

OPERATING FINANCIAL UPDATE - DECEMBER 31, 2024

Recommendation

1. That the 2025 Operating Budget be adjusted to increase expenditures by \$25,076,000 offset by an equivalent transfer from amounts previously appropriated in the Financial Stabilization Reserve, to address the delay of expenditures into 2025, as outlined in Attachment 2, Table 1, Schedule A of the March 18, 2025, Financial and Corporate Services report FCS02841.
2. That the 2025 Operating Budget be adjusted to increase expenditures by \$23,262,000 and to transfer the equivalent amount from the Financial Stabilization Reserve, to fund the carryforward of expenditures where 2024 program commitments exist, as outlined in Attachment 2, Table 1, Schedule E of the March 18, 2025, Financial and Corporate Services report FCS02841.
3. That the 2025 Operating Budget be adjusted to increase expenditures by \$10,676,000 offset by an equivalent transfer from the Industrial Infrastructure Cost Sharing Reserve, to address the timing of Revolving Industrial Servicing Fund program rebates within Development Services, Urban Planning and Economy, as outlined in Attachment 2, Table 2, of the March 18, 2025, Financial and Corporate Services report FCS02841.
4. That the 2025 Operating Budget be adjusted to increase expenditures by \$4,899,000 offset by an equivalent transfer from the Affordable Housing Reserve, to address the timing of expenditures for the Rapid Housing Initiative - Project Stream (Coliseum Inn Hotel Conversion Project) within Social Development, Community Services, as outlined in Attachment 2, Table 2 of the March 18, 2025, Financial and Corporate Services report FCS02841.
5. That the 2025 Operating Budget be adjusted to increase expenditures by \$2,775,000 offset by an equivalent transfer from the Affordable Housing Reserve, to address the timing of expenditures for the Catholic Social Services Housing Project within Social Development, Community Services, as outlined in Attachment 2, Table 2 of the March 18, 2025, Financial and Corporate Services report FCS02841.
6. That the 2025 Operating Budget be adjusted to increase expenditures by \$10,250,000 offset by an equivalent amount of revenue (transfer from the Affordable Housing

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Reserve and federal grant), to address the timing of construction costs funded through the National Housing Co-Investment Fund within Social Development, Community Services, as outlined in Attachment 2, Table 2 of the March 18, 2025, Financial and Corporate Services report FCS02841.

7. That the 2025 Operating Budget be adjusted to increase expenditures by \$3,765,000 offset by an equivalent transfer from the Brownfield Reserve, to address the timing of grant expenditures for Brownfield Remediation and Redevelopment support within Economic Investment Services, Urban Planning and Economy, as outlined in Attachment 2, Table 2 of the March 18, 2025, Financial and Corporate Services report FCS02841.
8. That the 2025 Operating Budget be adjusted to increase expenditures by \$500,000 offset by an equivalent transfer from the Traffic Safety and Automated Enforcement Reserve (TSAER), to address the timing of expenditures for Safe School Drop Off initiative within Parks and Roads Services, City Operations, as outlined in Attachment 2, Table 2 of the March 18, 2025, Financial and Corporate Services report FCS02841.
9. That the 2025 Operating Budget be adjusted to increase expenditures by \$2,072,000 offset by an equivalent transfer from the Community Safety and Well-being Reserve, to address the timing of expenditures for various Community Safety and Well-being initiatives within various branches, as outlined in Attachment 2, Table 2 of the March 18, 2025, Financial and Corporate Services report FCS02841.
10. That the 2025 Operating Budget be adjusted to increase expenditures by \$3,500,000 offset by an equivalent transfer from the Community Safety and Well-being Reserve, to address the timing of expenditures for the Community Mobilization Task Force within the Office of the City Manager, as outlined in Attachment 2, Table 2 of the March 18, 2025, Financial and Corporate Services report FCS02841.
11. That the 2025 Operating Budget be adjusted to increase expenditures by \$1,054,000 offset by an equivalent transfer from the Edmonton Elections Reserve, to address the timing of expenditures for the 2025 Municipal Election within the Office of the City Clerk, Office of the City Manager, as outlined in Attachment 2, Table 2 of the March 18, 2025, Financial and Corporate Services report FCS02841.

