Edmonton

Fiscal Gap

An Assessment of Factors Contributing to the City's Operating and Capital Funding Shortfalls

Executive Committee
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Financial and Corporate Services Report
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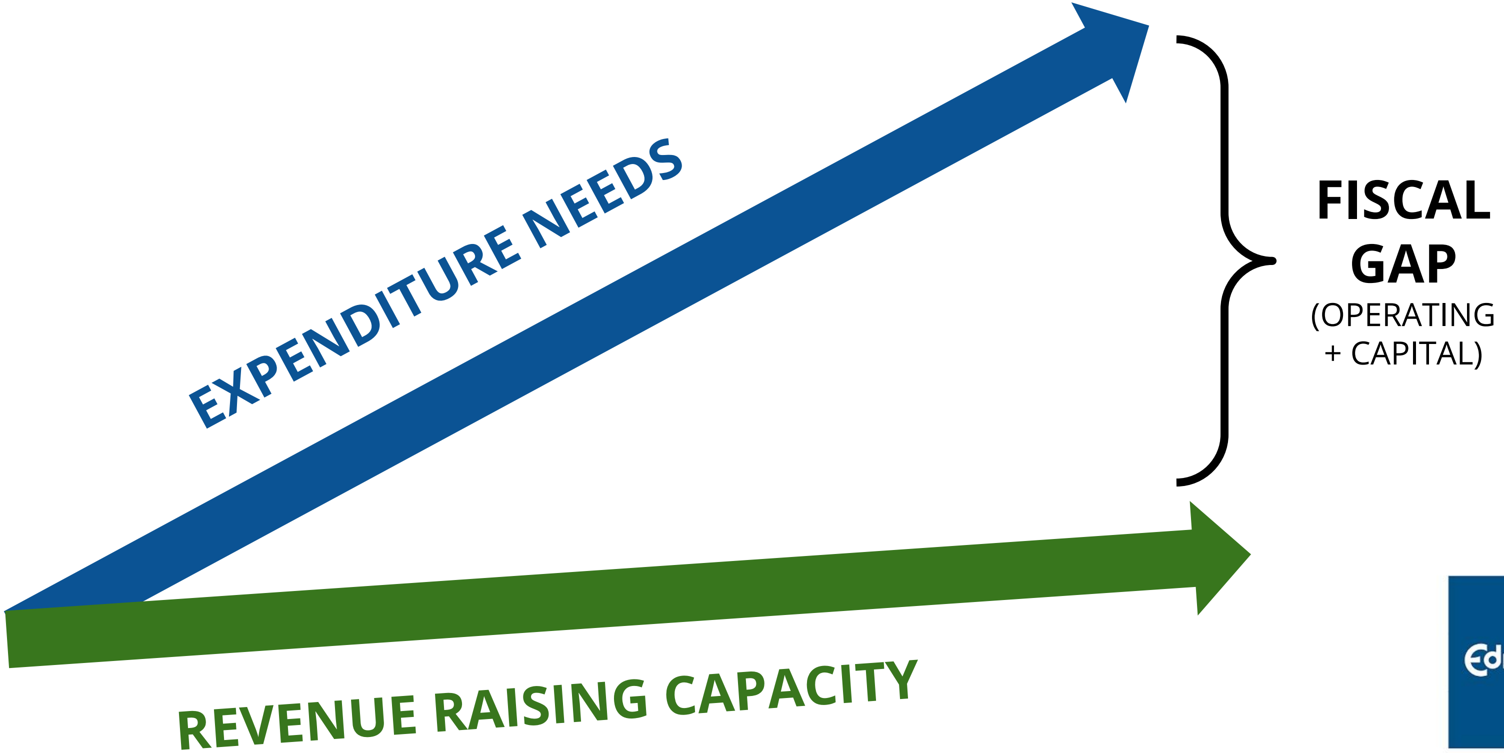
Why cities matter

- Large cities like Edmonton provide the ideal setting for economic development
- As the world continues globalizing, large cities increasingly compete for financial and human capital
- To compete globally, cities need to make the right investments in the right places in a timely manner:
  - A strong fiscal position is foundational to deliver high quality programs, services and infrastructure
  - A weak fiscal position diminishes this potential
- The City of Edmonton’s fiscal challenges are immense

What is the City's fiscal gap?



The fiscal gap is multifaceted

Causes within and beyond City control

WITHIN CITY CONTROL

- City policies
- Ambitious City strategic goals
- Internal decisions and actions
- Insufficient growth of user fee revenue streams
- Infrastructure design requirements
- Relatively high service levels
- Expansive services
- Early engagement on capital projects

OUTSIDE CITY CONTROL

- Decisions of higher-order governments
- Reductions to transfer funding
- Limited revenue raising tools
- Rapid population growth
- Regional demand for City Services
- High inflation post-COVID 19
- Complex policing pressures
- Rise of e-commerce

PARTIALLY WITHIN AND PARTIALLY OUTSIDE CITY CONTROL

- Insufficient growth of non-residential tax base
- Expanded service delivery in non-traditional municipal service areas
- Overemphasis on growth capital

How the fiscal gap affects the City

- When federal/provincial governments have fiscal gaps, they can incur budget deficits (where spending is higher than revenues)
- The City must balance its budget, and cannot budget for deficits. Consequently, a large and persistent fiscal gap materializes as:
  - Reduced service levels
  - Deteriorating infrastructure
  - Outsized tax increases
  - Inability to advance strategic goals
- There are two ways to narrow the fiscal gap:
  - Increase revenue
  - Reduce expenses

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Six overarching themes

Contributing factors to the fiscal gap

Limitations of property taxation	Infrastructure funding challenges	Non-tax revenue challenges
Tax base pressures	Expenditure pressures	Debt servicing pressures

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Limitations of property taxation
Limited tax tools and revenue capacity

- The City has limited tools
  - Property Tax
  - User Fees
  - Grants
- There is finite tax room growth each year, which means finite capacity for spending growth.
  - The limited tools do not provide sufficient capacity to do all the expansive things asked of big cities.

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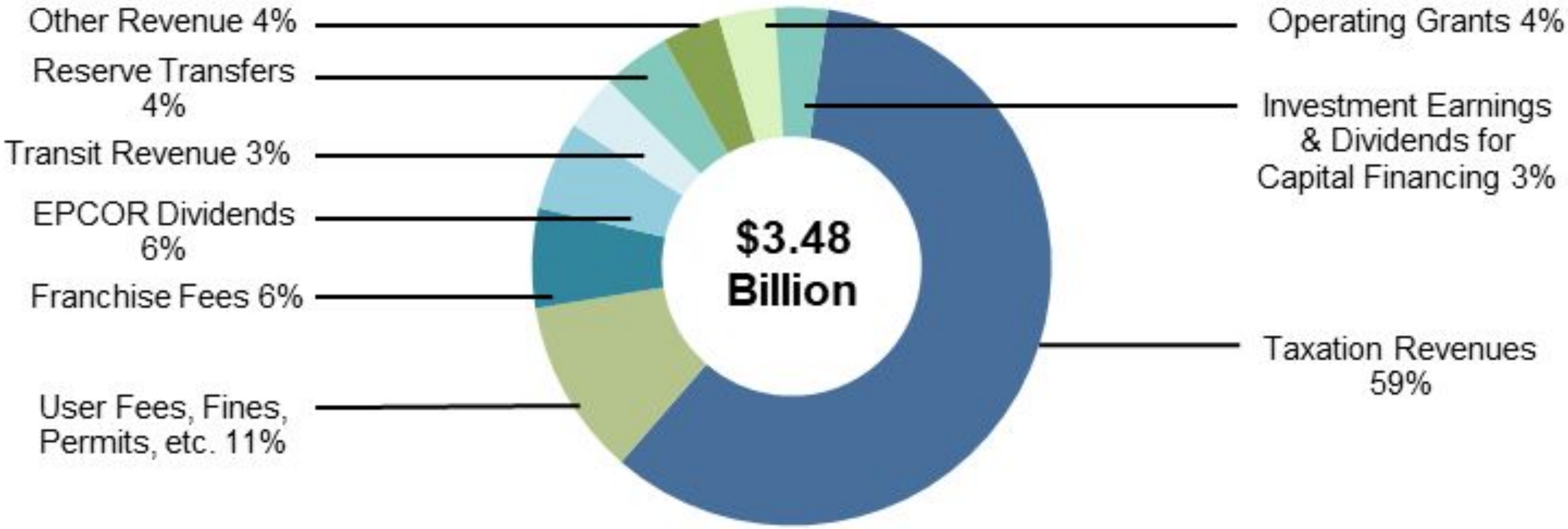
Limitations of property tax
Property tax is suitable for traditional municipal services

