax-supported surplus, recommendation to carryforward \$19.4 million in expenditures that were budgeted in 2021 but now anticipated in 2022 (recommendation 4), Council's previously approved use of \$6.4 million of the 2021 tax-supported surplus to offset a portion of the estimated 2022 COVID-19 budget impact (Financial and Corporate Services report FCS00828 - COVID-19 2022 Financial Impacts and Funding Strategy, November 30, 2021, City Council meeting), and items recently approved by Council with funding from the FSR (as of February 28), a balance of

OPERATING FINANCIAL UPDATE - DECEMBER 31, 2021

\$141.9 million remains in the FSR. This is above the minimum required reserve balance of \$112.3 million and below the target balance of \$186.4 million. The balance of \$29.6 million over the minimum will remain unallocated in the FSR, providing flexibility should funding be required for any emerging issues, including any additional pressures resulting from the continuing impact of the COVID-19 pandemic during 2022.

Continued Financial Uncertainty Due to COVID-19

In the fall of 2020, budgets were adjusted to address the continuing impact of the COVID-19 pandemic. At that time, the City projected a significant decline in revenue in 2021 coupled with additional costs. Given the uncertainty in late 2020 about the availability and distribution of vaccines, the adjustments were based on the assumption that the pandemic would continue with the measures in place in early spring of 2021. With the availability of vaccines and the lifting of restrictions in the summer of 2021, Administration reviewed the 2021 estimates and returned a portion of funding to the appropriated FSR, which was in turn used to fund the COVID-19 2022 estimated budget impact, as presented to Council in fall 2021 (Financial and Corporate Services report FCS00828 - COVID-19 2022 Financial Impacts and Funding Strategy). Throughout the year the City was required to adjust service levels to address new health orders and guidance. Achieving a tax-supported surplus of \$51.9 million on a \$3.0 billion budget, given continued pandemic uncertainty and successive waves of COVID-19 variants, required a significant level of effort and coordination across the corporation. Similar to 2020, Administration focused on responding to pandemic restrictions in a prudent manner and limited discretionary spending with the intent to create financial flexibility. Surplus funding was available to bring the FSR to a level that could mitigate the financial risks of long-term pandemic impacts and delayed economic recovery through 2022.

The pandemic's long-term financial effects remain uncertain. The 2022 budget was adjusted on a one-time basis in the fall of 2021. Administration will bring forward forecast scenarios for the continuing impacts on the City's revenue and expenses with the 2023-2032 Operating Investment Outlook in summer 2022. Allowing the surplus, after approval of carryforwards, to remain in the FSR will provide Council with financial flexibility to continue to address the lasting impacts of the pandemic. Where required, Administration will consider permanent adjustments to the operating budget resulting from the pandemic in the proposed 2023-2026 budget being presented to City Council in the fall of 2022.

Federal Support

On February 17, 2022, the federal government announced that it intends to introduce legislation to invest up to \$750 million to support municipalities facing transit operating shortfalls, in collaboration with provinces and territories. This one-time payment would help cities maintain service levels despite decreased ridership as a result of the pandemic. To increase the impact of this investment, this federal funding is conditional on provincial and territorial governments matching the federal contribution and accelerating their efforts to improve housing supply, in collaboration with municipalities. The federal funding would be allocated to provinces and territories based on the

OPERATING FINANCIAL UPDATE - DECEMBER 31, 2021

formula already used for the Public Transit stream of the Investing in Canada Infrastructure Program. This calculation is based on a mix of transit ridership (70 per cent weight) and population (30 per cent weight). By supporting municipalities to maintain their public transit systems and encouraging all orders of government to work together, this partnership would support Canada's economic recovery and affordability in cities.

No additional details on the timing of the payment or stipulations on its use are available, and the required matching provincial funding was not addressed in the February 24, 2022, provincial budget. Administration will update Council as more information is available.

