

## FALL 2024 SUPPLEMENTAL OPERATING BUDGET ADJUSTMENT

### 2023-2026 Operating Budget

#### Recommendation

1. That adjustments to the 2025-2026 Operating Budget, as outlined in Attachment 1 of the November 13, 2024, Financial and Corporate Services report FCS02529, be approved.
2. That an exemption to City Policy C610 - Fiscal Policy for the Planning and Development Business, be approved on a one-time basis to use the Planning and Development Reserve to fund one-time expenses for a servicing study to increase the Development Services Branch operating expenditure budget on a multi-year basis ending in 2026 by \$1.3 million in 2025 and decreasing by \$0.1 million in 2026, offset by a transfer from the Planning and Development Reserve, as outlined in Attachment 1 of the November 13, 2024, Financial and Corporate Services report FCS02529.
3. That Attachment 4 of the November 13, 2024, Financial and Corporate Services report FCS02529 remain private pursuant to sections 24 (advice from officials), 25 (disclosure harmful to economic and other interests of a public body) and 27 (privileged information) of the *Freedom of Information and Protection of Privacy Act*.

<b>Requested Action</b>		Council 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. PRESERVE. 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>	Conditions for service success

## FALL 2024 SUPPLEMENTAL OPERATING BUDGET ADJUSTMENT - 2023-2026 Operating Budget

<b>Corporate Business Plan</b>	Serving Edmontonians
<b>Council Policy, Program or Project Relationships</b>	<ul style="list-style-type: none"> <li>● C578 - Multi-year Budgeting Policy</li> <li>● C624 - Fiscal Policy for Revenue Generation</li> <li>● C203C - Debt Management Fiscal Policy</li> <li>● The City Plan</li> </ul>
<b>Related Council Discussions</b>	<ul style="list-style-type: none"> <li>● November 14, 2022, Financial and Corporate Services report FCS01394, Proposed 2023-2026 Operating Budget</li> <li>● November 30, 2022, Financial and Corporate Services report FCS01394, Proposed 2023-2026 Operating Budget</li> <li>● April 23, 2024, Financial and Corporate Services report FCS02361 - Spring 2024 Supplemental Operating Budget Adjustment</li> <li>● August 14, 2024, Financial and Corporate Services report FCS02478, Financial Stability: Addressing Budget and Growth Challenges</li> <li>● August 28, 2024, Financial and Corporate Services report CO02505, Ride Transit Program Funding Gap</li> <li>● September 10, 2024, Financial and Corporate Services report FCS02485 - Operating Financial Update - June 30, 2024</li> <li>● October 2, 2024, Office of the City Clerk report OCC02658 Bill 20 Update and 2025 Edmonton Election Budget Adjustment</li> <li>● October 9, 2024, Financial and Corporate Services report FCS02218 Capital and Operating Funding Shortfall Analysis</li> <li>● November 13, 2024, Financial and Corporate Services report FCS02530, Fall 2024 Supplemental Capital Budget Adjustment</li> <li>● November 13, 2024, Financial and Corporate Services report FCS02532, Fall Carbon Budget Update - 2023-2026 Carbon Budget</li> </ul>

### Executive Summary

- The supplemental operating budget adjustment (SOBA) report is part of the City Council approved multi-year approach to setting the 2023-2026 Operating Budget. The original 2023-2026 Operating Budget was approved by City Council in December 2022.
- The Fall 2024 SOBA report provides recommendations for adjustments to the 2025-2026 approved operating budget.
- Adjustments are included in Attachment 1 and are related to changes in economic forecasts, external factors/legislative changes, Council-directed changes and other operating adjustments proposed by Administration.
- The proposed tax increases, starting from the levels approved in spring 2024, include an additional one per cent each year to replenish the Financial Stabilization Reserve (FSR) and a further 0.1 per cent in 2025 for the election. This results in a total tax increase of 8.1 per cent in 2025 and 7.3 per cent in 2026.
- Administration remains committed to mitigating budget pressures while addressing the structural budget variances, alongside balancing service delivery, limiting tax increases and maintaining financial sustainability.
- The financial challenges the City faces are complex and may take several years to address. This will require tough choices to be made between funding these budget pressures through property taxes and/or by reducing service levels.

### REPORT

The supplemental operating budget adjustment (SOBA) report is part of the City Council approved multi-year approach to setting the 2023-2026 Operating Budget. The original 2023-2026 Operating Budget was approved by City Council in December 2022<sup>1</sup>. Once the four-year budget has been approved, Council has the opportunity to adjust the budget as part of the supplemental operating budget adjustment process. The fall SOBA is intended to set the tax change for the remaining budget years in the cycle. The spring adjustment is meant to finalize the municipal tax levy prior to completion of the taxation bylaw, and therefore limited to changes in budgetary assumptions and legislation, with the intention of not modifying the tax change approved in fall unless the change is required due to unforeseen circumstances.