Property tax has strengths as a tax tool, but also limitations

- Best for traditional municipal services that have some linkage with property ownership
- Not an ideal tax tool for public services that directly or indirectly transfer wealth or income across society

Limitations of property tax
Heavy reliance on property tax



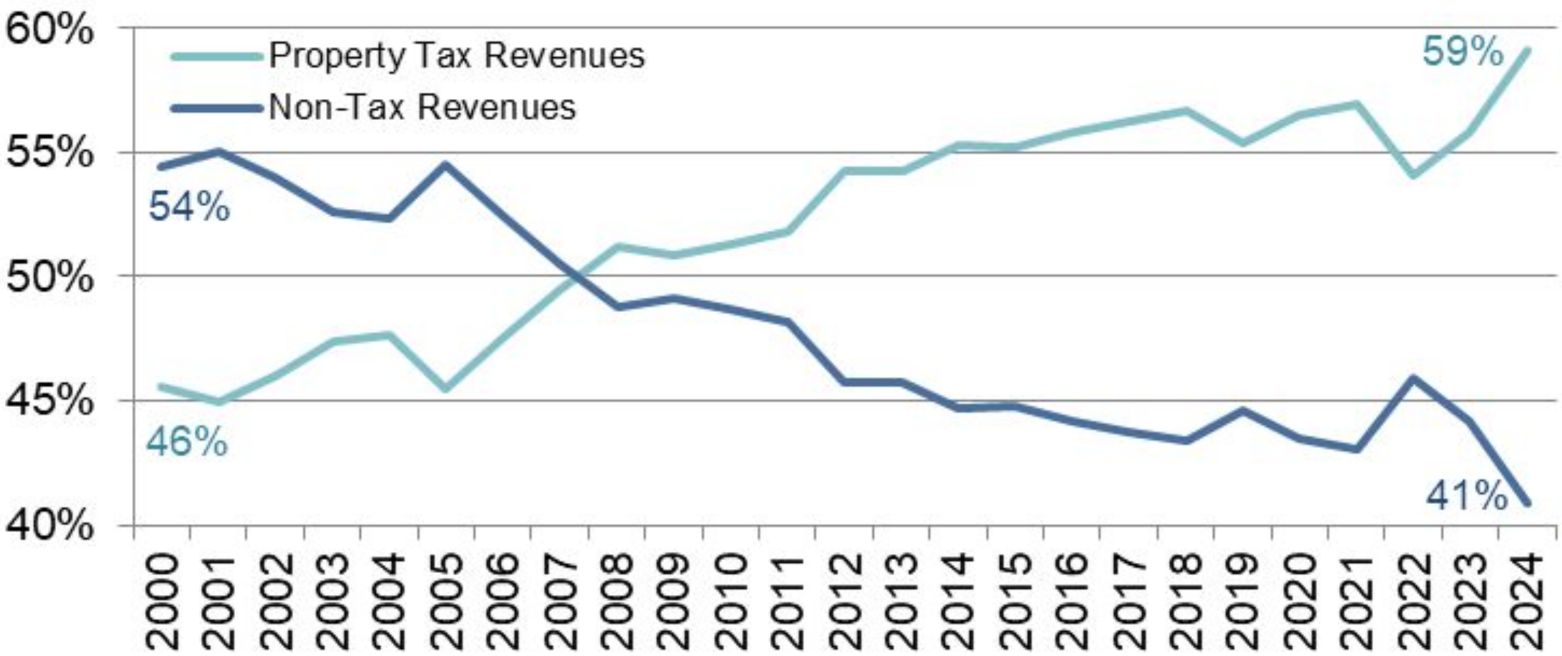
Non-tax revenue challenges
Insufficient growth of non-tax revenues

Compound annual growth rate (CAGR) of tax and non-tax revenues

	2000 $Millions	2024 $Millions	24-Year CAGR
Operating Expenditures	$891	$3,484	**5.8%**
Property Tax Revenues	$406	$2,061	**7.0%**
Non-Tax Revenues	$485	$1,423	**4.6%**

Non-tax revenue challenges
Insufficient growth of non-tax revenues

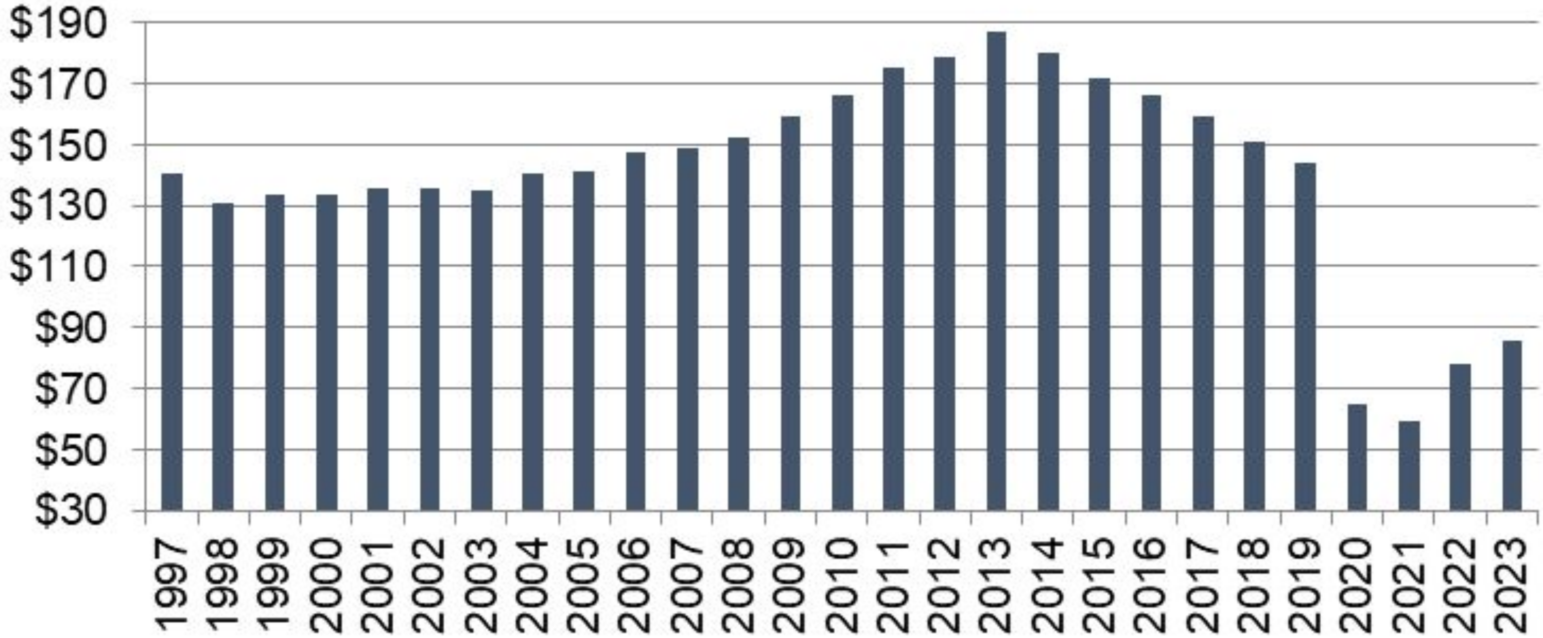
Property tax & non-tax revenues as a % of operating revenues 2000-2024



