

## OPERATING FINANCIAL UPDATE - SEPTEMBER 30, 2024

### Recommendation

That the December 10, 2024, Financial and Corporate Services report FCS02724, 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>• FCS02529rev Fall 2024 Supplemental Operating Budget Adjustment - 2023-2026 Operating Budget, December 2, 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 September 30, 2024, Operating Financial Update, including year-to-date operating results and projected year-end results compared to the approved

## OPERATING FINANCIAL UPDATE - September 30, 2024

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

- As of September 30, 2024, year-to-date results for tax-supported operations reflect a net unfavourable variance of \$7.4 million, and a net unfavourable variance of \$19.4 million is projected for year-end, equivalent to 0.6 per cent of the overall expense budget.
- The projections are based on the September 30, 2024, year-to-date results and other available information. Year-end projections may be updated throughout the year as additional information becomes available.
- The projected December 31, 2024, year-end balance of the Financial Stabilization Reserve (FSR) before considering the projected year-end tax-supported deficit is \$78.2 million, which is below the minimum required balance of \$133.8 million for 2024. Factoring in the projected tax-supported deficit of \$19.4 million, the FSR's balance is expected to be \$58.8 million by the end of the year. This falls \$75.0 million short of the minimum required balance.
- The Fall 2024 SOBA addressed \$28.9 million of the structural budget variances through budget reallocations. However, \$59.2 million in structural budget issues remain. Action plans for \$14.6 million of these issues were outlined in the Fall 2024 SOBA. The remaining \$44.7 million will be addressed in the Fall 2025 SOBA.

## REPORT

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

Attachment 1 provides the September 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 an unfavourable budget variance of \$7.4 million and year-end projected results reflect an unfavourable budget variance of \$19.4 million, which is equivalent to a 0.6 per cent variance when compared to the overall expense budget. The year-end projected variance is due to unfavourable budget variance resulting from:

- 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. While transit ridership has exceeded 2019 levels, fare revenue has performed below budget due to these changes in travel patterns and demographics.
- 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 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 increased staffing to support stronger than expected demand on programming and heightened security requirements due to an increase in security incidents.

## OPERATING FINANCIAL UPDATE - September 30, 2024

- Higher than expected fuel costs and a loss on fuel hedging contracts, this partially offset by lower fuel consumption.
- 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. Additional revenue sources include higher tax penalty collections due to increased outstanding balances from prior years, greater membership and admissions revenue driven by higher program and service demand and special events, and other favorable 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 \$78.2 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 \$19.4 million, the projected balance of the reserve is \$58.8 million, which is below the minimum balance by \$75.0 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 \$75.0 million below the required minimum balance. Administration is proposing a one per cent tax increase in both 2025 and 2026 through the Fall 2024 Supplemental Operating Budget Adjustment process to restore the FSR back to the minimum balance by the end of 2027.

### Structural Budget Variances

Structural budget variances are recurring deficits or surpluses that can be attributed to an ongoing 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 \$19.4 million for 2024 as of September 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,

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

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 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, leaving \$59.2 million in structural budget issues remaining to be addressed. Of this amount, \$14.6 million in action plans were outlined in Fall 2024 SOBA, and the remaining \$44.7 million will return in the Fall 2025 SOBA as these items require additional time to explore possible solutions. Administration continues to monitor the budget through the financial reporting process, taking actions to limit discretionary spending where possible.

### **Economic Update**

Developments over Q3 2024 support the City's expectations for real gross domestic product growth in Edmonton and the census metropolitan area (CMA) to moderate in 2024. Details of these developments in the Edmonton CMA related to the labour market and inflation, and in Edmonton housing and residential building construction are provided in Attachment 2.

### **Community Insight**

The City of Edmonton's budgets are one of the ways that Council can 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.

### **Environment and Climate Review**

This report was reviewed for environment and climate risks. Based on the review completed no significant interactions with the City's environmental and climate goals were identified within the scope of this report.

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

### **Attachments**

1. Operating Financial Update - September 30, 2024
2. City of Edmonton Q3 2024 Economic Update