Council approved amended tax increases as part of the Spring 2024 SOBA on April 23, 2024 as follows: 7.0 per cent in 2025 and 6.3 per cent in 2026.

The recommendations in this report increase the tax change by:

- 1.1 per cent in 2025 (1.0 percent for FSR replenishment strategy and 0.1 percent for election costs) for a total of 8.1 per cent, and
- 1.0 per cent in 2026 (FSR replenishment strategy) for a total of 7.3 per cent.

This report is specific to budget adjustments impacting the currently approved 2025-2026 operating budgets.

The City of Edmonton, like most municipalities, is limited to two distinct options for significant financial choices: adjusting revenue (taxes, user fees) or expenses (service levels). While the City's current financial position is sound, several financial pressures have emerged, including inflation and price volatility. Property tax increases are required to fund the increasing costs of service delivery to Edmontonians. Without addressing these pressures, service reductions would be required if the desire is to minimize tax increases. Administration continues to seek a balance between maintaining service levels and keeping property taxes manageable, which is particularly challenging in an environment of high costs for the City and Edmontonians. The choices necessary to achieve this balance are not easy.

In response to cost pressures, the City's revenue requirements, in recent years, shifted more toward tax levy, as many of the City's major user fee revenue streams have not been keeping pace with budgetary needs, which has placed more burden on taxpayers. When user fees do not increase at a level consistent with the increasing cost of providing services, or when the City offers services at low or no cost, the proportion of expenses funded with user fees decreases, which shifts the burden to the overall tax base to cover that share. The City requires revenue to fund service delivery and has limited tools available for revenue generation. With the limited tools it has, it must decide on what is a fair and appropriate balance between taxes and user fees. Guidelines for the equitable split between taxes and user fees are provided in Council Policy C624 - Fiscal Policy for Revenue Generation.

---

<sup>1</sup> [edmonton.ca/sites/default/files/public-files/2023-2026OperatingBudget.pdf?cb=1694702721](https://edmonton.ca/sites/default/files/public-files/2023-2026OperatingBudget.pdf?cb=1694702721)

## FALL 2024 SUPPLEMENTAL OPERATING BUDGET ADJUSTMENT - 2023-2026 Operating Budget

The proposed tax levy adjustments for 2025 and 2026 are a balance of limiting the tax increase on Edmontonians, mitigating service level disruptions and addressing the ongoing financial pressures to maintain financial sustainability. Descriptions and causes of the City's financial pressures are outlined in the October 9, 2024, Financial and Corporate Services report FCS02218, Capital and Operating Funding Shortfall Analysis.

### Economic Outlook

Edmonton's population growth has been strong in recent years, with positive net migration playing a significant role. This is having a more apparent impact on residential building construction in 2024 based on building permit trends and housing starts activity. In-migration will remain a driving force in the growth trajectory of Edmonton's population moving forward, though growth is forecast to moderate starting in 2025 in light of the federal government's plan to reduce the number of temporary residents of Canada's total population from 6.2 per cent in 2023 to five per cent over the next three years.<sup>2</sup> In the City's summer outlook, Edmonton's population is forecast to grow 4.5 per cent in 2024, and to average 2.9 per cent growth annually over the 2024-2026 period.<sup>3</sup>

Annualized consumer inflation in the Edmonton census metropolitan area has fluctuated over the past two years but has generally trended lower since peaking at 8.5 per cent in June 2022.<sup>4</sup> The City's forecast for consumer inflation is an average of 3.1 per cent in 2024, and an annual average of 2.6 per cent over the 2024-2026 period. While consumer inflation has been trending lower, Edmonton households and businesses are still adjusting to the current price environment, which has also noticeably eroded purchasing power over the past few years. This leaves the City in a challenging fiscal position for its operating budget as it not only faces increased service demands from a growing population, but a price environment in which its service delivery costs continue to climb.

### Recommended 2025-2026 Operating Budget Adjustments

Guided by the City's Multi-year Budgeting Policy (C578), the supplemental budget adjustment process categorizes adjustments to the 2025-2026 budgets as follows:

- **Changes to Economic Forecast:** includes adjustments that affect costs, changes in service demand volumes or revenue projections;
- **External Factors/Changes in Legislation:** allows the City to respond to external factors such as provincial or federal budgets or changes imposed by legislation;
- **Council-directed Changes:** to address changes directed through Council motion;
- **Impacts Managed Internally:** to address structural budget variances while limiting the tax levy increase; or

---

<sup>2</sup><https://www.canada.ca/en/immigration-refugees-citizenship/news/2024/03/speaking-notes-for-the-honourable-marc-miller-minister-of-immigration-refugees-and-citizenship-announcement-related-to-temporary-residents.html>

<sup>3</sup><https://www.edmonton.ca/sites/default/files/public-files/Summer2024ForecastSummaryTable.pdf?cb=1728595725>

<sup>4</sup>Statistics Canada. Table 18-10-0004-01 Consumer Price Index, monthly, not seasonally adjusted

## FALL 2024 SUPPLEMENTAL OPERATING BUDGET ADJUSTMENT - 2023-2026 Operating Budget

- **Administrative Adjustments:** includes adjustments that do not impact the overall tax levy but require Council approval.