Non-tax revenue challenges

Transit revenues have not kept pace with inflation

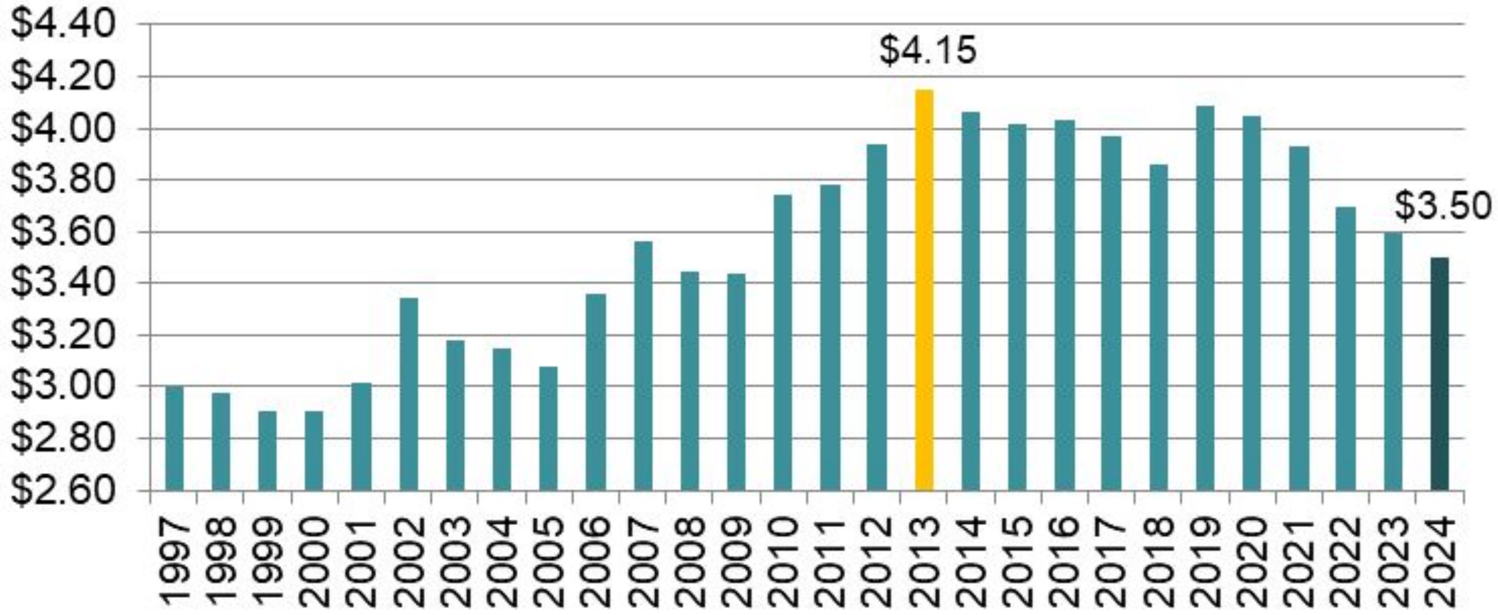
ETS revenues - inflation adjusted per capita



Non-tax revenue challenges

ETS pricing has declined significantly

One example: Adult cash fares have declined in real price (inflation adjusted)



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Non-tax revenue challenges
ETS pricing has not kept pace with economic benchmarks

Comparing ETS pricing to income and wage benchmarks (Inflation Adjusted)

ETS Fare Products (Inflation-Adjusted 2024 Figures)	Period	% Change
Cash	1997-2024	**17%**
Adult Tickets		**-8%**
Adult Monthly Pass / Arc Pay-As-You-Go		**11%**
Youth Monthly Pass / Arc Pay-As-You-Go		**14%**

Income & Wage Benchmarks (Inflation-Adjusted 2024 Figures)	Period	% Change
Alberta Minimum Wage	1997-2024	**60%**
Median Household Income of Lowest Decile	1996-2021	**107%**
Median Household Income of 2nd Decile		**56%**
Median Household Income of 3rd Decile		**45%**

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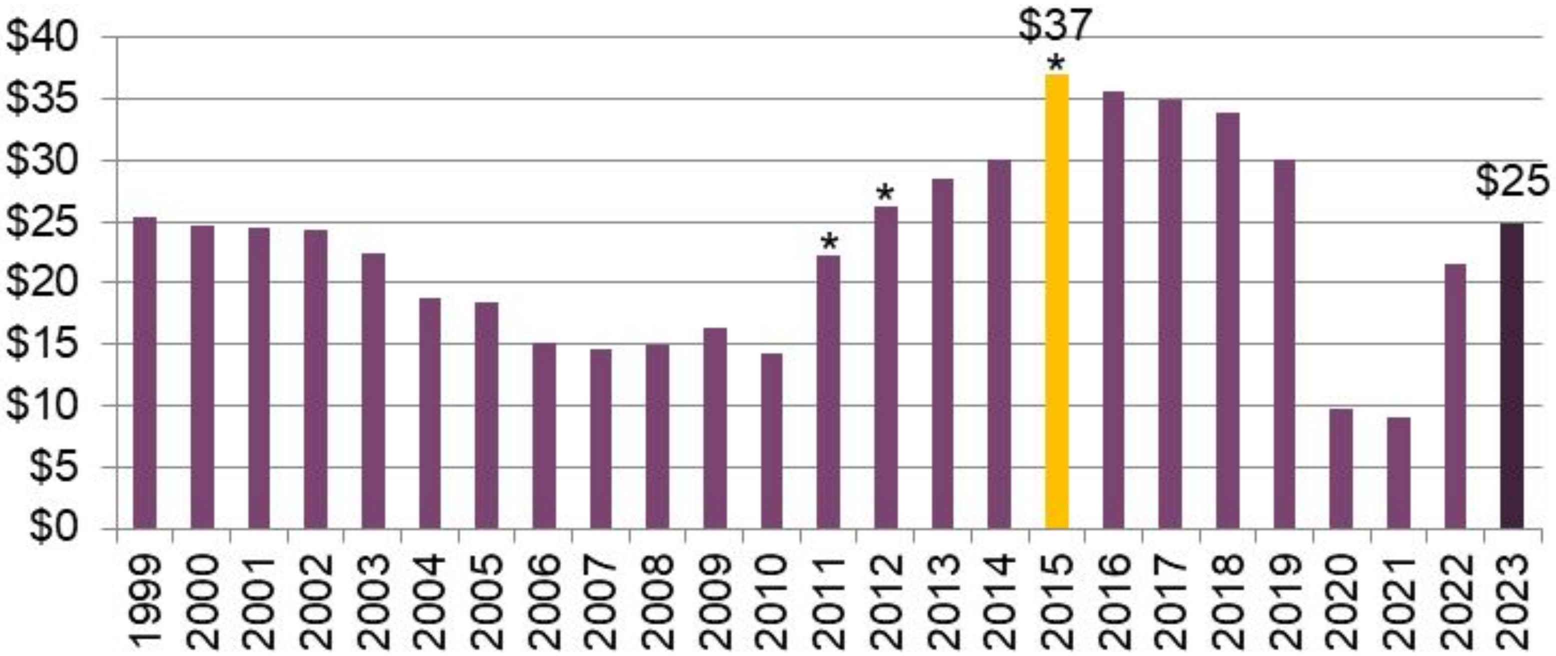
Non-tax revenue challenges
Recreation user fee revenues have not kept pace

