

## SPRING 2023 SUPPLEMENTAL OPERATING BUDGET ADJUSTMENT

### 2023-2026 OPERATING BUDGET

#### RECOMMENDATION

That adjustments to the 2023 Operating Budget, as outlined in Attachment 1 of the April 17, 2023, Financial and Corporate Services report FCS01657, be approved.

<b>Requested Council Action</b>	Decision Required		
<b>ConnectEdmonton's Guiding Principle</b>	<b>ConnectEdmonton Strategic Goals</b>		
<b>CONNECTED</b> This unifies our work to achieve our strategic goals.	<b>Healthy City</b>		
<b>City Plan Values</b>	BELONG. LIVE. THRIVE. ACCESS. CREATE.		
<b>City Plan Big City Move(s)</b>	A community of communities  Inclusive and compassionate  Catalyze and converge	<b>Relationship to Council's Strategic Priorities</b>	Community safety and well-being  Arts and culture  Economic Growth  Conditions for service success
<b>Corporate Business Plan</b>	Serving Edmontonians		
<b>Council Policy, Program or Project Relationships</b>	<ul style="list-style-type: none"> <li>Multi-year Budgeting Policy (C578)</li> <li>Fiscal Policy for Revenue Generation (C624)</li> <li>Debt Management Fiscal Policy (C203C)</li> <li>The City Plan</li> </ul>		
<b>Related Council Discussions</b>	<ul style="list-style-type: none"> <li>FCS01394, Proposed 2023-2026 Operating Budget, City Council, November 14, 2022</li> <li>FCS01394, Proposed 2023-2026 Operating Budget, City Council - Budget, November 30, 2022</li> </ul>		

# **SPRING 2023 SUPPLEMENTAL OPERATING BUDGET ADJUSTMENT - 2023-2026 Operating Budget**

## **Executive Summary**

- The purpose of the Spring 2023 Supplemental Operating Budget Adjustment (SOBA) is to finalize the 2023 tax levy approved by Council in December 2022, prior to finalizing 2023 tax rates.
- With Council's approval, the adjustments proposed in this supplemental budget adjustment maintain the 4.96 per cent tax increase approved in December 2022.
- Budget adjustments are included in Attachment 1 and are related to changes in assessment growth, removing cost related to withdrawing from the Edmonton Metro Transit Services Commission and adjustments to financial strategies.
- Factoring in changes to the provincial tax requisition, the combined tax increase is 4.26 per cent for residential properties and 3.13 per cent for non-residential properties.
- The 2023 property tax bylaw will be brought forward to City Council on April 25, 2023.

## **REPORT**

The Supplemental Operating Budget Adjustment (SOBA) is part of the City Council approved multi-year budgeting approach to setting the 2023-2026 Operating Budget.

The intent of the spring adjustment is to respond to any emerging items, such as effects of the provincial and federal budgets, changes in economic forecast, or changes imposed by legislation, prior to finalization of the tax increase and establishment of the property tax rates.

At the November 30 to December 16, 2022, budget meeting, City Council approved the 2023-2026 Operating Budget, resulting in municipal tax increases of 4.96 per cent for 2023 and 2024, 4.95 per cent for 2025 and 4.39 per cent for 2026 (Council amended the tax increases in Financial and Corporate Services report FCS01394 Proposed 2023-2026 Operating Budget).

The Spring 2023 SOBA includes ongoing budget adjustments for the 2023 operating budget required to finalize the tax increase and establish property tax rates in advance of the property tax bylaws. The adjustments proposed in this supplemental budget adjustment maintain the 4.96 per cent municipal tax increase approved by Council for 2023. Administration will return with the 2023 property tax bylaws on April 25, 2023, which establish the tax rates for 2023 based on the final tax increase approved in this report.