Requested Action		Decision required	
ConnectEdmonton's Guiding Principle		ConnectEdmonton Strategic Goals	
CONNECTED This unifies our work to achieve our strategic goals.		N/A	
City Plan Values	N/A		
City Plan Big City Move(s)	N/A	Relationship to Council's Strategic Priorities	Conditions for service success

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Corporate Business Plan	Managing the corporation
Council Policy, Program or Project Relationships	<ul style="list-style-type: none"> ● 2023-2026 Operating Budget ● C629A Financial Stabilization Reserve (FSR) ● C610 Fiscal Policy for the Planning and Development Business (P&D) ● C579B Traffic Safety and Automated Enforcement Reserve (TSAER)
Related Council Discussions	<ul style="list-style-type: none"> ● FCS02361 Spring 2024 Supplemental Operating Budget Adjustment, City Council, April 23, 2024 ● FCS02485 - Operating Financial Update - June 30, 2024, City Council, September 10, 2024 ● FCS02529 Fall 2024 Supplemental Operating Budget Adjustment - 2023-2026 Operating Budget, City Council, December 2-5, 2024 ● FCS02724 - Operating Financial Update - September 30, 2024, City Council, December 10, 2024 ● FCS02818 - Pay-As-You-Go Replenishment and Dedicated Universal Renewal Fund - Draft Strategy, City Council, March 18, 2025

Executive Summary

- Tax-supported operations ended the year very close to budget with a net unfavorable budget variance of \$0.7 million as of December 31, 2024.
- This report provides recommendations for the carryforward of \$25.1 million (Recommendation 1) of items previously approved by City Council with funding from the appropriated Financial Stabilization Reserve (FSR) and \$39.5 million (Recommendations 3 to 11) for items funded through other reserves. These recommendations do not further impact the unappropriated FSR balance or tax-levy requirements.
- This report proposes carrying forward \$23.3 million from the unused 2024 operating budget into 2025 (Recommendation 2). These funds are intended for projects or initiatives outlined in the 2024 budget that were not completed within the fiscal year but require the remainder of the budget in 2025 to fulfill their commitments. Typically, during surplus years, carryforward requests are covered by the surplus. However, in tax-supported deficit years, these requests are financed directly from the FSR. Consequently, the unused 2024 budget for such requests will be directly funded from the unappropriated FSR.
- The balance of the unappropriated FSR will be \$61.3 million after factoring in the tax-supported deficit of \$0.7 million and the recommendation to carry forward \$23.3 million in expenditures. This amount is \$81.9 million below the preliminary minimum required reserve balance of \$143.2 million.
- Results are preliminary, unaudited and subject to change until the approval of the City's 2024 consolidated annual financial statements. Administration will provide the audited financial statements, presented on a public sector accounting basis as required for legislative reporting, to Audit Committee on April 11, 2025 and to City Council on April 22, 2025.
- During the Fall 2024 Supplemental Operating Budget Adjustment process City Council made a motion requesting that Administration enhance the quarterly financial reporting to include all unfunded variances over \$1.5 million to Council as they occur, with a mitigation plan to avoid

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the accumulation of unfunded liabilities in future budget cycles. All unfunded variances (structural budget variances) have been identified in the individual department and branch year-end financial results section of Attachment 1, with the action plans to address the structural budget variances explained in Attachment 3.

REPORT

Operating Financial Results

Preliminary Year-End Tax-Supported Position

Attachment 1 provides details on the preliminary 2024 operating financial results compared to the 2024 approved budget for tax-supported, enterprise/utility and Community Revitalization Levy (CRL) programs. Preliminary year-end results for tax-supported operations show a net unfavourable variance of \$0.7 million as at December 31, 2024, equivalent to 0.02% of the overall expense budget of \$3.5 billion.