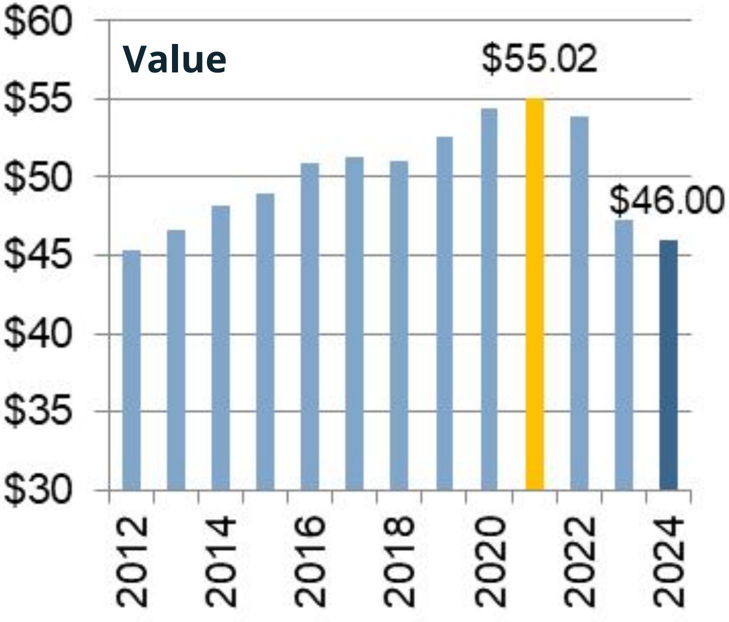
Recreation & leisure centre user fee revenues per capita (inflation adjusted)

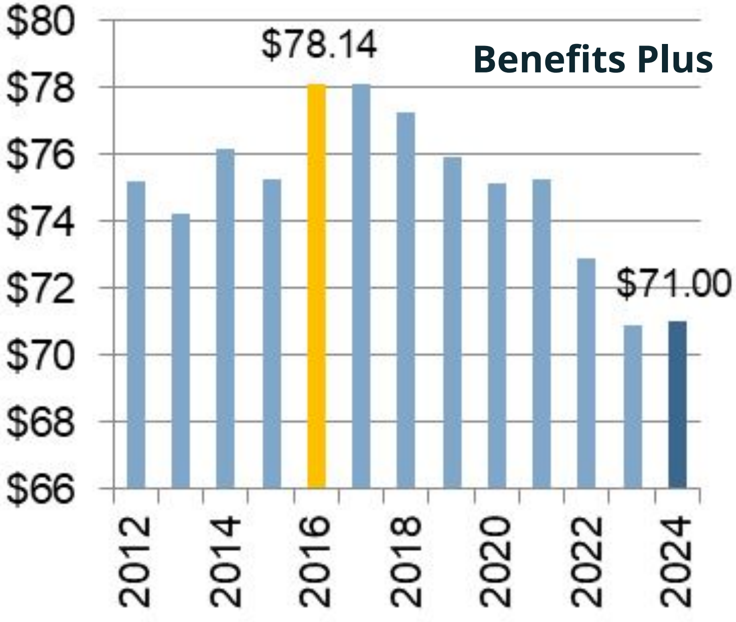


Non-tax revenue challenges

Recreation pricing has declined significantly

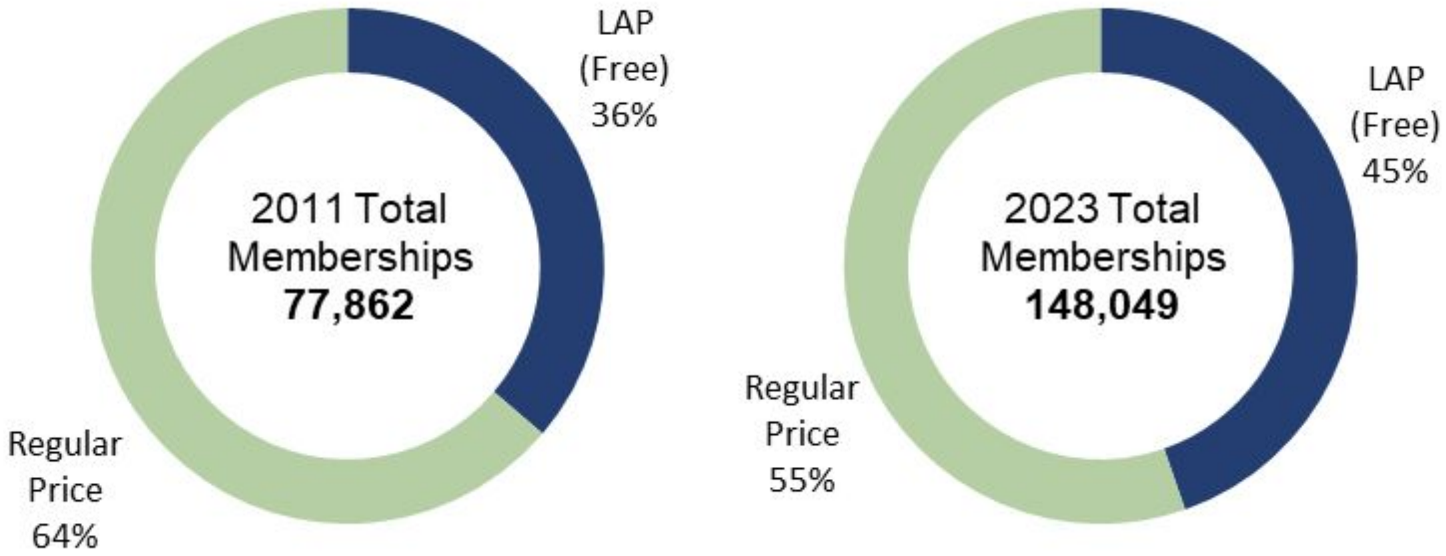
Continuous adult monthly membership (inflation adjusted)





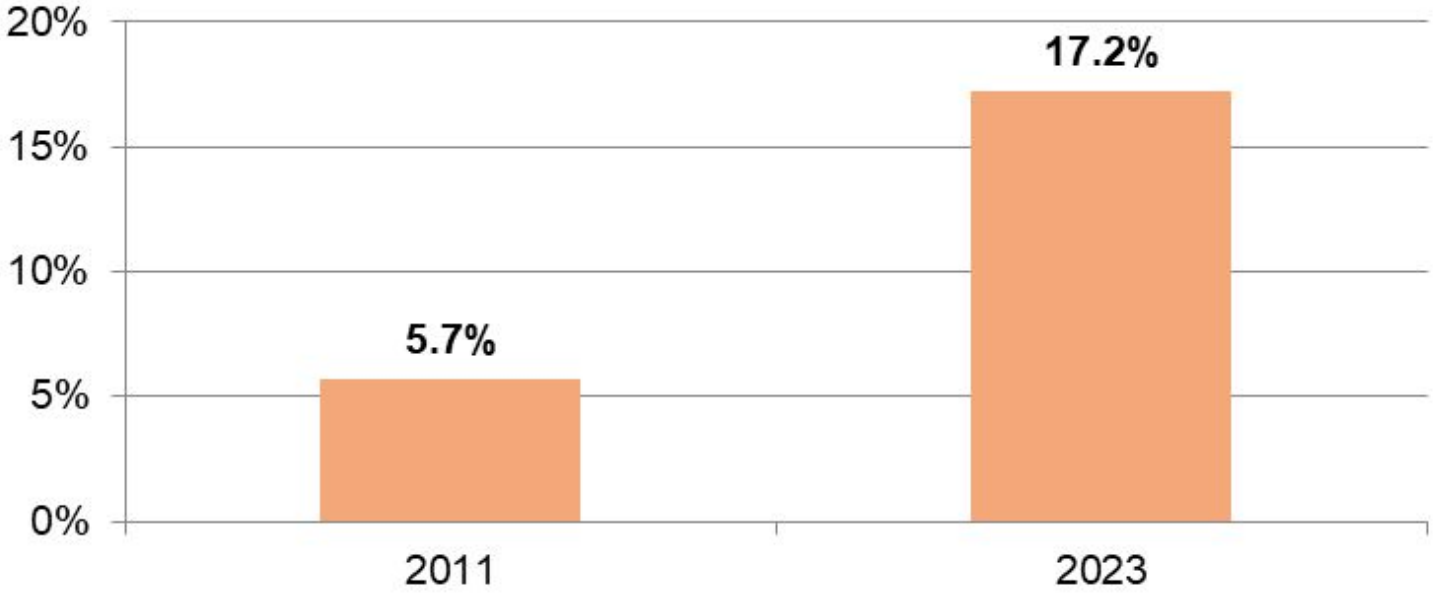
Non-tax revenue challenges
Growth in leisure access pass (LAP) memberships