Changes are also allowed for urgent budget pressures that need to be addressed during the budget cycle.

Budget adjustments for 2025-2026 are itemized in Attachment 1, 2025-2026 Operating Budget Changes, on an incremental basis and discussed below. These adjustments are incorporated into the financial tables in Attachment 2.

### Changes to Economic Forecasts

The following adjustments have been incorporated into the proposed budget adjustment and reflect changes to corporate estimates or economic forecasts:

#### Corporate Expenditures and Revenues

- Ongoing increase of \$12.1 million in 2025 and \$1.9 million in 2026 in revenue for changes in assessment growth.
- An ongoing increase in taxation penalties resulting in an increase of \$6.2 million in revenue; this is partially offset by a \$2.0 million ongoing adjustment to taxation appeals. These items increase along with higher tax increases and are also driven by assessment changes as a result of assessment complaints.
- Ongoing increase in ATCO Gas franchise fee revenues of \$6.3 million in 2025 based on revised forecasts provided by ATCO.
- Ongoing increase in EPCOR Water franchise fee revenues of \$1.6 million in 2025 based on revised forecasts provided by EPCOR.
- Ongoing decrease in utility costs of \$2.5 million in 2025 and additional \$0.3 million decrease in 2026, primarily due to entering a fixed price contract that reduces natural gas price volatility for the organization.

#### Community Recreation and Culture

- Ongoing increase of \$2.7 million in revenue and \$0.9 million in related expenses starting in 2025 for community recreation facilities due to higher than anticipated volumes. The additional costs relate to personnel needed to support increased attendance and programming.

#### Fleet and Facility Services

- An economic adjustment of \$19.7 million is required for corporate-wide inflationary impacts for fuel, parts, tires and facility maintenance. These critical services are housed in City Operations under Fleet and Facility Services, which coordinates these services on behalf of the corporation, resulting in a direct impact on numerous frontline operations across the organization including emergency services, transit, community recreation centres, snow and ice and spring sweep. These inflationary increases cannot be absorbed within the existing budget. Without adequate funding:
  - there would be imminent grounding of some fleet, including a significant impact to transit;

## FALL 2024 SUPPLEMENTAL OPERATING BUDGET ADJUSTMENT - 2023-2026 Operating Budget

- existing legislated and scheduled preventative maintenance levels could not be sustained, leading to imminent and significant service disruptions; and
- regulatory standards would not be met, compromising safety and operational integrity of some facilities and infrastructure assets.

### External Factors/Changes to Legislation

The following adjustments are a result of external factors or changes in legislation:

- Employee Benefit Plans Premium rate changes result in increased expenses on an ongoing basis by \$5.2 million in 2025. The adjustments are based on completion of the annual comprehensive financial review of the major medical, dental, group life and dependent life insurance plans, ensuring long-term financial viability of the plans, in collaboration with Alberta Blue Cross, the City's benefits provider and Eckler, the City's Actuary and benefits consultant.
- An ongoing increase of \$3.1 million starting in 2025 for the Edmonton Elections Program is driven by changes to the *Municipal Affairs Statutes Amendment Act, 2024 (Bill 20)*. Amounts have been reflected as an ongoing increase to stabilize the program budget, and establish a reserve to address the inconsistent timing in expenses and ensure funding is available for the election every fourth year. Details are in Attachment 3, Edmonton Elections Program Budget Increase.
- An ongoing adjustment for Workers' Compensation Board (WCB) premiums that increases the budget by \$1.5 million in 2025. The City of Edmonton's WCB premiums continue to increase year over year as the industry rate has gradually been increasing and the City has more lost time claims, longer duration of injuries and less modified work offerings, resulting in a surcharge. In the last year, the City's claim costs have been higher than the industry average, compounding the premium increase the City is already experiencing. Work is underway to evaluate and optimize existing safety programs and services in high WCB claim areas, including internal audits, data analysis and jurisdictional scans. The evaluation will produce recommendations on steps to reduce the WCB premium costs.
- An ongoing increase to Edmonton Police Service (EPS) of \$0.9 million in 2025 and \$7.0 million in 2026, required as a result of Council Policy C604B - Edmonton Police Service Funding Formula (approved on August 23, 2023). This is fully offset by a \$0.9 million reduction in Financial Strategies for 2025 and \$7.0 million in 2026; funding was held in anticipation of the updated funding formula. The total funding formula allocation for 2025 and 2026 are \$12.2 million and \$10.9 million respectively. The ratio to civic department expenditures is 28.3 per cent for 2025, and 29.5 per cent for 2026; both under the 30 per cent cap set through the policy. Should Council significantly alter civic department expenditures, the formula could be affected. The funding formula will be recalculated as part of every fall SOBA.
- An ongoing adjustment of \$0.6 million is required to align the Parks and Roads Services budget with the current service levels to address an increase in illegal dumping that has occurred on public land.

