

SPRING 2022 SUPPLEMENTAL OPERATING BUDGET ADJUSTMENT

2019-2022 OPERATING BUDGET

RECOMMENDATION

1. That adjustments to the 2022 Operating Budget, as outlined in Attachment 1 of the April 19, 2022, Financial and Corporate Services report FCS01143, be approved.
2. That the City Manager be authorized to spend up to \$8.0 million in COVID-19 funds appropriated in the Financial Stabilization Reserve, subject to availability of funding, for the 2022 fiscal year, to address emergent COVID needs, with reporting back to Council on the use of the funds through regular financing reporting.
3. That the agreement term sheet outlined in Attachment 3 of the April 19, 2022, Financial and Corporate Services Report FCS01143, be approved, and that the agreements be in a form and content acceptable to the City Manager.

Report Purpose

Council decision required

Council is being asked to approve recommended adjustments to the previously approved 2022 operating budget.

Executive Summary

- The purpose of the Spring 2022 Supplemental Operating Budget Adjustment (SOBA) report is to finalize the 2022 tax levy approved by Council in December 2021 prior to setting the 2022 tax rate.
- With Council's approval, the adjustments proposed in this supplemental budget adjustment maintain the 1.9 per cent tax increase approved in December 2021.
- The municipal tax increase of 1.9 per cent for 2022 includes 1.4 per cent for municipal services, 0.1 per cent for the Edmonton Police Service, 0.3 per cent for Alley Renewal and 0.1 per cent for the Valley Line LRT.
- Factoring in changes to the provincial tax requisition, the overall tax increase is 1.27 per cent for residential properties and 0.73 per cent for non-residential properties.

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- Significant budget adjustments are included in Attachment 1 and are related to changes in assessment growth, transit support from other orders of government, funding strategies for the enhanced snow and ice control pilot program approved by City Council in fall 2021, and adjustments to financial strategies.
- Administration is recommending the City Manager be provided authority to spend up to \$8.0 million in COVID-19 funds currently appropriated in the Financial Stabilization Reserve to support social and economic COVID-19 recovery efforts.
- The 2022 property tax bylaw will be brought forward to City Council on April 28, 2022.

REPORT

The Supplemental Operating Budget Adjustment (SOBA) is part of the City Council approved multi-year budgeting approach to setting the 2019-2022 Operating Budget.

The fall supplemental operating budget adjustment process is used to adjust the budget in advance of the budget year. The intent of the spring adjustment is not to redeliberate the annual budget, but rather to respond to any emerging items, such as effects of the provincial and federal budgets, prior to finalization of the tax increase and establishment of the property tax rate.

On November 30, 2021 City Council approved one-time adjustments to the 2022 operating budget to recognize the impacts of the COVID-19 pandemic. The total budget impact was \$96.7 million, including reduced revenues of \$80.6 million and additional costs of \$16.1 million, with offsetting one-time funding strategies in the same amount (FCS00828 COVID-19 2022 Financial Impacts and Funding Strategies). Long-term forecasts reflecting the impacts of the pandemic on City operations will be brought forward for discussion through the 2023-3032 Operating Investment Outlook in June 2022.

On December 17, 2021 through the Fall 2021 SOBA, Council approved adjustments to the 2022 operating budget that resulted in a tax increase of 1.9 per cent for 2022 (FSC00817 Fall 2021 Supplemental Operating Budget Adjustment).

The Spring 2022 SOBA is specific to ongoing budget adjustments impacting the 2022 operating budgets in order to finalize the tax increase and establish the property tax rate in advance of the property tax bylaws. The adjustments proposed in this supplemental budget adjustment maintain the 1.9 per cent tax increase approved by Council for 2022. The tax increase of 1.9 per cent for 2022 includes 1.4 per cent for municipal services, 0.1 per cent for the Edmonton Police Service, 0.3 per cent for Alley Renewal and 0.1 per cent for the Valley Line LRT.

Administration will return with the 2022 property tax bylaws on April 28, 2022, which establish the tax rates for 2022 based on the final tax increase approved in this report.

Recommended Spring 2022 Operating Budget Adjustments

Guided by the City's Multi-year Budgeting Policy (C578), the supplemental budget adjustment process categorizes adjustments to the 2022 budget as follows:

- Changes to Economic Forecasts
- External Factors/Changes in Legislation
- Operating Impacts of Capital

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- Council-directed changes to priorities, policies and programs.

For 2022, these adjustments maintain the currently approved 1.9 per cent tax increase. 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” 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 2022 is \$8.2 million higher than the budget approved by Council in December 2021. Through the Fall 2021 SOBA, assessment growth was decreased to reflect lower non-residential construction activity anticipated as a result of the continued economic impact of the pandemic. Based on final assessment growth figures, construction activity was stronger than anticipated for 2021.

Administration is recommending that the additional assessment growth 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. Economic and other external factors can impact the City's operating budget. Funding set aside in the financial strategies budget is based on a risk assessment of potential impacts to the City's operating budget. The funding can be used to address ongoing budget pressures over the course of the 2022 and 2023-2026 operating budget, including fuel and utility cost escalation, other inflationary impacts, and longer-term impacts of COVID-19, among other changes to the City's operating budget.