2021 Preliminary Operational Financial Results

This report reflects actual results for 2021 compared against the approved budget after the 2021 Spring supplemental and COVID-19 related adjustments. While Administration never intends to run a deficit or generate a surplus, a portion of the surplus was generated as a result of the City continuing its cost management practices during 2021 to manage the impacts of COVID-19. The net favourable budget variance is primarily the result of:

- lower than budgeted personnel costs due to greater than anticipated vacancies from overall vacancy management and delays in hiring,
- lower than budgeted costs for financial strategies, and
- a surplus position in the snow and ice program.

These favourable variances are partially offset with lower revenue in Transit and Community and Recreation Facilities where lower ridership and admission is attributed to the COVID-19 pandemic, as well as higher than anticipated software maintenance costs related to Enterprise Commons. Detail on the sources and causes of the 2021 operating variances is provided in Attachment 1.

Where necessary and appropriate, the 2022 operating budgets have been adjusted for operating budget variances identified throughout the 2021 financial reporting process, including for items such as increased Enterprise Commons costs. These adjustments were made largely through the Fall 2021 budget adjustment process (Financial and Corporate Services report FCS00817 - Fall 2021 Supplemental Operating Budget Adjustment).

Financial Stabilization Reserve and Operating Carryforwards

Attachment 2 includes recommendations for:

- Carryforward of items previously appropriated in the FSR into the 2022 operating budget (Recommendation 1 - \$8.5 million).

These are items that had previously been approved with funding from the FSR, with expenditures originally expected to occur in 2021. Expenditures are now expected in 2022. This adjustment is reallocating the expenditure and the previously approved funding from the FSR into 2022.

OPERATING FINANCIAL UPDATE - DECEMBER 31, 2021

- Carryforward of operating commitments into the 2022 operating budget previously approved with funding through the Revolving Industrial Servicing Fund Reserve and other external non tax-levy funds (Recommendation 2 - \$9.1 million and Recommendation 3 - \$7.2 million).

These are items that had previously been approved with funding from other reserves, or non-tax levy sources, with expenditures originally expected in 2021. Expenditures are now expected in 2022. This adjustment is reallocating the expenditure and the previously approved funding from applicable reserves or non-tax levy sources into 2022.

- Carryforward of 2021 budgeted expenditures committed but not utilized in the year into the 2022 operating budget, with matching funding from the FSR (Recommendation 4 - \$19.4 million).

This adjustment is related to operating expenditures that were originally approved in the 2021 operating budget, with funding from tax-levy, that were not fully utilized during the year and require the remaining funding to complete the project or initiative in 2022. The recommendation is for carryforward of unused expenditure budget, with funding from the FSR, into 2022.

Attachment 2 also reflects use of \$6.4 million of the 2021 tax-supported surplus to offset a portion of the estimated 2022 COVID-19 budget impact as previously approved by City Council. (November 30, 2021 Financial and Corporate Services Report FCS00828 - COVID-19 2022 Financial Impacts and Funding Strategy).

Economic Update

An Economic Update is included as Attachment 3. It highlights indicators relevant to Edmonton's economic recovery, including employment growth and quarterly housing starts.

COMMUNITY INSIGHT

The City of Edmonton's budgets are the instruments that allow Council to achieve the goals of ConnectEdmonton and the Big City Moves of The City Plan. Through various channels (including formal public engagement, community conversations/tables, 311, social media and speakers at Committees of Council), the City of Edmonton listens to the needs, desires and financial realities of Edmontonians as it delivers programs and services on behalf of the community. The City of Edmonton's programs and services should enable a better life for all Edmontonians; Administration is committed to providing financial reporting back to Council and residents that demonstrates how the City has delivered on the goals and objectives set out in the budget.

GBA+

As the financial updates reflect the reporting of actual results that provide the quantitative progress of programs and services that each have individual implications for GBA+, additional GBA+ analysis is not completed for these reports.

ATTACHMENTS

1. Operating Financial Update - December 31, 2021

OPERATING FINANCIAL UPDATE - DECEMBER 31, 2021

2. Financial Stabilization Reserve, Operating Carryforward Recommendations and Other Items
3. City of Edmonton's Q4 2021 Economic Update