## FALL 2024 SUPPLEMENTAL OPERATING BUDGET ADJUSTMENT - 2023-2026 Operating Budget

### Council-Directed

The following adjustments are the result of Council direction:

- Council approved the lease of the Citadel Theatre (May 3, 2024, Financial and Corporate services report FCS02006, Citadel Theatre - Lease Approval), which results in \$1.4 million in increased operating expenses for Fleet and Facility Services to fund maintenance costs. This amount is fully offset by a transfer of \$1.4 million from the OP12 funds held in Financial Strategies. Capital impacts are included in FCS02530 Fall 2024 Supplemental Capital Budget Adjustment.
- Council approved the renaming of Oliver Community League Neighbourhood to Wíhkwêntôwin (February 7, 2024, External report, EXT02205, Naming Committee Renaming Recommendation), which resulted in a one-time expense increase of \$0.5 million in 2025 for Open City and Technology to implement the change. This amount is fully offset by a transfer of \$0.5 million from Financial Strategies.

### Impacts Managed Internally

To address necessary structural budget variances and limit the tax increase, Administration completed department financial reviews across the organization. While most adjustments individually do not have a significant financial impact, the cumulative impact is intended to balance the trade off between minimizing service level disruptions, addressing structural budget variances and improving ongoing financial sustainability, and limiting the tax increase. Some multi-year and one time reductions are also identified to help restore the Financial Stabilization Reserve (FSR) back to its minimum balance, as discussed below.

Notable additions to the budget include:

- \$2.0 million ongoing adjustment starting in 2025 for Parks and Roads Services to address the structural budget variance related to fixed stranded costs for the utility cut program. Asphalt Restoration (ARE) and Concrete Restoration (CRE) were utility restoration programs where the City repaired public roads and sidewalks after underground utility work was complete, and costs were funded by third-party utility companies. ARE and CRE were paused during the COVID-19 pandemic and eliminated in 2021. Although the budget was reduced and variable costs were eliminated, the fixed costs associated with shared personnel and equipment remained, impacting snow and ice control, sidewalk and pothole repairs. Adjusting service levels to align with the reduced budget would negatively impact these areas due to their reliance on the same resources.
- \$2.7 million in ongoing costs starting in 2026 for Open City and Technology for software licensing and maintenance costs, which have increased as a result of inflationary pressures from vendors, in addition to having upgraded and net new software procured due to work from home, along with other risk mitigation investments. Similar to other corporate-wide structural budget variances such as the inflationary impacts for fuel, parts and tire inflation, and facility maintenance, it is not possible to isolate specific services to reduce service levels to align with budget for this item, therefore offsetting reductions were found internally.

## FALL 2024 SUPPLEMENTAL OPERATING BUDGET ADJUSTMENT - 2023-2026 Operating Budget

Administration will continue to reduce and minimize licensing costs where possible by validating necessary licensing and adjusting its uses accordingly.

- \$1.3 million ongoing adjustment starting in 2026 for Real Estate to address rent revenue losses. Administration is disposing of properties to rightsize its real estate portfolio and address significant long-term capital renewal liabilities. While this program is in the long-term financial best interest of the City, it creates short-term budget variances due to the foregone lease revenues. Other changes in the City's leased real estate asset portfolio are also included in this adjustment.

Ongoing reductions identified from the department financial reviews help to manage structural budget variances and limit the tax increases, with the additional goal of minimizing changes to the service levels or impacts on Edmontonians. These recommendations are put forward with an understanding that the current financial reality necessitates difficult decisions. Notable ongoing reductions include:

- Reduction of \$1.8 million to the Community Program in Planning and Environment Services. Although this is an ongoing reduction, for 2025 and 2026 this reduction will result in the cancellation of the planned relaunch and expansion of the Home Upgrades Program (Energy Poverty). While Administration acknowledges the impact this may have on vulnerable communities and the ability to advance the Community Energy Transition Strategy and Action Plan, the expanded program has not yet launched, which presents an opportunity to reduce funding before it has been committed. The ongoing reduction beyond 2026 will limit the opportunity for the City to extend or launch new City-funded community programs. The program can be re-established at a future date once structural budget issues are addressed. Refer to FCS02532 Fall Carbon Budget Update for more information regarding greenhouse gas emissions impacts of this decision.
- Shifting the funding source of Landscaping Compliance/Enforcement, Zoning Bylaw Infill Compliance/Enforcement, and Safety Codes Bylaw Enforcement from tax levy to fees from permits and land development applications (Planning Development Business Model) results in a \$1.2 million reduction to the tax levy. Additional details of this shift will be discussed in UPE02661 Policy C610 Review to Explore Enforcement Related Resource Supports, scheduled for discussion at Urban Planning Committee on November 26, 2024.
- The Management Initiative Fund (MIF) provides flexibility for the City Manager to fund specific one-time projects/initiatives. Administration recommends reducing this amount by \$1.0 million on an ongoing basis, which would leave \$1.0 million remaining in the MIF.