External Factors/Changes in Legislation - COVID-19 Transit Support (Federal and Provincial)

On February 17, 2022, the federal government announced \$750 million in one-time operating support for transit operating shortfalls for municipalities across Canada. With this announcement the estimated amount allocated to Alberta was \$79.5 million. The funding was subject to provincial governments matching the federal contribution and working with municipalities and the federal government to address barriers to increasing affordable housing supply and density.

On March 11, 2022, the Province of Alberta announced matching funding of \$79.5 million, for total funding of \$159 million, to support municipal transit systems affected by the pandemic. The funding will be provided through the Alberta Relief for Shortfalls for Transit Operators (RESTOR) program. The portion allocated to the City of Edmonton under this program is \$66.97 million and is based on transit ridership and population figures, and represents approximately 42 per cent of the total available funding for Alberta municipalities.

The memorandum of understanding (MOU) with the provincial government defines eligible expenditures for application of the funds to include transit capital (with written consent from Alberta Transportation), personal protective equipment (PPE), supplemental cleaning,

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replacement of reduced transit revenues, employee compensation and support for vulnerable populations. The financial expenditures eligible for reimbursement must be between the period October 1, 2021 to March 31, 2023.

Between October 1, 2021 and forecasted to the end of December 31, 2022, the City will have incurred more than \$66.97 million in eligible expenditures as defined in the MOU and will therefore be able to fully utilize the RESTOR funds to offset these impacts. Administration is recommending the following strategy on how to use the funds:

- Transfer the RESTOR funds to the appropriated Financial Stabilization Reserve (FSR), and then use those funds to offset for eligible transit budget impacts between October 1, 2022 and to the end of December 31, 2022 (this was previously approved by Council to be offset with internal funding strategies). Those internal strategies included expense management and additional revenues, as approved by City Council through previous COVID-19 funding strategies reports.
- If this recommendation is accepted, internal funds in the amount of \$66.97 million, previously approved by Council to offset the effects of the pandemic on transit operations, prior to the availability of funding from other orders of government, will become available.
- Administration then recommends that these internal funds be appropriated in the FSR to address future impacts of COVID-19. This adjustment is reflected in Attachment 1 (Recommendation 1). Although provincial health restrictions have eased, there may be further impacts to City revenues and additional costs throughout the year. The reallocated FSR funds could also be used to support vulnerable populations, Edmonton's businesses, enhanced security, and downtown vibrancy, among other pandemic supports.

Throughout 2022, City Council can reassess the COVID funding appropriated in the FSR and choose to reallocate amounts to the unappropriated FSR to fund any emergent budget pressures.

The MOU also states that municipalities must demonstrate that they have made public commitments for action on affordable housing and make a public commitment by March 31, 2023 on changes to improve affordable housing supply and affordability. Administration is working with the provincial government to determine required actions, as the City has already, and continues, to advance initiatives to improve affordable housing supply and affordability.

Council Directed - Enhanced Snow Clearing - Pilot Program

This category of adjustments is related to previous Council decisions.

During fall 2021 budget deliberations, Council made the following motion:

That Administration pilot an enhanced snow clearing standard for Priority 4 roads (residential) until April 30, 2022. This enhancement would include blading down to pavement and sanding, especially at intersections within communities and after major snow and ice events, using the existing 2022 budget, which will be reassessed at the Spring 2022 Supplemental Budget Adjustment

Year-to-date expenditures for the enhanced snow clearing pilot program from January 1, 2022 to the end of February 2022 are \$16.6 million. The increased snowfall late in 2021 and in the first

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two months of 2022, resulted in the Snow and Ice Control program utilizing close to 80 per cent of its annual 2022 budget by the end of February.

As a result of mild weather in the first quarter of 2021, the Snow and Ice Control program ended 2021 in a surplus position, and on March 14, 2022, City Council approved carry-forward of \$2.3 million of those surplus funds into 2022 to offset a portion of the costs of the enhanced snow clearing pilot program. As a result, the total net cost of the enhanced service levels to the end of February are \$14.3 million (\$16.6 million additional costs, partially funded by 2021 surplus carried forward of \$2.3 million). Costs for the remainder of the pilot program through March and April are not expected to be significant.

With 80 per cent of the Snow and Ice Control program budget spent by the end of February 2022 the remaining budget is insufficient to fund the enhanced snow clearing pilot program in 2022. As reflected in Attachment 1 (Recommendation 1), Administration recommends that \$14.3 million be drawn from the unappropriated FSR to offset the additional net costs of the enhanced pilot program. The current balance of the unappropriated FSR is \$142.3 million, and the required minimum balance is \$112.9 million. With approval of the recommendations in this report, the revised balance of the unappropriated FSR would be \$128.0 million.

The pilot program is currently approved to the end of April 2022, therefore the related costs and recommended funding strategy are one-time.