Recreation & attraction memberships issued/sold



Non-tax revenue challenges
LAP attendance growing

Recreation facilities & attractions - LAP attendance as % of total attendance



Non-tax revenue challenges
High level themes and findings

- Non-tax revenue streams within the City's control have not been adequately protected.
- When City services are provided at no cost, the cost is not eliminated, but shifts to taxpayers.
- User fees enable an overall larger spending envelop beyond what tax room affords.
  - Reduced user fee revenues means lower service levels.

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Infrastructure funding challenges
Dependencies on other orders of Government

7 Challenges with the Capital Grant Funding Model

1. Lack of funding certainty
2. Cash flow challenges
3. Changing federal and provincial priorities
4. Changes in government
5. Capital funding is not linked to local economic performance
6. Grants can lack flexibility on time of use
7. Grants can come with conditions

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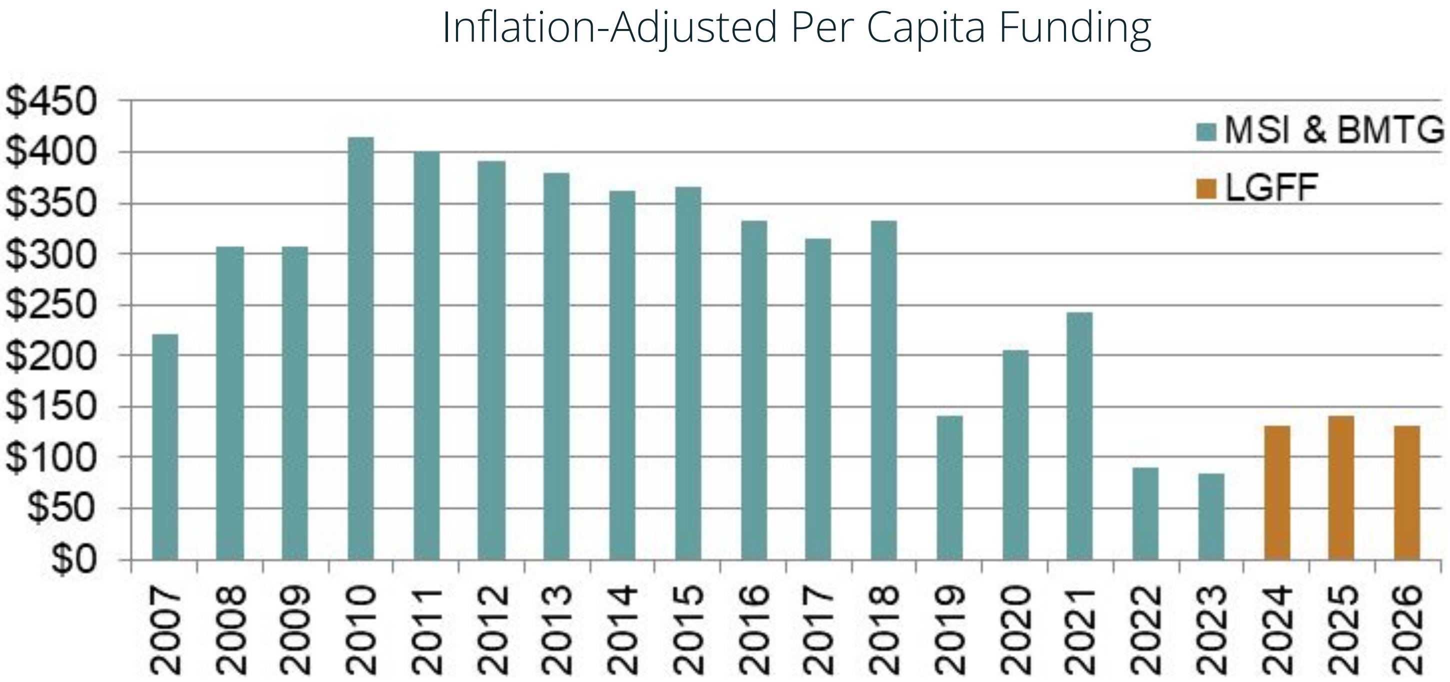
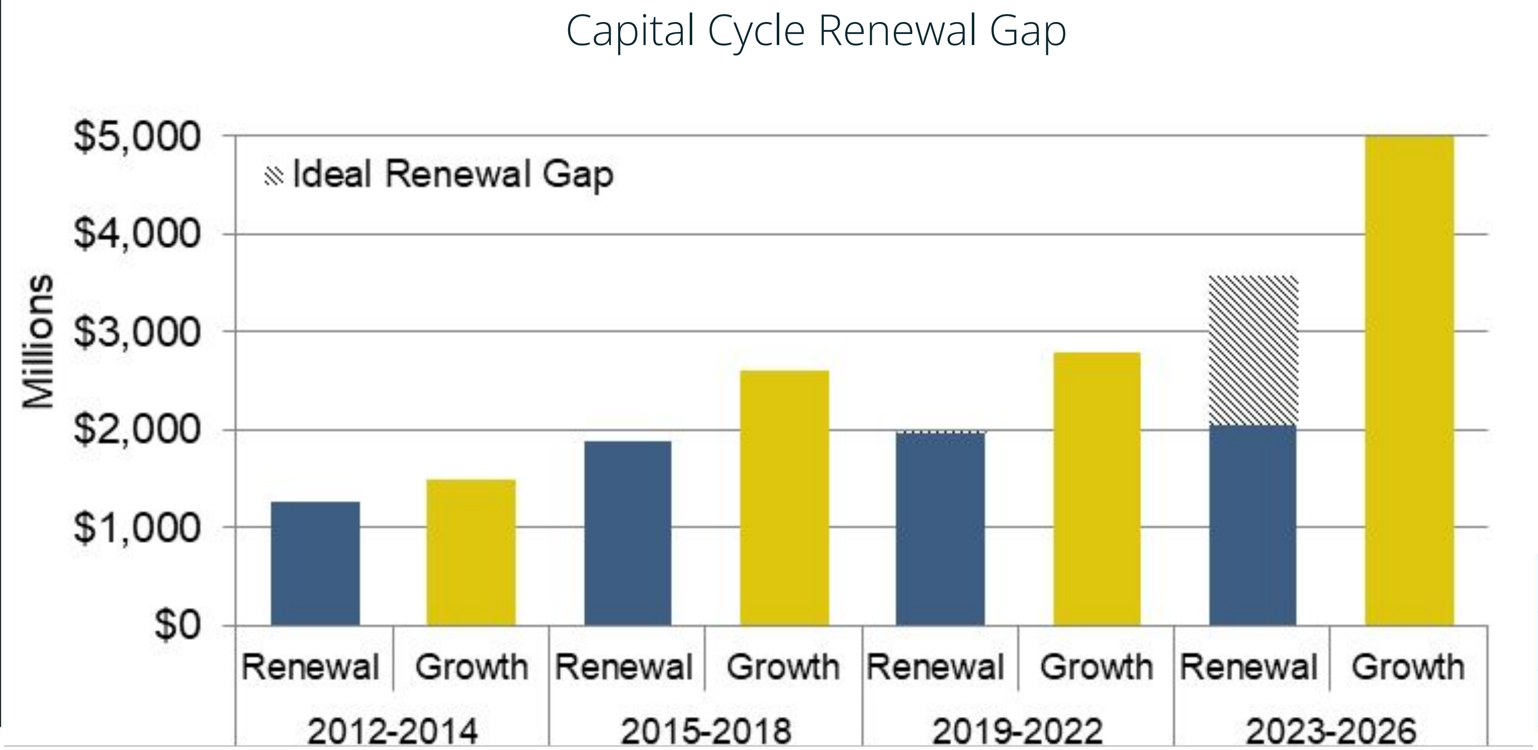
Infrastructure funding challenges
Unconstrained capital transfers