Multi-year and one-time reductions cannot be used to reduce tax levy increases as per the City's budgeting principles. Instead, these reductions are offset by a transfer to Financial Strategies to help manage the FSR balance. Notable multi-year reductions include:

- A multi-year reduction to the Art Reserve contribution by \$0.6 million in both 2025 and 2026, based on usage and available capacity of the Art Reserve.



## FALL 2024 SUPPLEMENTAL OPERATING BUDGET ADJUSTMENT - 2023-2026 Operating Budget

Refer to Attachment 1 for the list of impacts managed internally and Attachment 4, which outlines the impacts to be discussed in private.

### Administrative Adjustments Requiring Council Approval

The following administrative budget adjustments require 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.

- The Sanitary Servicing Strategy Fund (SSSF) was established in 1998 for construction of deep trunk sewers servicing new development and growth in the City for the next 75 years. The program is funded through expansion assessment fees, sanitary sewer trunk charges, utility contributions and interest earned. Revenue and expenditure budgets are regularly adjusted to align with current economic conditions and evolving construction plans. In May 2024, SSSF charges were paused for the remaining duration of the Sanitary Servicing Strategy Fund Transformation project. The SSSF Transformation Project was initiated in late 2023 to evolve the current financing structure for sanitary trunks to be compatible with EPCOR's integrated resource planning approach while supporting The City Plan's development growth patterns; anticipated completion is mid 2025. The pause on the collection of fees reduces revenue by \$21.6 million in 2025 and an additional \$0.5 million in 2026. Based on updated construction plans as determined by EPCOR, expenses are anticipated to increase by \$8.0 million in 2025 and decrease by \$4.0 million in 2026. The result is a shift in the transfer to/from SSSF Reserve of \$29.6 million in 2025, decreasing by \$3.5 million in 2026, resulting in a net transfer from SSSF Reserve of \$12.8 million. There is no resulting impact to the tax levy.
- The City's Emissions Reduction Alberta application for the Alberta Zero-Emissions Fleet Fueling Project was successful in securing funding of \$6.9 million. Funding supports the implementation of transitional fueling systems and analyzes vehicle performance by collecting, analyzing and reporting data, providing recommendations and insights. This work will support commercialization strategies and the transition to a zero-emission fleet. Specifically, the project is installing dual fuel on two waste trucks and two transit buses. Transitioning to a low carbon fleet supports the City's Community Energy Transition Strategy and the Climate Resilience goal identified in ConnectEdmonton through fleet electrification and exploration of additional low carbon alternatives such as hydrogen fuel cells, dual fuel technologies and renewable fuels. This multi-year adjustment is to add \$2.0 million in 2025 and \$2.6 million in 2026 for the grant funding, which will fully cover expenses associated with the project, therefore resulting in no impact to the tax levy. Refer to FCS02532 Fall Carbon Budget Update for carbon budget impacts of this project.
- Development Services is recommending an exemption to Policy C610 - Fiscal Policy for the Planning and Development Business, to fund one-time expenses for a servicing study establishing constraints and general phasing of development south of 41 Avenue. The City Plan identifies the lands south of 41 Avenue as a future growth area for residential and non-residential development. To facilitate the timely and coordinated development of these lands, non-statutory pre-planning work is required. The servicing study will be scoped in more detail in 2025 and is scheduled for completion in 2026. Expenses will cover funding for a

## FALL 2024 SUPPLEMENTAL OPERATING BUDGET ADJUSTMENT - 2023-2026 Operating Budget

temporary project lead, temporary project coordinator, and a consultant to conduct the servicing study. The one-time cost will be fully recovered over approximately three years through a temporary fee added to Land Development Applications, with the revenue flowing back to the Planning and Development Reserve. The fee will be removed after the cost of the servicing study is recovered. If approved, this adjustment would increase expenses on a multi-year basis for Development Services by \$1.3 million in 2025 and decrease by \$0.1 million in 2026. These expenses would be funded by a transfer from the Planning and Development Reserve and therefore have no impact to the tax levy.