Snow and Ice Control services levels and ongoing funding challenges will be discussed on April 25, 2022 at Community and Public Services Committee. Further discussions on ongoing funding for the program will be brought forward through the proposed 2023-2026 budget in fall 2022.

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.

COVID-19 Funds - City Manager Authority

Some COVID-19 funding needs require an immediate decision for the response to be effective. Examples of these needs include, but are not limited to: enhanced cleaning, purchase of personal protective equipment, and temporary support for vulnerable populations, the business community, community organizations and other partner organizations.

In order to expedite the process for distribution of funds for urgent COVID-19 recovery efforts, Administration is proposing that the City Manager be provided authority to spend up to \$8.0 million in COVID-19 funds currently appropriated in the FSR, subject to availability of funding, for the 2022 fiscal year. Use of the funds will be authorized by the City Manager and will not be brought forward for approval for City Council. However, use of funds will be reported back to City Council, and at minimum through the regular quarterly operating financial updates, as necessary.

Additionally, authorization is being requested for the City Manager to enter into any necessary agreements, individually not to exceed \$2.0 million, to provide the funding to external organizations in accordance with the terms set out in Attachment 3 for the 2022 fiscal year.

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Currently the City Manager only has authority in the City Administration Bylaw 16620 to approve any agreement, not pertaining to an interest in land, including non-competitive and sponsorship, if the agreement does not exceed \$1 million and the term does not exceed 10 years. This authorization for use of funds and establishment of agreements is included as Recommendation 2 and 3 (Attachment 3), respectively.

This recommendation reinstates the same level of spending authority provided to the City Manager by Council in 2021 for use of COVID funds within the appropriated FSR. In 2021, the City Manager exercised this authority to fund \$1.0 million in costs related to festival supports.

Education Tax

Municipal taxes reflect a 1.9 per cent increase for 2022 as approved by Council in fall 2021. The education tax requisition requires a tax decrease for residential and non-residential properties of 0.5 per cent and 4.9 per cent, respectively, resulting in an overall tax increase of 1.27 per cent for residential properties and 0.73 per cent for non-residential properties. A breakdown of municipal and education property tax impacts for 2022 is outlined in Attachment 2.

The 2022 provincial education tax requisition to Edmonton is \$495.3 million; in 2021, the requisition was \$493.9 million. Although the provincial government implemented a provisional education tax increase of approximately one per cent, or \$27.0 million, for 2022, the impact of that increase for Edmonton is offset by assessment growth and province-wide shifts in property value assessment that redistribute the education tax levy.

Budget/Financial Implications

With Council's approval of the recommendations, including the adjustments in Attachment 1, the 2022 municipal tax levy will reflect an increase of 1.9 per cent (0.1 per cent increase for Edmonton Police Services, 0.1 per cent increase for Valley Line LRT, 0.3 per cent increase for Alley Renewal, along with a 1.4 per cent increase for municipal services). Approving the adjustments will result in operating budgets for tax-supported operations having revenues and expenditures totalling \$3.174 billion in 2022.

COMMUNITY INSIGHT

Administration undertook public engagement in 2018 as part of the development and approval process for the 2019-2022 operating and capital budgets.

The spring supplemental operating budget adjustment process finalizes the tax rate approved by Council in December 2021. Prior to approving the tax rate, Edmontonians had the opportunity to share their perspectives on the budget adjustment with Council at a non-statutory public hearing. Administration also conducted a survey in November 2021, which invited residents, business owners and property owners to reflect on their own financial situation, the programs and services offered by the City, and the potential tax levy increase. Survey results were shared publicly prior to budget deliberations, and were shared with Council through a memo on November 31, 2021.

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As the budget cycle progresses, Administration continues to listen to and learn from Edmontonians using a variety of channels. The recommendations put forward to Council in this Supplemental Operating Budget Adjustment reflect that Edmontonians have emphasized the continued need to deliver high-quality civic services while the community continues to recover from the pandemic. The reallocation of dollars to the appropriated Financial Stabilization Reserve for COVID purposes will allow Council and Administration to respond to continued emergent COVID pressures noted by the community, including supports for vulnerable populations, Edmonton's businesses, enhanced security, or downtown vibrancy.

GBA+

GBA+ is applied on the project, service or profile that make up each of the budget adjustments. The largest adjustment in this report, \$66.97 million to offset COVID-19 transit revenue impacts, reflects the City's decision to maintain transit service levels to support all Edmontonians. GBA+ reinforces the need for community routes, on demand service and service frequency on existing routes during off-peak times to align with the travel patterns of women and seniors.

The adjustments recommended in this report are put forward in consideration of the priorities of ConnectEdmonton and The City Plan, which were developed after hearing from a diverse and representative sample of Edmontonians. Administration applied a GBA+ approach in developing The City Plan, ensuring over 10,000 Edmontonians, including a variety of identity intersectionalities (such as income, education, housing, family dynamics) were able to participate.

ATTACHMENTS

1. 2022 Operating Budget Changes
2. 2022 Tax Requirement
3. Agreement Term Sheet - Emergent COVID-19 Items