## **Recommended Spring 2023 Operating Budget Adjustments**

Guided by the City's Multi-year Budgeting Policy (C578), the supplemental budget adjustment process allows for adjustments arising from factors such as:

- Changes to economic forecasts;
- Provincial or federal government budgets;
- Changes imposed by legislation;
- Operating impacts of capital;
- Administrative adjustments requiring Council approval; and
- Council-directed changes to priorities, policies and programs.

## **SPRING 2023 SUPPLEMENTAL OPERATING BUDGET ADJUSTMENT - 2023-2026 Operating Budget**

For 2023, these adjustments maintain the currently approved 4.96 per cent tax increase. Adjustments include changes to economic forecasts and administrative adjustments that have no impact on the net tax levy requirement, but require Council approval. Budget adjustments are itemized in Attachment 1 and discussed below.

### ***Changes to Economic Forecasts - Assessment Growth***

Each year, new construction, property upzoning, subdivisions and exemption changes affect the value of properties. These changes in value are termed “real growth” or “assessment growth” and are distinct from market value changes. Market value change between properties results from market forces (supply and demand). Assessment growth occurs when property changes physically (e.g., new construction, dividing one parcel into two parcels) or legally (e.g., tax exemption status, effective zoning). Assessment growth increases City tax revenues.

The amount of assessment growth for 2023 results in tax revenue \$5.8 million higher than the budget approved by Council in December 2022.

There is also an adjustment to lower the forecast for grants in lieu of provincial taxes by \$1.3 million based on updated assessments and tax rates.

Administration is recommending the net change between tax revenue from additional assessment growth and grants in lieu of provincial taxes be transferred to the financial strategies budget, as reflected in Attachment 1.

The financial strategies budget provides flexibility for unknown amounts over the four-year budget cycle. The amount of funding for the financial strategies budget is based on a risk assessment of potential impacts to the City’s operating budget and provides a mechanism to manage fluctuation within the operating budget over the four year cycle. The funding can be used to address ongoing budget pressures over the course of the 2023-2026 Operating Budget, including fuel and utility cost escalation, changes in interest rates, other inflationary impacts and other changes to the City’s operating budget.

### **Administrative Adjustment Requiring Council Approval**

The following administrative budget adjustment requires Council approval. Although administrative adjustments impact the overall revenue and expenditure budgets, they do not change the net amount required from tax revenue or the annual tax rate increase.

As part of the 2023-2026 budget deliberations, Council decided to withdraw the City from the Edmonton Metro Transit Services Commission, and correspondingly increased the Edmonton Transit Service Branch’s operating budget by \$13 million, on a one-time basis for 2023, to address potential costs of the withdrawal, with funding coming from the Financial Stabilization Reserve. Upon further review and as part of the year end financial close process these transactions have been recorded in 2022, eliminating the budget requirement for 2023. This adjustment is to remove the one-time budget from 2023 as it is no longer required.

## SPRING 2023 SUPPLEMENTAL OPERATING BUDGET ADJUSTMENT - 2023-2026 Operating Budget

### Community Revitalization Levy Adjustments

Community Revitalization Levy budgets have also been adjusted based on updated assessment figures and revised forecasts, including changes to debt servicing. The details of the adjustments are included on page 2 of Attachment 1.

### Valley Line Southeast Precursor Bus Service

As part of the 2023-2026 budget deliberations, Council made the following motion:

“That as part of the Spring 2023 Supplemental Operating Budget Adjustment, Administration provide an estimate of the date of when the Valley Line Southeast precursor bus service is no longer required and is available for redeployment and an updated cost estimate for 2023.”

At this time, a date is not available for when the Valley Line Southeast precursor bus service will no longer be required. When the precursor bus service is available for redeployment, the annualized cost impact is estimated at \$6 million. Valley Line Southeast precursor bus service is a temporary service currently funded by the LRT reserve, redeployment would require a service package to adjust the base budget, which Council may direct to the Fall SOBA if desired. More information will be provided when it becomes available.