Infrastructure funding challenges

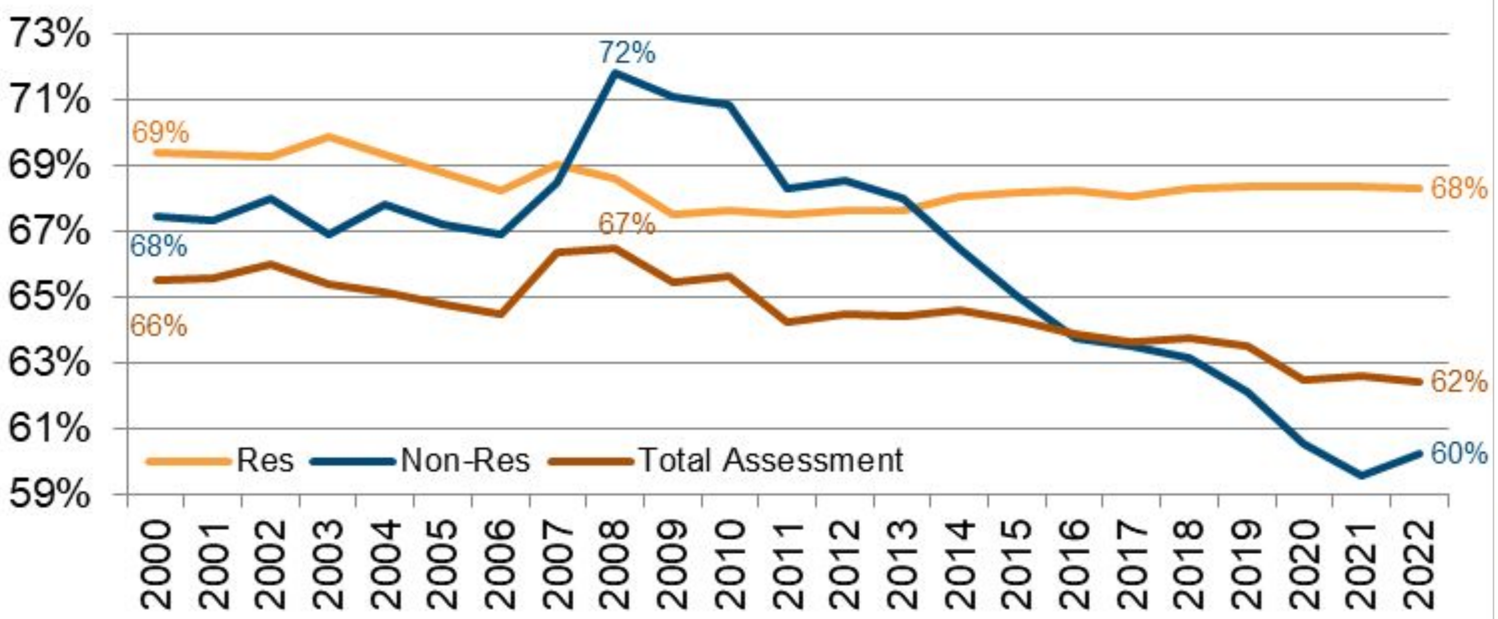
Capital growth is out of balance with renewal