- Ongoing adjustment of \$0.5 million starting in 2025 to shift the funding of membership fees for FCM and Alberta Municipalities from the Office of the City Clerk to the Office of the Councillors' common budget. This adjustment moves these budgets under Council oversight and aligns the membership fees with other related expenditures for these organizations, including travel and conference fees. There is no impact to the tax levy with this budget transfer.

### Other Adjustments (for Information)

These adjustments are presented for Council's information; however, approval is not required as the Police Commission approves adjustments that have no impact to tax levy, per the *Police Act*.

- A \$2.2 million increase in ongoing expenditures for 20 Emergency Communication Officer positions to address staff shortages in the Emergency Communication and Operations Management Branch (ECOMB) is fully offset with grant revenue, therefore has no resulting impact to the tax levy.
- Alberta Law Enforcement Response Teams (ALERT) provided additional funding to EPS for the Internet Child Exploitation North (ICE North) and Combined Forces Special Enforcement North (CFSEU North) units. An adjustment of \$0.3 million is required to increase revenue for expenses of two additional positions, therefore this adjustment has no resulting impact to the tax levy.

### Financial Stabilization Reserve (FSR) Repayment Plan

In 2023, tax-supported operations ended the year with a \$40.1 million deficit, which is 1.2 per cent of the 2023 operating budget. The deficit resulted in the Financial Stabilization Reserve (FSR) being below the 5.0 per cent minimum of current tax-supported operating expenses required as outlined in City Policy C629 - Financial Stabilization Reserve. To replenish the FSR to its minimum balance within the three year time frame specified in the policy, a tax levy increase of 1.0 per cent is proposed for both 2025 and 2026. Based on the June 30, 2024 forecast, the projected year end deficit for 2024 is \$34.4 million. As Administration continues to address the structural budget variances currently estimated at \$59.2 million (down from \$88.1 million initially reported in August 2024), the actual FSR replenishment amount may fluctuate depending on the speed and success of the action plans and other unforeseen circumstances. This may require future adjustments to the tax levy contributions in subsequent years. Additional details and options for FSR repayment are outlined in Attachment 5.

### Financial Strategies

The financial strategies budget provides flexibility for unknown amounts over the four-year budget cycle. Multi-year budgeting requires the City to make estimates for fuel, utilities, contractual agreements, inflationary pressures and interest rates in advance of amounts being known. 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 management estimates using the best available information at the time of budgeting. The financial strategies budget provides a mechanism to manage fluctuation within the operating budget over the four-year cycle. Financial strategies funding is held within the Corporate Expenditure budget until the amounts are known, at which time funding is released to the appropriate program budget. The net impact to Financial Strategies as a result of adjustments in the Fall 2024 SOBA is an increase of \$13.3 million in 2025 and a decrease of \$2.7 million in 2026.

### Municipal Enterprises Adjustments

Blatchford Redevelopment Project and Land Enterprise budgets are being adjusted to reflect shifts in the timing of sales and development, which lower revenues and expenses. Cash flow impacts are reviewed regularly and adjustments are made to program timing to account for market conditions. Changes to these cash flows will not materially impact the projected positive income resulting from the Blatchford redevelopment or the dividend from Land Enterprise Retained Earnings. The details of the adjustments are included in Attachment 1.

### Service Packages

Service packages reflect new or enhanced services, growth on existing services or increases resulting from impacts of capital.

Funded service packages included were directed by Council for the Edmonton Elections Program and Citadel Theatre Lease Agreement - Maintenance Costs. These adjustments are added to the base budget and described earlier in the report.

Unfunded service packages are included in Attachment 2 for Council consideration; they would require an approved Council amendment to add to the budget.

Governance of Agencies, Boards and Commissions is outside of City Manager and Administration's authority, so all service packages for them will be submitted as unfunded, as any funding decisions related to these agencies must be made by Council. Unfunded service packages submitted by Agencies, Boards and Commissions are:

- Explore Edmonton: Change in Base Budget
- Edmonton Federation of Community Leagues: CLIP (Community League Infrastructure Assessment Program) Budget Request
- Edmonton Federation of Community Leagues: CLOG (Community League Operating Grant) Budget Request

Administration is putting forward one unfunded service package related to a previous audit:

- Tree Pruning

## FALL 2024 SUPPLEMENTAL OPERATING BUDGET ADJUSTMENT - 2023-2026 Operating Budget

All other unfunded service packages are motioned by Council:

- Turf and Horticulture Resources and Service Levels
- Center City and Expansion to all BIAs using a blend of City staff and Social Enterprise
- Center City and Expansion to all BIAs using City Staff

Unfunded service packages that result from motions made after August 31, 2024, will be included as an addendum to the Fall SOBA.