Year-end unfavourable budget variances arise from a variety of factors, primarily due to:

- **Higher than budgeted personnel costs**, largely due to overtime in Transit and Fire Rescue Services (due to vacancies, WCB claims, and leaves) and increased salaries in Community Recreation & Culture (due to higher staffing and security needs).
- **Lower than anticipated transit revenue** due to shifts in fare purchasing behaviour and greater demand for discounted fare products.
- **Greater than budgeted material and contractor costs** due to inflation, unplanned callouts, and enhanced cleaning requests partially associated with biohazard and communicable disease control.
- **Higher than anticipated tax losses** due to affordable housing and other properties becoming tax exempt during the year.
- **Lower than budgeted permit revenue** due to reduced permit demand.
- **Higher than budgeted fuel costs** due to price forecast being lower than actual prices.
- **Higher than expected snow and ice control costs** compared to budget as a result of heavy snow fall and increased snow accumulation in the last quarter of the year.

The unfavourable budget variances were partially offset with a favorable projected variance for financial strategies, delayed grant payments that are dependent on project completion or meeting the grant program milestones, lower costs within the Environment and Climate Resilience group to help offset the tax-supported deficit, higher than budgeted tax penalties mainly due to the large number of outstanding accounts, and a net favourable budget variance related to memberships and admissions revenues at recreation and attraction facilities due to higher demand.

2024 Alberta Wildfire Support Costs

The City incurred \$11.6 million in costs in 2024 to support Albertans impacted as a result of wildfires in the Regional Municipality of Wood Buffalo and the Town of Jasper. These costs included establishment of an evacuee reception centre and fire support services provided to impacted communities. The year-end results include a full recovery of these costs from the

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impacted communities through mutual aid agreements. These communities will ultimately seek reimbursement for eligible costs either through the provincial Disaster Recovery Program (DRP) or in the case of the Town of Jasper, from the Federal Government.

Change from Prior Quarter (September 30, 2024) Projected Year-End Tax-Supported Position

On December 10, 2024, Administration presented the Operating Financial Update as of September 30, 2024 to City Council (FCS02724). The third quarter reporting projected a year-end budget deficit for tax-supported operations of \$19.4 million. Preliminary year-end results for tax-supported operations show a net unfavourable variance of \$0.7 million as at December 31, 2024.

Projections are based on best available information at the time and often fluctuate throughout the year. Various items lead to the year-end tax-supported position improving by \$18.7 million, from a projected deficit of \$19.4 million as of the third quarter to \$0.7 million preliminary year-end tax-supported deficit.

Some of the more significant changes include an improved tax-supported position resulting from delayed contract and consulting work, timing of grant payments, and less than expected funding required in Financial Strategies in 2024 based on change in risk assessments. These favorable variances were offset by personnel costs exceeding budget in the last quarter mainly due to higher Edmonton Transit Service salary costs, increase in the unfavourable variance for property tax appeals and tax exemptions, and greater than expected snow and ice control costs in the last quarter of the year.

Further details on the improved position compared to budget for tax-supported operations at year-end when compared to the projected tax-supported position at Q3 is provided in Attachment 1.

Financial Stabilization Reserve Repayment Strategy

The Financial Stabilization Reserve (FSR) balance, prior to the approval of recommendations for operating budget carryforwards and consideration of the tax-supported deficit, is \$85.2 million. Factoring in the tax-supported deficit of \$0.7 million, the recommendation to carry forward \$23.3 million in expenditures, the remaining balance in the FSR will be \$61.3 million. This is \$81.9 million below the preliminary required minimum balance of \$143.2 million.

In accordance with City Policy C629A - 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.

Through the Fall 2024 Supplemental Operating Budget Adjustment process Council identified \$10 million in one-time savings in 2025 to replenish the FSR and approved tax increases in 2025 of 0.5 per cent and 2026 of 0.6 per cent to restore the FSR back to the minimum balance over five years from 2025 to 2029. The total amount required to achieve the minimum balance in 2029 is \$109.7 million. To facilitate this, Council approved an exemption to Policy C629A to allow the repayment strategy to occur over five years instead of three.

