

OPERATING FINANCIAL UPDATE - DECEMBER 31, 2023

Recommendation

1. That the 2024 Operating Budget be adjusted to increase expenditures by \$13,606,000 offset by an equivalent transfer from amounts currently appropriated in the Financial Stabilization Reserve, to address the delay of expenditures into 2024, as outlined in Schedule A, Table 1, Attachment 2 of the March 12, 2024, Financial and Corporate Services report FCS02229.
2. That the 2024 Operating Budget be adjusted to increase expenditures by \$25,766,000 and to transfer the equivalent amount from the Financial Stabilization Reserve, to fund the carryforward of expenditures where 2023 program commitments exist, as outlined in Schedule E, Table 1, Attachment 2 of the March 12, 2024, Financial and Corporate Services report FCS02229.
3. That the 2024 Operating Budget be adjusted to increase expenditures by \$10,306,000 offset by an equivalent transfer from the Revolving Industrial Servicing Fund Reserve, to address the timing of Revolving Industrial Servicing Fund program rebates within Development Services, Urban Planning and Economy, as outlined in Table 2, Attachment 2 of the March 12, 2024, Financial and Corporate Services report FCS02229.
4. That the 2024 Operating Budget be adjusted to increase expenditures by \$1,018,000 offset by an equivalent amount of revenue (transfer from reserve and provincial grant), to address the timing of expenditures for Rapid Housing Initiative - Cities Stream within Social Development, Community Services, as outlined in Table 2, Attachment 2 of the March 12, 2024, Financial and Corporate Services report FCS02229.
5. That the 2024 Operating Budget be adjusted to increase expenditures by \$4,900,000 offset by an equivalent amount of revenue (transfer from reserve), to address the timing of expenditures for Rapid Housing Initiative - Project Stream within Social Development, Community Services, as outlined in Table 2, Attachment 2 of the March 12, 2024, Financial and Corporate Services report FCS02229.
6. That the 2024 Operating Budget be adjusted to increase expenditures by \$13,250,000 offset by an equivalent amount of revenue (transfer from reserve and federal grant), to address the timing of expenditures for National Housing Co-Investment Fund within

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Social Development, Community Services, as outlined in Table 2, Attachment 2 of the March 12, 2024, Financial and Corporate Services report FCS02229.

7. That the 2024 Operating Budget be adjusted to increase expenditures by \$3,765,000 offset by an equivalent transfer from the Brownfield Reserve, to address the timing of grant expenditures for Brownfield Remediation and Redevelopment support within Economic Investment Services, Urban Planning and Economy, as outlined in Table 2, Attachment 2 of the March 12, 2024, Financial and Corporate Services report FCS02229.
8. That the 2024 Operating Budget be adjusted to increase expenditures by \$250,000 offset by an equivalent transfer from the Traffic Safety and Automated Enforcement Reserve (TSAER), to address the timing of expenditures for Safe School Drop Off initiative within Parks and Roads Services, City Operations, as outlined in Table 2, Attachment 2 of the March 12, 2024, Financial and Corporate Services report FCS02229.
9. That the 2024 Operating Budget be adjusted to increase expenditures by \$380,000 offset by an equivalent amount of revenue (provincial grant), to address the timing of grant expenditures to support downtown revitalization within Economic Investment Services, Urban Planning and Economy, as outlined in Table 2, Attachment 2 of the March 12, 2024, Financial and Corporate Services report FCS02229.
10. That the 2024 Operating Budget be adjusted to increase expenditures by \$6,503,000 offset by an equivalent transfer from Community Safety and Well-being Reserve, to address the timing of expenditures for various Community Safety and Well-being (CSWB) initiatives within various branches, as outlined in Table 2, Attachment 2 of the March 12, 2024, Financial and Corporate Services report FCS02229.