### Updates to User Fees

Changes to previously approved user fees are included in Attachment 2. Where there are impacts to budgeted revenues as a result of changes to user fees, these changes have been incorporated to the proposed Fall SOBA. Not all changes in user fees result in changes to the budget, as some fees are being adjusted to align actuals and budget, while others may have a rate and volume component. The majority of fee changes relate to inflationary increases. Notable changes to user fees include:

- To generate additional revenue, ETS will introduce a three-day and five-day Arc transit pass. Additionally, ETS will change the Youth Pass (non-U-Pass) maximum age from 24 years to 18 years, to better align with other transit services across Canada; riders aged 19 to 24 years will have regular adult fare options available. A planned report about the Transit Fare Policy in Q1 2025 will provide additional details.
- Development Services is introducing a new Underground Electrical Inspection Fee to cover the inspection of connections between houses and garages.
- SSSF charges are paused for the duration of the Sanitary Servicing Strategy Fund Transformation project, as discussed above.

### Structural Budget Variances

Structural budget variances are recurring deficits or surpluses that can be attributed to an event or circumstance that fundamentally changes business operations. The City has seen a trend in unfavourable structural budget variances, many of which contributed to the \$40.1 million tax-supported deficit in 2023, and persisted into this year, with year end projections forecasting a deficit of \$34.4 million for 2024 as of June 30, 2024. These include items such as inflation related to parts and contractor work, lower than budgeted transit fare revenue, as well as on-street construction and maintenance (OSCAM) permit fee revenues and increased overtime costs. Left 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 below its minimum balance. 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 \$88.1 million in structural budget variances and corresponding actions plans to address the issues across the organization. The length of time to implement

## FALL 2024 SUPPLEMENTAL OPERATING BUDGET ADJUSTMENT - 2023-2026 Operating Budget

action plans and realize the expenditure reductions will vary, with some implementation taking up to three years.

Through the Fall 2024 SOBA, \$28.9 million in structural budget variances have been addressed through budget reallocations, denoted by an asterisk \* in Attachment 1. This leaves \$59.2 million in structural budget issues remaining to be addressed. Of this amount, \$14.6 million in action plans are outlined in Attachment 4 (private) and Attachment 6. The remaining \$44.7 million will return in the Fall 2025 SOBA as these items require additional time to explore possible solutions.

<i>Annual net budget variance \$000s favourable/(unfavourable)</i>	Total Identified	Tax levy impact	Addressed through Fall 2024 SOBA	Left to Address	Tax levy impact
Inflationary	(23,931)	1.1%	23,816	<b>(115)</b>	<b>0.0%</b>
Revenue Shortfalls	(19,174)	0.9%	0	<b>(19,174)</b>	<b>0.9%</b>
External Factors	(21,368)	1.0%	1,820	<b>(19,548)</b>	<b>0.9%</b>
Administration or Council directed	(23,637)	1.1%	3,310	<b>(20,327)</b>	<b>0.9%</b>
<b>Total</b>	<b>(88,110)</b>	<b>4.1%</b>	<b>28,946</b>	<b>(59,164)</b>	<b>2.8%</b>

As outlined in Attachment 6, one of the most significant structural budget variances to be addressed is the transit fare revenue gap, at \$13.0 million annually, or \$26.0 million for the remainder of this budget cycle. Based on a motion at Executive Committee on August 28, 2024 discussing City Operations report CO02505, Ride Transit Program Funding Gap, transit fare prices remain at levels established in the 2023-2026 budget. Attachment 7 identifies options to address the transit fare revenue gap.

While a significant portion of structural variances have been addressed through the Fall SOBA, there are still actions underway to manage and limit future increases. For example, \$1.5 million was added to address the rising cost of WCB premiums. Although the budget variance has been addressed, work will continue to reduce WCB premiums in the future including actions such as evaluating and optimizing existing safety programs and services in high-WCB claim areas, a robust modified work program, increasing utilization of Occupational Injury Service (OIS) clinics, utilizing the Early Intervention Program and training people leaders in Incident Management. This is one example of the ongoing continuous improvement that occurs across the organization to deliver services amidst evolving factors and new challenges.

As social, political and financial situations are constantly evolving, Administration will continue to monitor and adjust strategies to adapt as necessary. As financial pressures arise, Administration first seeks to mitigate impacts by finding efficiencies elsewhere to manage the impacts or by adjusting the way services are delivered to enhance efficiency. Administration will continue to mitigate budget challenges while implementing the action plans required to address the structural budget variances identified, alongside balancing service delivery, limiting tax increases and maintaining financial sustainability.

## FALL 2024 SUPPLEMENTAL OPERATING BUDGET ADJUSTMENT - 2023-2026 Operating Budget

The financial challenges the City faces are complex and may take several years to address. This will require tough choices to be made between funding these budget pressures through increased property taxes or by reducing service levels, and it will likely take a combination of both strategies to ensure continued financial stability.

### Community Insight

Administration has gathered insights from multiple sources to support this year's budget adjustment, including public engagement on the four-year budget, the annual satisfaction survey and public opinion research.

