

Annual Update of Current Planning Reserve

Recommendation

That the November 14, 2017, Urban Form and Corporate Strategic Development report CR_5243, be received for information.

Executive Summary

This report provides the annual update of the Current Planning Reserve. Sustainability of the reserve contributes to the corporate outcome “the City of Edmonton has a resilient financial position.” The report reflects that development revenues have declined and the reserve is below the minimum balance established by City policy. In response to the declining reserve balance, an interim strategy is in place with changes in funding source for select services and continued efficiency measures. Throughout 2018, Administration will adjust the business model to ensure that service levels meet demand expectations. This work will be completed for the next budget cycle.

Previous Council/Committee Action

That the November 14, 2017, Urban Form and Corporate Strategic Development report CR_5243, be referred to the November 28, 2017, Executive Committee meeting.

Report

Background

Services to the development and building industries are provided through an enterprise business model whereby all direct, indirect, capital, and service reinvestment costs are recovered through fees charged to the building and development industries. These costs include direct costs of providing service to industry, and indirect costs such as technical reviews and corporate shared services costs.

As outlined in City Policy C570 - Current Planning Reserve, all annual surpluses in excess of operational and capital needs are placed into the Reserve. Similarly, any annual operational or capital deficit is drawn from the Reserve. This is intended to enable a sustainable operating model as external economic conditions vary. The policy target balance of the reserve is 75 percent of annual operational expenditures, and the minimum balance is 30 percent. The policy also prescribes that when the reserve balance falls below the 30 percent minimum threshold, Administration will

implement a strategy to manage the reserve balance.

The purpose of the Current Planning Reserve is to:

1. Support long term financial sustainability of planning services through managing revenue shortfalls during economic downturns.
2. Fund resource needs in a timely fashion during periods of increased service demand.
3. Fund operating and capital investments that increase productivity or support continuous improvement of service delivery.

Annual Update

Development revenues are declining due to the economic downturn starting in late 2015. In 2016, Administration presented to Council an interim strategy to manage the reserve balance as part of the annual update of current planning reserve. The interim strategy included vacancy management, internal efficiencies and cost reduction efforts.

Lower than anticipated application volumes have continued throughout 2017. Revenues are projected to be \$3 million below budget; the Reserve balance is projected to be at \$1.9 million (three percent) at the end of 2017, and below zero in 2018. While Administration has implemented an interim strategy, continued economic downturn necessitates further actions as current funding practices are not sustainable.

These actions are:

1) Vacancy management

2) Service Efficiencies

There are several initiatives in progress to reduce costs, including: refinements in resource planning, cost reductions for the Edmonton Service Centre, a transition to risk-based inspections, leveraging technology for online applications and digital plans, and permitting process improvements. These initiatives should result in revenues and services costs being more closely aligned with direct services.

3) Changes in Funding Source

Potential changes in funding sources are required for select services where benefits align with tax levy funded programs. This will create equity between users who pay for services and users who benefit from services, as well as contribute to sustainability of the reserve. Positions that are not involved in processing or reviewing development applications should not be funded from the reserve. Administration will complete a detailed review of this over the next year. In the interim, this could include but not be limited to the infill liaison team,

bylaw compliance, and efficiencies in the integrated service centers and some overhead costs.

4) End to end review of the business model and updated policy

There will be an end to end review of the business model, policy changes, and continued efforts to realize operational efficiencies across the corporation, which will culminate in an updated policy and a list of services directly funded through the reserve. Administration will complete this additional work in 2018 for the next budget cycle, to ensure that service levels meet demand expectations and that the reserve is able to support activity. This review may lead to additional services being funded by tax levy.

Budget/Financial

The projected 2017 transfer from the reserve of \$7.4 million results in a projected reserve balance of \$1.9 million (three percent of annual operating budget expenditures) at the end of 2017, which is below the minimum requirement of \$18.7 million (30 percent of annual operating budgeted expenditures). The transfer from the reserve is \$5.6 million greater than budgeted for 2017.

For the Fall 2017 Supplemental Operating Budget Adjustment process, the 2018 Branch budget will be adjusted to reflect the revised revenue forecast, internal efficiencies, reduced full-time equivalency requirements, corresponding increased transfer from reserve, and a \$4 million shift of funding to tax levy for select services as specified above.

Attachment 1 provides a summary of the actual and forecasted reserve balance from 2010 to 2018 in comparison to its minimum and target thresholds.

Public Engagement

Sustainability of the Reserve is a standing agenda item with the Business Advisory Council, a formalized advisory group of industry stakeholders chaired by the Edmonton Chamber of Commerce. This group is made up of representatives from the Urban Development Institute, the Canadian Home Builders Association, the Building Operators and Managers Association and the Commercial Real Estate Development Association and the Realtors Association of Edmonton. This committee enables the development and building industries to provide direct input into Branch operations as they pertain to business activities. The Business Advisory Council was briefed on this matter at their regular meeting of September 20, 2017, and have indicated full support of the recommended interim reserve strategy. They will continue to be actively engaged in the drafting of further recommendations pertaining to the reserve mechanism.

Corporate Outcomes and Performance Management

Corporate Outcome: The City of Edmonton has a resilient financial position			
Outcome(s)	Measure(s)	Result(s)	Target(s)
Effective and efficient service delivery: revenue supports ongoing city operations.	Reserve balance as a percentage of annual operating budget expenditures funded by the Development Services reserve	2017 Projected: 3% 2018 Projected : -1%	Target*: 75% Minimum: 30%

*City Policy C570

Attachment

1. Current Planning Reserve 2010-2018

Others Reviewing this Report

- T. Burge, Chief Financial Officer and Deputy City Manager, Financial and Corporate Services