Requested Action		Council decision required	
ConnectEdmonton's Guiding Principle		ConnectEdmonton Strategic Goals	
CONNECTED This unifies our work to achieve our strategic goals.		N/A	
City Plan Values	N/A		
City Plan Big City Move(s)	N/A	Relationship to Council's Strategic Priorities	Conditions for service success
Corporate Business Plan	Managing the corporation		
Council Policy, Program or Project Relationships	<ul style="list-style-type: none"> ● 2023-2026 Operating Budget ● C629 Financial Stabilization Reserve (FSR) ● C610 Planning and Development Reserve (P&D) ● C579B Traffic Safety and Automated Enforcement Reserve (TSAER) 		

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Related Council Discussions

- FCS02066 Operating Financial Update - September 30, 2023, City Council, December 12, 2023
- FCS01959 Operating Financial Update - June 30, 2023, City Council, September 12, 2023
- FCS01657, Spring 2023 Supplemental Operating Budget Adjustment, City Council, April 17, 2023

Executive Summary

- December 31, 2023, results for tax-supported operations reflect a net unfavourable year-end variance of \$48.2 million (based on information available to February 22, 2024), a variance of 1.4 per cent of the City's \$3.4 billion tax-supported expense budget.
- This report provides recommendations for the carryforward of \$13.6 million (Recommendation 1) of items previously approved by City Council with funding from the appropriated Financial Stabilization Reserve (FSR) and \$40.4 million (Recommendations 3 to 10) for items funded through other reserves. These recommendations do not further impact the unappropriated FSR balance or tax-levy requirements.
- This report proposes carrying forward \$25.8 million from the unused 2023 operating budget into 2024 (Recommendation 2). These funds are intended for projects or initiatives outlined in the 2023 budget that were not completed within the fiscal year but require the remainder of the budget in 2024 to fulfill their commitments. Typically, during surplus years, carryforward requests are covered by the surplus. However, in tax-supported deficit years, these requests are financed directly from the FSR. Consequently, the unused 2023 budget for such requests will be directly funded from the unappropriated FSR.
- The balance of the unappropriated FSR will be \$69.7 million after factoring in the tax-supported deficit of \$48.2 million, the recommendation to carry forward \$25.8 million in expenditures and \$6.0 million for Council approved items during 2024. This amount is \$60.0 million below the preliminary minimum required reserve balance of \$129.7 million.
- Results are preliminary, unaudited and subject to change until the approval of the City's 2023 consolidated annual financial statements. Administration will provide the audited financial statements, presented on a public sector accounting basis as required for legislative reporting, to Audit Committee on April 15, 2024 and to City Council on April 23, 2024.

REPORT

Operating Financial Results

Attachment 1 provides details on the preliminary 2023 operating financial results compared to the 2023 approved budget for tax-supported, enterprise/utility and Community Revitalization Levy (CRL) programs. Preliminary year-end results for tax-supported operations show a net unfavourable variance of \$42.8 million as at December 31, 2023: a variance of 1.4 per cent of the City's \$3.4 billion tax-supported expense budget.

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Year-end unfavorable budget variances arise from a variety of factors, primarily due to:

- estimated retroactive salary payments to the end of 2023 for outstanding union contracts;
- less than budgeted transit fare revenue due to shifts in fare purchasing behaviour and related changes to travel patterns;
- higher than expected debt servicing costs due to timing of borrowing;
- lower ATCO Gas Franchise Fees resulting from charging lower rates to customers and warmer than anticipated weather;
- increased contractor, parts and material costs;
- less than expected On-Street Construction and Maintenance (OSCAM) revenue; and
- other unfavourable variances across City departments.

This is partially offset with planned cost savings within financial strategies, higher memberships and admissions revenue as recreation and attraction facilities achieved higher than expected demand for programs and services, lower snow and ice program costs due to less forecasted snowfall from October to December, and write off and revision of the City's outstanding payments and liabilities to various external parties.

2023 Alberta Wildfire Support Costs

The City incurred \$16.5 million in costs in 2023 to support Albertans and residents of the Northwest Territories impacted as a result of wildfires. These costs included establishment of an evacuee reception centre and fire support services provided to impacted communities. The year-end results include a full recovery of these costs from the impacted communities through mutual aid agreements. These communities will ultimately seek reimbursement for eligible costs through the provincial Disaster Recovery Program (DRP).