### Education Tax Impact

Municipal taxes reflect a 4.96 per cent increase for 2023 as approved by Council in December 2022. The Government of Alberta’s Education Property Tax requisition will result in an increase in provincial education taxes of 1.79 per cent for residential and a decrease of 6.61 per cent for non-residential properties. The municipal and provincial education taxes will result in a combined tax increase of 4.13 per cent for residential properties and 3.07 per cent for non-residential properties, as shown in the table below:

	<b>Municipal Tax Levy Increase (%)</b>	<b>Education Property Tax Increase* (Decrease) (%)</b>	<b>Combined Tax Increase (%)</b>
Residential	4.96%	1.79%	4.13%
Non-residential	4.96%	(6.61%)	3.07%

\*includes the requisition allowance levy

The municipal contribution from the non-residential and residential sectors is 54.7 per cent and 45.3 per cent, respectively.

On January 31, 2023, Council passed the following motion:

“That Administration outline how ‘education tax room’ has been used in the past and provide options for a future approach to fund strategic priority areas like housing, climate

## SPRING 2023 SUPPLEMENTAL OPERATING BUDGET ADJUSTMENT - 2023-2026 Operating Budget

change, and other programs, as part of the Spring 2023 Supplemental Operating Budget Adjustment.”

The term “education tax room” has been used in the past to describe the difference between the City of Edmonton’s municipal tax increase and the Government of Alberta’s Education Property Tax increase. In circumstances where the Government increases the education tax levy by less than the per cent increase to the municipal tax levy passed by Edmonton City Council during budget deliberations, the combined rate will be lower than the municipal per cent increase.

Since Council has the ability to set municipal property taxes at any amount, and can do so at any time before passing the tax bylaw, in past years City Council has decided to further increase the municipal tax amount, beyond what was passed during budget deliberations, so that the combination of the municipal tax levy and the provincial tax levy is equal to the original municipal tax levy increase. Historically, this action has been referred to as “moving into the education tax room”; “education tax room” is conceptual, and “moving into the education tax room” is actually just an increase in municipal taxes beyond what was approved during budget deliberations.

In recent years, Administration has moved away from referring to “tax room” and to “tax tolerance”, where “tax tolerance” refers to Edmontonians' openness to increases in taxation. This is in response to a desire to increase transparency and accountability in the taxation process, and to distinguish the separation between municipal tax increases and provincial property taxation decisions.

Should Council wish to increase the municipal levy so that the combined municipal and provincial property taxes would equal 4.96 per cent (the amount of the municipal tax levy increase passed by Council in December 2022) the impact would be an increase of \$29.49 million in tax revenues, as outlined in the table below:

	<b>Incremental Budget Increase (\$M)</b>	<b>Municipal Tax Levy Increase (%)</b>	<b>Education Property Tax Increase (Decrease) (%)</b>	<b>Combined Tax Increase (%)</b>
Residential	\$11.33	6.08	1.79	4.96
Non-Residential	\$18.16	7.21	(6.61)	4.96
Total increase in municipal tax revenue for 2023	\$29.49			

“Education tax room” has been used six of the 17 times it has been available in the last 20 years. The following table outlines how “education tax room” has been used in the past:

<b>Year</b>	<b>Amount (\$M) and % of</b>	<b>Approved Municipal Tax increase at</b>	<b>Municipal Tax Increase</b>	<b>Purpose of “Education Tax Room” Use</b>