Tax base pressures

Non-residential tax base—declining regional share

Edmonton assessment as share of total EMRB assessment



Tax base pressures

Edmonton has a high share of exempt properties

Total exempt assessment excluding City properties

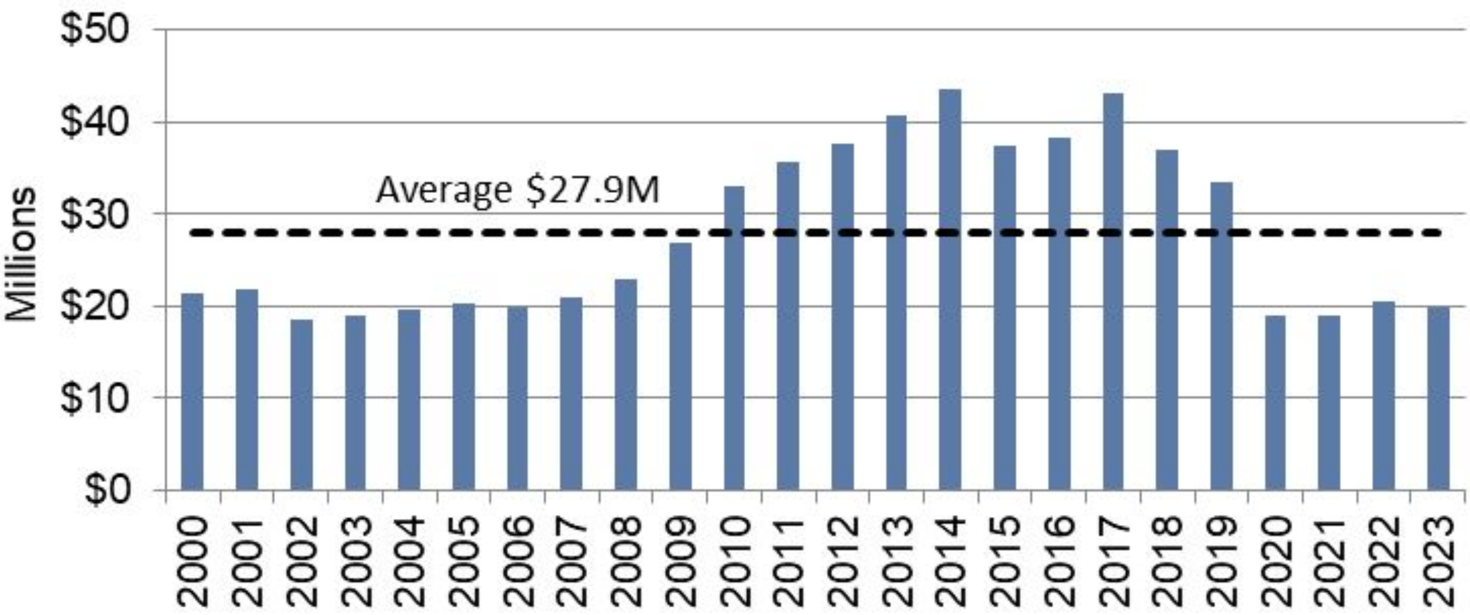
$16.9 billion

Municipal tax amount

$311.9 million

Tax base pressures
Grants in lieu of tax are not stable

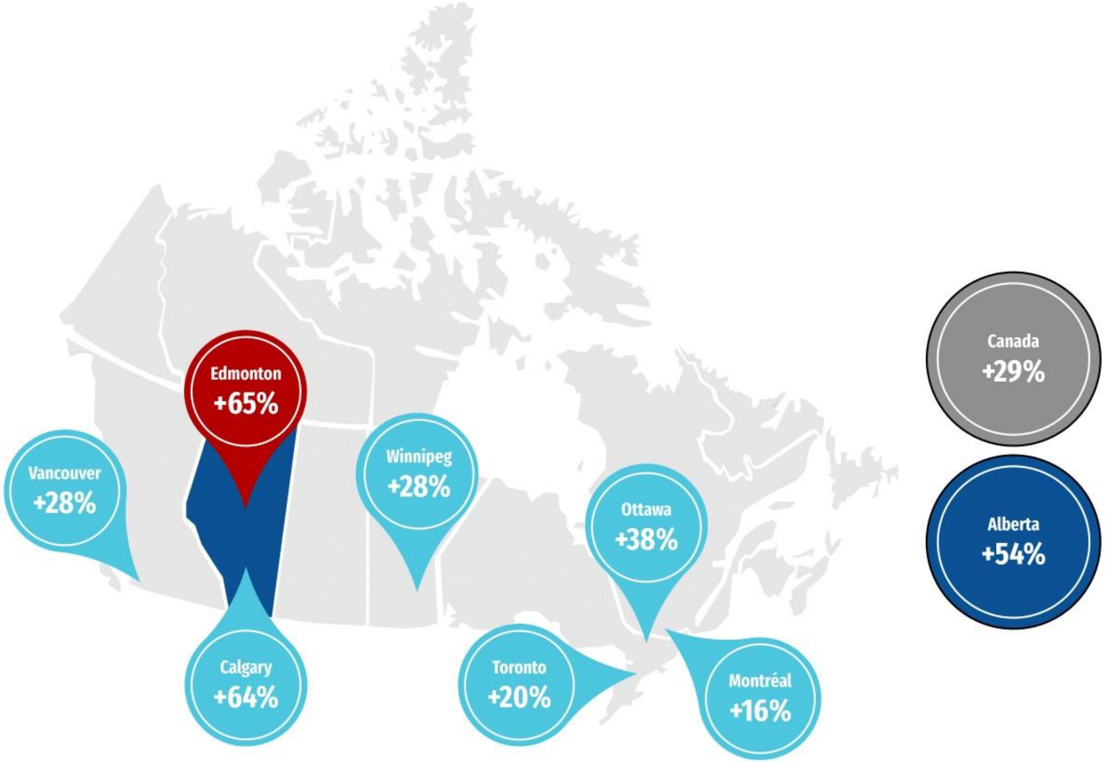
Provincial GIPOT (inflation adjusted)



Expenditure pressures

Rapid population growth adds pressure

Edmonton has been the fastest growing big city from 2001-2023



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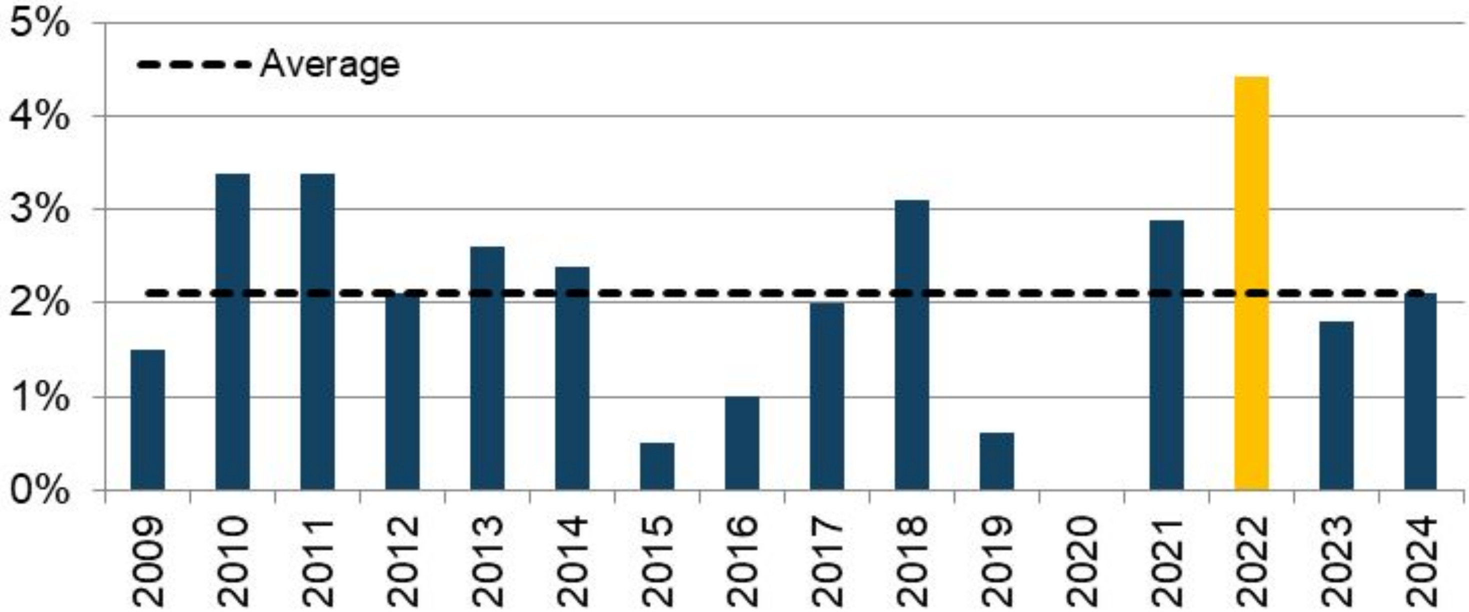
Expenditure pressures

City experienced a high inflation period

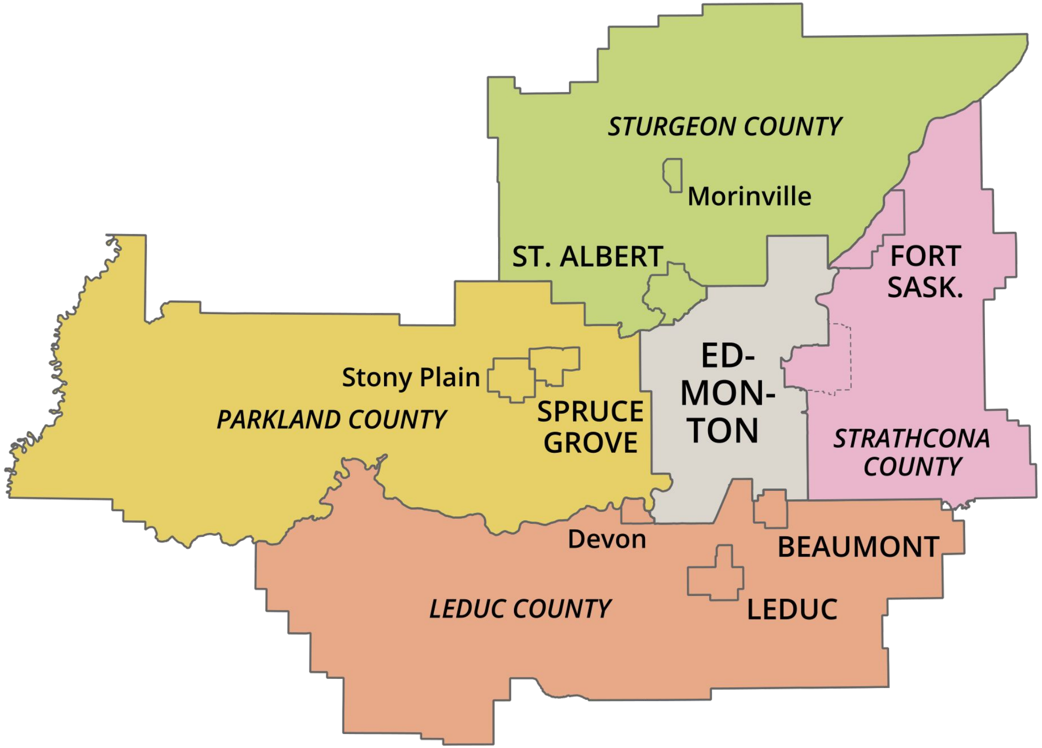
Municipal Price Index (MPI) - Estimated inflation for City operating expenditures



Note: The 2024 MPI rate is a forecast; Estimates for MPI inflation from 2019-2023 are preliminary and subject to revision due to unsettled labour contracts with the Edmonton Fire Fighters Union.