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The FSR repayment strategy is based on an assumption of results being equal to the budget over the next five years (i.e. no tax-supported surplus or deficit). If the FSR's financial position improves over the next five years, potentially because of tax-supported surpluses, less funding will be required for repayment, and the excess funds will be reallocated sooner to expedite the creation of the dedicated renewal fund. Alternatively, if the FSR position gets worse as a result of further tax-supported deficits, larger tax increases may be required in future years to bring the FSR back up above its minimum balance by the end of 2029.

The FSR repayment strategy, along with the Pay-As-You-Go (PAYG) replenishment strategy and establishment of a dedicated renewal fund are discussed in report FCS02818 Pay-As-You-Go Replenishment and Dedicated Universal Renewal Fund - Draft Strategy, also being presented to City Council on March 18, 2025.

Structural Budget Variances (Unfunded Variances)

During the Fall 2024 Supplemental Operating Budget Adjustment process City Council made a motion requesting that Administration enhance the quarterly financial reporting to include all unfunded variances over \$1.5 million to Council, with a mitigation plan to avoid the accumulation of unfunded liabilities in future budget cycles. All unfunded variances (structural budget variances) have been identified in the individual department and branch year-end financial results section of Attachment 1, with the action plans to address the structural budget variances explained in Attachment 3.

Structural budget variances are recurring deficits or surpluses that can be attributed to an event or circumstance that fundamentally changes business operations. These include items such as inflation related to parts, materials 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 seen with the diminishing balance of the FSR.

All unfunded variances (structural budget variances) greater than \$1.5 million have been identified in the individual department and branch year-end financial results section of Attachment 1, with the action plans to address the structural budget variances explained in Attachment 3. The length of time to implement action plans and realize the expenditure reductions will vary, with some implementation taking up to three years. The structural budget action plans in Attachment 3 are consistent with the action plans presented to Council during the Fall 2024 Supplemental Operating Budget Adjustment discussion. A formal update of all structural budget variances (including those less than \$1.5 million) will be provided through the Fall 2025 Supplemental Operating Budget Adjustment report.

Operating Budget Carry-Forward Recommendations

Attachment 2 includes recommendations for:

- Carryforward of items previously appropriated in the FSR into the 2025 operating budget (Recommendation 1 - \$25.1 million).

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These are items that had previously been approved with funding from the FSR, with expenditures originally expected to occur in 2024. Expenditures are now expected in 2025. This adjustment is reallocating the expenditure and the previously approved funding from the FSR into 2025.

- Carryforward of 2024 budgeted expenditures committed but not utilized during the year into the 2025 operating budget, with matching funding from the FSR (Recommendation 2 - \$23.3 million).

Typically, during surplus years, carryforward requests are covered by the surplus. However, in tax-supported deficit years, these requests are financed directly from the Financial Stabilization Reserve. Consequently, the unused 2024 budget for such requests will be directly funded from the Financial Stabilization Reserve. This recommendation is for carryforward of unused expenditure budget, with funding from the FSR, into 2025.

- Carryforward of operating commitments into the 2025 operating budget previously approved with funding through numerous reserve funds, totalling \$39.5 million (Recommendations 3 to 11).

These are items that had previously been approved with funding from other reserves, or non-tax levy sources, with expenditures originally expected in 2024. Expenditures are now expected in 2025. This adjustment reallocates the expenditure and the previously approved funding from applicable reserve sources into 2025.

Economic Update

Over Q4 2024, the Edmonton census metropolitan area (CMA) labour market experienced a boost in employment growth, mainly in full-time positions, which helped to lower the unemployment rate. Annualized consumer price inflation accelerated in Q4 as shelter inflation¹ rose higher. Details of demographic trends between 2023 and 2024, developments in the Edmonton CMA labour market and price inflation and Edmonton housing and residential building construction are provided in Attachment 4.

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.

¹ Shelter inflation refers to annualized per cent changes in the shelter expenditure category of the Consumer Price Index, which includes accommodation (owned and rented) and core utilities.

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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.

Attachments

1. Operating Financial Update - December 31, 2024
2. Financial Stabilization Reserve and Operating Carryforward Recommendations and Other Items
3. Structural Budget Variances - December 31, 2024 Operating Financial Update
4. City of Edmonton Q4 2024 Economic Update