

## OPERATING FINANCIAL UPDATE - JUNE 30, 2024

### Recommendation

That the September 10, 2024, Financial and Corporate Services report FCS02485, be received for information.

<b>Requested Action</b>	Information only		
<b>ConnectEdmonton's Guiding Principle</b>	<b>ConnectEdmonton Strategic Goals</b>		
<b>CONNECTED</b> This unifies our work to achieve our strategic goals.	N/A		
<b>City Plan Values</b>	N/A		
<b>City Plan Big City Move(s)</b>	N/A	<b>Relationship to Council's Strategic Priorities</b>	N/A
<b>Corporate Business Plan</b>	Managing the corporation		
<b>Council Policy, Program or Project Relationships</b>	<ul style="list-style-type: none"> <li>• 2023-2026 Operating Budget</li> <li>• C629 Financial Stabilization Reserve (FSR)</li> <li>• C610 Planning and Development Reserve (P&amp;D)</li> <li>• C579B Traffic Safety and Automated Enforcement Reserve (TSAER)</li> </ul>		
<b>Related Council Discussions</b>	<ul style="list-style-type: none"> <li>• FCS02361 Spring 2024 Supplemental Operating Budget Adjustment, April 23, 2024</li> </ul>		

### Executive Summary

- Administration provides operating financial updates three times a year. Consistent, transparent and timely financial reporting to Council is part of how Administration manages the corporation responsibly for the community.
- This report provides the June 30, 2024, Operating Financial Update, including year-to-date operating results and projected year-end results compared to the approved budget for

## OPERATING FINANCIAL UPDATE - June 30, 2024

tax-supported, enterprise/utility and Community Revitalization Levy (CRL) programs. An update is also provided on certain reserves.

- As of June 30, 2024, year-to-date results for tax-supported operations reflect a net favourable variance of \$1.0 million, but a net unfavourable variance of \$34.4 million is projected for year-end, equivalent to 1.1 per cent of the overall expense budget.
- The projections are based on the June 30, 2024, year-to-date results and other available information. Year-end projections may be updated throughout the year as additional information becomes available.

## REPORT

### Year-to-Date and Year-End Projected Results

Attachment 1 provides the June 30, 2024, year-to-date and projected year-end operating financial results compared to the approved budget for tax-supported, enterprise/utility and Community Revitalization Levy (CRL) programs.

Year-to-date results for tax-supported operations show a favourable budget variance of \$1.0 million and year-end projected results reflect an unfavourable budget variance of \$34.4 million, which is equivalent to a 1.1 per cent variance when compared to the overall expense budget. The year-end projected variance is due to unfavourable budget variance resulting from:

- Higher personnel costs, mainly due to additional overtime for Transit Operators, and in Fire Rescue Services, as well as greater than budgeted salary costs for the Community Recreation and Culture branch as a result of higher staffing and security requirements due to stronger than expected demand and increased security incidents.
- Less than budgeted transit fare revenue due to shifts in fare-purchasing behaviour and related changes to travel patterns, including increased demand for discounted/subsidized fare products and hybrid work.
- Increased contract work due to unplanned callouts, including for aging infrastructure, increased vandalism, inflation pressure on contract costs and enhanced cleaning requests.
- Higher maintenance, parts and material costs due to inflationary cost pressures.
- Higher than expected fuel costs, partially offset by fuel hedging contracts and higher fuel sales to EPCOR and Spruce Grove.
- Less than expected On-Street Construction and Maintenance (OSCAM) revenue.
- Other unfavourable variances across City departments.

This is partially offset with a projected favourable budget variance in Financial Strategies related to funding set aside to address greater than anticipated costs related to utilities, fuel and inflation. Financial Strategies includes amounts to manage fluctuations and to provide flexibility for emerging items over the course of the four-year operating budget cycle. There were also lower than budgeted expenditures due to delayed Downtown Vibrancy grant payments that are

## OPERATING FINANCIAL UPDATE - June 30, 2024

dependent on project completion and other cumulative favourable variances across City departments.

### Financial Stabilization Reserve

The projected December 31, 2024, year-end balance of the Financial Stabilization Reserve (FSR) before considering the projected year-end tax-supported deficit is \$67.3 million, which is below the minimum required balance of \$133.8 million for 2024 and below the target balance of \$222.1 million. After considering the projected tax-supported deficit of \$34.4 million, the projected balance of the reserve is \$32.9 million, which is below the minimum balance by \$100.9 million.

As per City Policy C629 - Financial Stabilization Reserve, in the event the unappropriated FSR balance falls below the minimum, a strategy will be adopted to achieve the minimum balance over a period not to exceed three years, starting with the subsequent year's operating budget. 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 if the amounts are no longer required for their original purposes. A multi-year tax-levy increase could also be considered.

Based on the preliminary year-end tax-supported position in this report, the FSR in 2024 would fall \$100.9 million below the required minimum balance. Council will need to approve a strategy through the Fall 2024 Supplemental Budget Adjustment process 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). The tax increase required to replenish the FSR would be 1.6 per cent (updated from 1.8 per cent presented to Executive Committee, August 14, 2024) starting in 2025 to be maintained for a period of three years.

Administration will continue to manage spending to reduce the currently projected year-end deficit position. Funding new initiatives from the FSR for the remainder of the year should be limited to those circumstances with emergent financial needs in accordance with the reserve policy.

As required by the FSR policy, a risk-based review of the FSR will be completed at a minimum every three years with possible revisions to the minimum and target levels. Results of this review will be presented to Council in December 2024. The current minimum and target balances are calculated as five per cent and 8.3 per cent of general government expenses, excluding non-cash amortization (as reflected in the most recent audited City financial statements), respectively.

### Structural Budget Variances

Structural budget variances are recurring deficits or surpluses that can be attributed to an event or circumstance that fundamentally changed business operations. The City has seen a trend in unfavourable structural budget variances, many of which are contributing to the 2024 projected tax-supported deficit of \$34.4 million and also resulted in the tax-supported deficit in 2023 of \$40.1 million. These include items such as inflation related to parts and contractor work, lower than budgeted transit fare and permit fee revenues and increased overtime costs. Left

## **OPERATING FINANCIAL UPDATE - June 30, 2024**

unaddressed, recurring unfavourable budget variances can erode the financial sustainability of an organization as can be seen with the diminishing balance of the FSR, which is projected to be below its minimum balance by the end of 2024. To maintain financial sustainability the City must address budget pressures and growth challenges.

At the August 14, 2024, Executive Committee meeting, Administration presented Financial and Corporate Services report FCS02478 Financial Stability: Addressing Budget and Growth Challenges, which identified the structural budget variances and corresponding actions plans to address the issue across the organization. The length of time to implement action plans and realize the expenditure reductions will vary, with some implementation taking up to three years.

### **Economic Update**

The performance of key indicators over the course of Q2 reaffirmed expectations for real GDP growth in Edmonton and the census metropolitan area (CMA) to moderate in 2024. However, risks to the City's outlook for 2024 and 2025 will largely depend on how migration trends evolve over the near term as the recent surge in population appears to be having a more apparent impact on economic activity this year. Details of Q2 2024 developments in the Edmonton CMA related to the labour market and inflation, and in Edmonton housing and residential construction are provided in Attachment 2.

### **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+ is not completed for financial update reports.

### **Attachments**

1. Operating Financial Update - June 30, 2024
2. City of Edmonton Mid-Year 2024 Economic Update