Administration did extensive public engagement in summer 2022 to support the development of the 2023-2026 budget, as well as subsequent budget adjustment recommendations. Those insights were also shared with Council to support their decision-making through the October 31, 2022, Communications and Engagement report CE01489, Budget 2023-2026 Community Insights.

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, and continue to apply to the 2023-2026 budget include:

- 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.
- 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.

Administration conducted its third annual Service Satisfaction Survey in summer 2024. The survey gathers Edmontonians' perceptions of overall service quality and the satisfaction and importance of highly visible City of Edmonton services. The majority of respondents in 2024 indicated they are satisfied with the overall quality and ease of access to City services. Close to half of respondents indicated they are satisfied with how well the City informs them about services and the quality of customer service they receive from the City.

Year over year key findings include (details in Attachment 8):

- For the majority of services, there were no major shifts in perceptions in 2024. Reported satisfaction is trending down for a few services, but most are stable.
- A majority of respondents indicated they see City services as important, and the perceived importance of individual services has not shifted since last year.
- Similarly, the majority of respondents indicated they do not want to see more spending on services, even those they are less satisfied with. The proportion of people who said they would like more spending is trending down across several services.

## FALL 2024 SUPPLEMENTAL OPERATING BUDGET ADJUSTMENT - 2023-2026 Operating Budget

Administration also undertook public opinion research in fall 2024 about the budget. An online survey was conducted to understand Edmontonians' current financial situation and their opinions on potential adjustments to City services, user fees and property tax increases. Survey respondents are reflective of Edmontonians in terms of age, gender, income and regional distribution across the city (by quadrant).

Key findings include (details in Attachment 9):

- Few respondents (16 per cent) indicated they are comfortable with further property tax increases above what has already been approved. Respondents were more comfortable with increased user fees (42 per cent) and service reductions (33 per cent).
- Half (49 per cent) of the survey respondents indicated they support a reduction in services to keep the tax increase as close to seven per cent as possible, while one quarter (26 per cent) indicated support for keeping the same services with a higher tax increase.
- The majority of respondents (61 per cent) indicated that their financial situation has become more challenging compared to the same time last year.

Administration has considered these insights in its fall budget adjustment recommendations. Taken together, these insights illustrate the challenges in building and adjusting municipal budgets. There is no single combination of priorities that will satisfy all Edmontonians, particularly given the financial challenges many residents are facing. The budget adjustment recommendations work to balance delivering important services for Edmontonians with keeping property taxes and other fees manageable.

### 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.

### Environment and Climate Review

Edmonton is committed to climate action through the implementation of the City's two climate strategies: the Energy Transition Strategy and the Climate Adaptation Strategy. To support Edmonton's transition to a low carbon future, a carbon budget has been completed and delivered

## FALL 2024 SUPPLEMENTAL OPERATING BUDGET ADJUSTMENT - 2023-2026 Operating Budget

to Council in conjunction with the operating, capital and utility budgets since the 2023-2026 Budget.

Use of the Carbon Budgeting and Accounting Framework helps guide the organization and Council in understanding how the City's financial investment decisions impact the achievement of emissions reductions targets or reduce Edmonton's carbon deficit. Specific information on how the details of the fall 2024 SOBA report will affect the City's carbon budget is detailed in Report FCS02532 - Fall Carbon Budget Update - 2023-2026 Carbon Budget.

In addition to carbon budget implications, the proposed changes in the SOBA may have environmental impacts in the following ways:

**Environmental Protection:** The rise in illegal dumping of waste on public land poses environmental risks, necessitating adequate cleanup and disposal services to prevent potential spills and the contamination of soil and water. Addressing illegal dumping can help reduce the risk of wildlife exposure to improperly stored waste materials, protecting local ecosystems and maintaining biodiversity.

**Managing Natural Infrastructure:** Programs supported through service packages that are currently unfunded, such as Tree Pruning and Turf and Horticulture Resources, are intended to improve the management of the City's natural infrastructure. Greenspaces can offer a variety of ecosystem services, including wildlife habitat, biodiversity, and improved local air quality, contributing to overall community health and environmental resilience while adhering to the City's Integrated Pest Management Policy C501A.

### Attachments

1. 2025-2026 Operating Budget Changes
2. Operating Budget - Fall 2024 Supplemental Operating Budget Adjustment
3. Edmonton Elections Program Budget Increase
4. PRIVATE - Items Managed Internally and Structural Budget Variances Action Plans
5. Financial Stabilization Reserve (FSR) Repayment Plan Options
6. Action Plan for Addressing Structural Budget Variances
7. Options to Address the Transit Fare Revenue Gap
8. City of Edmonton Service Satisfaction - Online Survey
9. Public Opinion Research - 2024 Budget Survey Results