## SPRING 2023 SUPPLEMENTAL OPERATING BUDGET ADJUSTMENT - 2023-2026 Operating Budget

	available "tax room" used	budget deliberations of previous year (Fall SOBA)	at Spring SOBA	
2014	\$27.1 (100%)	4.92%	Res: 6.80% Non-Res: 7.30%	Allocated to strategy to address long term arterial rehabilitation needs (Arterial Road renewal work).
2013	\$19.3 (100%)	3.33%	Res: 6.60% Non-Res: 3.30%	Used for Pay-As-You-Go to repay interim financing from the City's working capital for land purchases made over previous years. Once the working capital is paid off, reallocate Pay-As-You-Go to the capital program.
2011	\$9.0 (100%)	3.85%	Res: 6.90% Non-Res: 3.90%	First to be used to offset additional costs of Motor Vehicle searches imposed by the Province through their 2011-2012 budget if the costs are not fully recovered through fines. Next, the balance of funding available will be allocated to a reserve to fund future LRT projects.
2010	\$3.5 (32%)	5.00%	Res: 7.40% Non-Res: 5.00%	Used to offset the Provincial reduction in grant revenues.
2008	\$24.9 (100%)	7.50%	Res: 11.80% Non-Res: 11.90%	Used to address 2% reduction to budget (\$5.4 million), Fire Rescue Services FTEs (\$2.6 million), remaining unallocated to fund 2008 one-time initiatives and then applied to 2009 base budget.
2007	\$9.3 (87%)	4.95%	Res: 7.34% Non-Res: 6.26%	Council pre-approved the use of \$9.3M in anticipated education tax room to enhance services in police (\$6.3M), fire aerials (\$1.6M), emergency medical services (\$1.0M) and community investment grants (\$0.5M).

## COMMUNITY INSIGHT

The October 31, 2022 City Council report CE01489 provided details on the extensive engagement Administration conducted on the 2023-26 Capital and Operating Budgets during the summer of 2022. The City engaged with the general public, organizations and community groups, and harder-to-reach communities, tailoring the engagement approach to each group. Themes that emerged included:

- Coming out of the pandemic there is a need to focus on improving community safety.
- The cost of living is going up and Edmontonians are facing increased financial pressures.
- Transit safety and connectivity are important.
- Participants want to connect with each other and celebrate Edmonton.
- Long-term solutions to climate challenges are needed.

## **SPRING 2023 SUPPLEMENTAL OPERATING BUDGET ADJUSTMENT - 2023-2026 Operating Budget**

- Participants are concerned about the overlapping nature of federal, provincial and municipal responsibilities.
- An overall sentiment of empathy among participants, who expressed an understanding that some individuals may be impacted by service reductions or fee increases more than others, including vulnerable populations and those on low and fixed incomes.

To prepare for the capital and operating financial outlooks (Financial and Corporate Services reports FCS01168 and FCS01169, June 7, 2022), Administration hosted five focus groups with Edmontonians including homeowners, renters and multigenerational home residents, newcomers, business owners and commercial property owners. Using the input from these discussions, Administration then conducted a survey of 1,006 participants using an online panel.

In the survey, the largest group of respondents (33 per cent) expressed a preference of limiting tax increases to the amount needed to account for inflation with services staying at the same level. The next largest group (28 per cent) opted to hold tax at the same level with the understanding that services would be reduced. The survey also asked participants what a reasonable annual tax increase would be; their suggestions averaged to 1.9 per cent.

### **GBA+**

The four-year budget incorporated input from the public engagement activities described above. This engagement applied a GBA+ lens to do targeted outreach and ensure the City captured input from residents experiencing unique barriers and challenges and those whose voices are heard less often. Administration conducted targeted outreach and engagement with 2SLGBTQ+ community members, non-English speakers, youth, seniors, racialized community members, women, people with disabilities, Edmontonians experiencing or at risk of homelessness, and people experiencing mental health and addiction challenges.

GBA+ is applied on the project, service or profile that make up each of the budget adjustments. As part of the development of the 2023-2026 Proposed Operating Plans and Budget, departments and GBA+ Centres of Excellence participated in a partial GBA+ process, and identified differential impacts that new initiatives proposed for the next four years might have on Edmontonians. For example, would a proposed program impact single parents one way and seniors another way.

This information was used as a factor to help determine which initiatives to advance. The GBA+ process will be applied to initiatives that are approved as part of the 2023-2026 operating budget decisions and will identify measures to address differential impacts as the program or project is implemented.

## **ATTACHMENT**

1. 2023-2026 Operating Budget Changes