Financial Stabilization Reserve

The Financial Stabilization Reserve (FSR) balance, prior to the approval of recommendations for operating budget carryforwards and consideration of the tax-supported deficit, is \$149.7 million. Factoring in the tax-supported deficit of \$48.2 million, the recommendation to carry forward \$25.8 million in expenditures, and \$6.0 million for Council approved items during 2024, the remaining balance in the FSR will be \$69.7 million. This is \$60.0 million below the preliminary required minimum balance of \$129.7 million.

In accordance with City Policy C629 - Financial Stabilization Reserve, if the unappropriated FSR balance falls below the minimum, a strategy must be adopted to achieve the minimum balance over a period not to exceed three years, starting with the subsequent year's operating budget. As a result, a strategy will be implemented starting with the 2025 operating budget to replenish the FSR to its minimum balance from 2025 to 2027. The strategy may include replenishing the FSR with any unplanned one-time revenues, savings through one-time cost reduction strategies, previously committed one-time appropriated items within the FSR that are no longer required for their original purpose, and transfer of funds from other reserves where the amounts are no

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longer required for their original purposes. A multi-year tax levy increase could also be considered.

Administration plans to present a strategy to address this deficit to Council in fall 2024. Council will need to approve a strategy in 2024 to restore the FSR back to the minimum balance over a period not exceeding three years, starting in 2025 (the subsequent year's operating budget). This strategy could be approved through the Fall 2024 Supplemental Operating Budget Adjustment in November/December 2024. Administration suggests that Council carefully consider funding new initiatives from the FSR. Such funding should be limited to circumstances with urgent financial needs until a funding strategy is formulated and approved by Council.

Financial Stabilization Reserve, Operating Carryforwards and Other Items

Attachment 2 includes recommendations for:

- Carryforward of items previously appropriated in the FSR into the 2024 operating budget (Recommendation 1 - \$13.6 million).

These are items that had previously been approved with funding from the FSR, with expenditures originally expected to occur in 2023. Expenditures are now expected in 2024. This adjustment is reallocating the expenditure and the previously approved funding from the FSR into 2024.

- Carryforward of 2023 budgeted expenditures committed but not utilized during the year into the 2024 operating budget, with matching funding from the FSR (Recommendation 2 - \$25.8 million).

Typically, during surplus years, carryforward requests are covered by the surplus. However, in tax-supported deficit years, these requests are financed directly from the Financial Stabilization Reserve. Consequently, the unused 2023 budget for such requests will be directly funded from the Financial Stabilization Reserve. This recommendation is for carryforward of unused expenditure budget, with funding from the FSR, into 2024.

- Carryforward of operating commitments into the 2024 operating budget previously approved with funding through numerous reserve funds, totaling \$40.4 million (Recommendations 3 to 10).

These are items that had previously been approved with funding from other reserves, or non-tax levy sources, with expenditures originally expected in 2023. Expenditures are now expected in 2024. This adjustment reallocates the expenditure and the previously approved funding from applicable reserve sources into 2024.

Economic Update¹

In Q4 2023, the Edmonton and census metropolitan area (CMA) economies were resilient, despite elevated inflation and high interest rates weighing on household consumption. This resilience was likely buoyed by robust population growth that was driven by higher net migration. Highlights from the City of Edmonton's fall 2023 economic outlook, along with details of

¹ Pages 9 and 10 of Attachment 3 list sources for the economic information presented.

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developments in the Edmonton CMA labour market, inflation and residential construction in Q4 2023, and 2023 as a whole, are provided in Attachment 3.

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. In addition, the development of the four-year budget was informed by extensive community engagement as outlined in the October 31, 2022 Communications and Engagement report CE01489, Budget 2023-2026 Community Insights. 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+ is not completed for financial update reports.

Attachments

1. Operating Financial Update - December 31, 2023
2. Financial Stabilization Reserve and Operating Carryforward Recommendations and Other Items
3. City of Edmonton Q4 2023 Economic Update