Expenditure pressures

Regional demand pressures on City services



Expenditure pressures

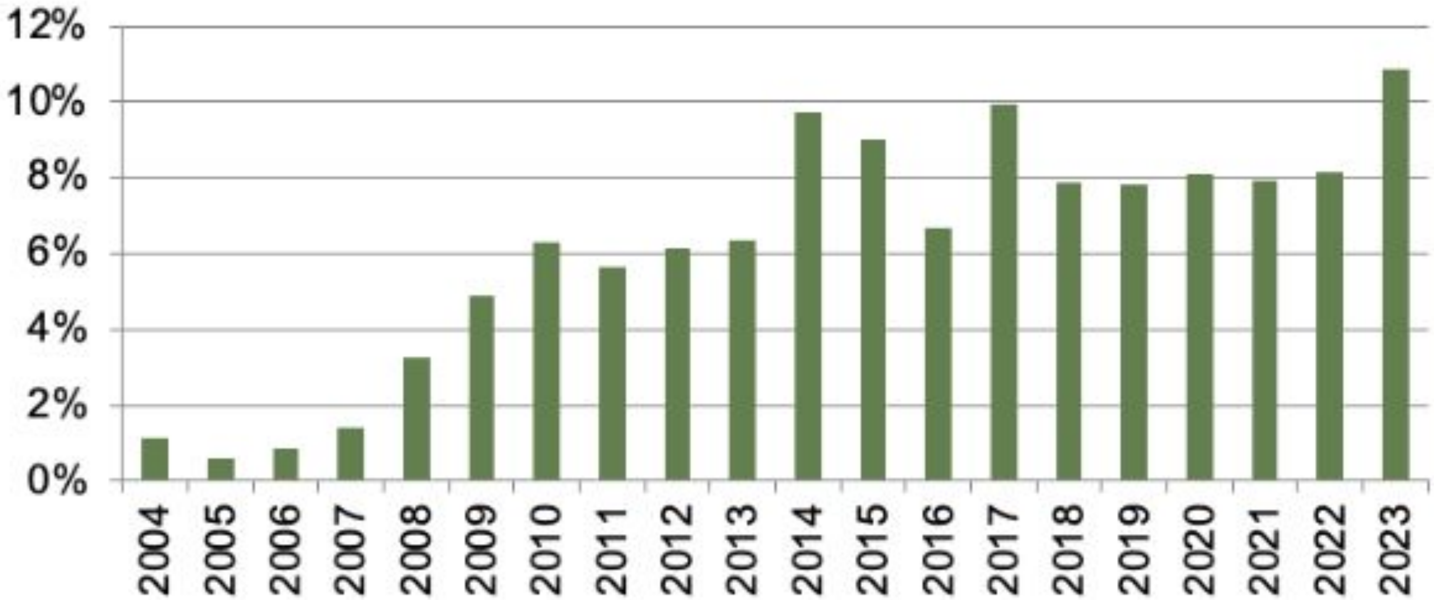
Expanding municipal responsibilities—five ways

5 Ways That Municipal Responsibilities Can Expand

1. Downloaded responsibilities
2. Reduced transfer funding
3. Municipalities stepping into provincial/federal service areas
4. Evolving resident expectations
5. Municipalities filling gaps in service

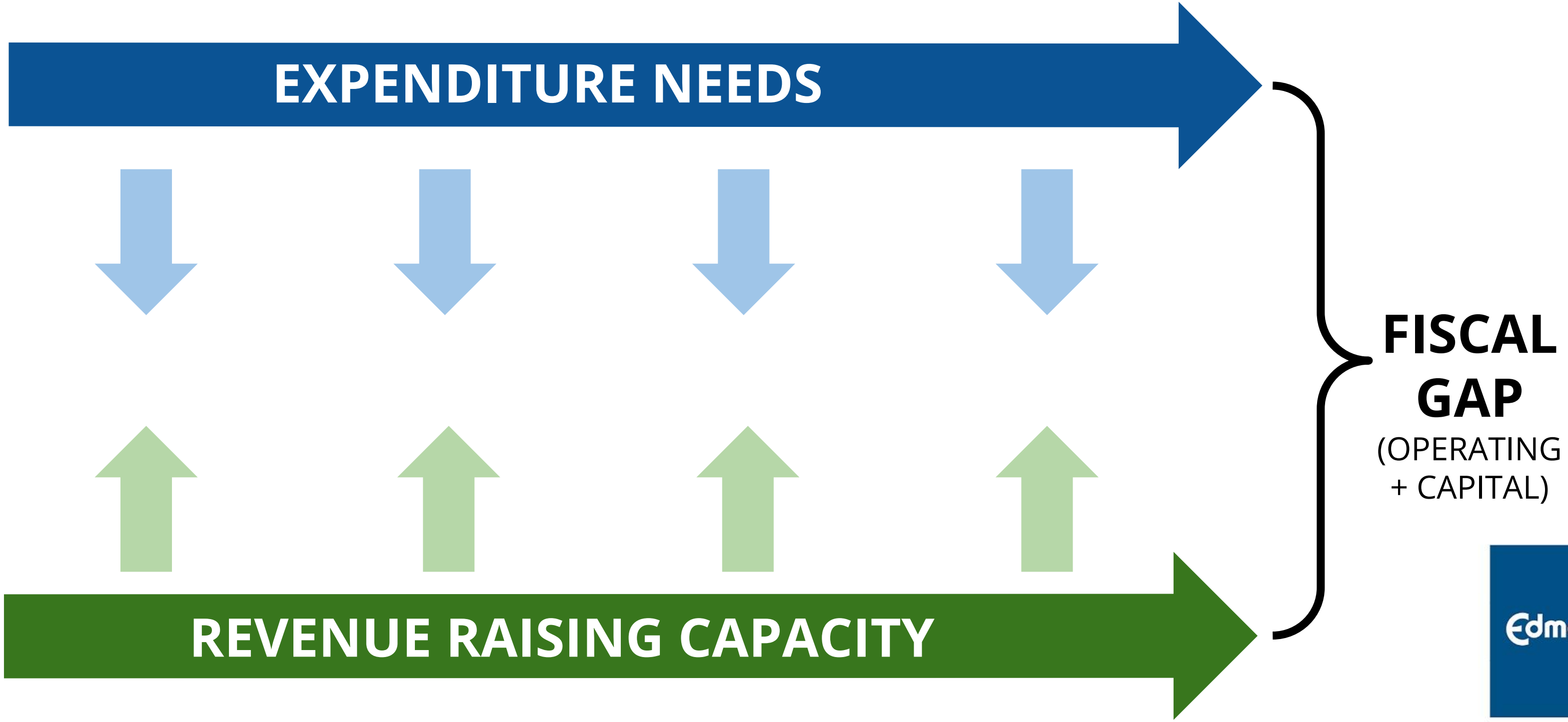
Debt servicing pressures
Tax-supported debt servicing has grown

Tax-supported debt servicing charges as a % of total operating expenditures 2004-2023



Narrowing the fiscal gap

The City must take measures towards narrowing its fiscal gap



Narrowing the fiscal gap—bodies of work

1. Grow the non-residential tax base
2. Evaluate all city-controlled revenue streams
3. Assess capital requirements & determine the appropriate allocation between renewal & growth
4. Evaluate funding mechanisms to address the renewal deficit
5. Continued focus on divestiture and diligence in acquisition
6. Comprehensive prioritization of capital growth and renewal
7. Service prioritization
8. Advocacy and engagement
9. Negotiate intergovernmental service delivery
10. Prioritize strategic goals
11. Review policy requirements

Closing

Closing remarks

Questions and Discussion