Options to Further Reduce 2020 Operating Budget

Budget Reductions to Achieve 2.6 percent and 0 percent Tax Increase in 2020, and Manage Provincial Capital Grant Reductions

Recommendation

That the December 5, 2019, Financial and Corporate Services report CR_7747, be received for information.

Previous Council Action

At the December 5, 2019, City Council meeting, the following motion was passed:

> That the December 5, 2019, Financial and Corporate Services reports CR_7747, CR_7483rev and CR_7485rev be postponed to the December 11, 2019, City Council meeting.

Please refer to Attachment 1 for a detailed overview of previous Council action.

Executive Summary

In December of 2018, Council approved the Capital, Operating and Utility Budgets for 2019-2022. The approved budgets resulted in annual tax increases of 2.6 percent in each year of the 2019-2022 budget cycle. Based on standard City of Edmonton budget processes, all three budgets receive regular adjustments in each Spring and Fall.

The Fall 2019 Supplemental Operating Budget Adjustment and the Fall 2019 Supplementary Capital Budget Adjustment responds to the impacts of the recently-released provincial budget and other emergent items. Both the City of Edmonton and Edmonton Police Service (EPS) have identified strategies to mitigate these pressures and maintain the previously approved tax increase of 2.6 percent for 2019, 2020 and 2021. These strategies will be incorporated into revised budget adjustment reports (which will be deliberated at the December 11, 2019, City Council meeting); however, this interim update was necessary to release this information for the December 5, 2019 non-statutory public hearing to proceed.

In response to a Council motion made on October 25, 2019, this report also includes operating budget reprioritization options to achieve a zero percent tax increase in

2020. These options are not included in the upcoming Fall 2019 Supplemental Operating Budget Adjustment.

Report

Budgets help Administration deliver programs and services that fulfill the City of Edmonton's Corporate Promise to "enable a better life for all Edmontonians". The City's Capital, Operating and Utilities Budgets identify the costs for the renewal and growth of municipal infrastructure, civic programs and services that Edmontonians depend on and the sources of revenue to pay for that infrastructure and those programs and services, including grants, property taxes, user fees and utility rates.

Budget development and approval process

Through the budgets, Administration aims to support the changes required to make transformational impacts to realize the strategic goals of ConnectEdmonton, to deliver excellent services to the community and to manage the corporation in the most efficient and effective manner possible.

The approved 2019-2022 budgets were prepared through the following process:

1. *Development*: Administration developed draft budgets to provide municipal services and infrastructure. The budget development process included public education and engagement opportunities such as event and festival outreach and a My Budget survey.
2. *Listening*: Edmontonians, members of the business community and other interested stakeholders attended a non-statutory public hearing on November 15, 26 and 28, 2018. These speakers provided Council with their perspectives on the draft budgets provided by Administration and their ideas on how the budgets should balance improvements for quality of life and the realities of the changing economic environment.
3. *Deliberations*: Following deliberations, Council approved four year budgets that resulted in annual tax increases of 2.6 percent in each year of the 2019-2022 budget cycle. The impact of a 2.6 percent municipal tax increase on the typical homeowner's municipal tax bill, on an assessed value of $399,500, would be an increase of $67 annually in 2020, $69 in 2021 and $71 in 2022, which on a monthly basis is $5.60, $5.75, and $5.90 respectively. Similarly, the annual impact of a 2.6 percent municipal tax increase on every $100,000 in non-residential assessment value would be $46 in 2020, $48 in 2021 and $49 in 2022.

Budget adjustment process

The City's multi-year approach, as outlined in the September 10, 2014, report CR_1273 Multi-year Budgeting Policy, guides the supplementary budget adjustment process whereby future year budgets would only be adjusted when warranted by certain circumstances. These circumstances include:

- External factors such as provincial or federal budgets, or changes imposed by legislation.
- Adjustments that reflect operating impacts related to implementing and completing capital projects.
- Unforeseen changes to economic forecasts that Administration anticipates will affect costs, service demand volumes, or revenue projections.
- Council-directed changes to priorities, policies and programs.

The 2020 Operating Budget

The approved Operating Budget for 2019-2022 highlighted residents' priorities for the next four years while taking a realistic approach to a challenging economy. The tax increase of 2.6 percent for 2020, 2021 and 2022 resulted from:

1. Three increases related to:
    - 1.0 percent for EPS as part of the dedicated funding formula.
    - 1.0 percent for dedicated tax increases (0.6 percent for Valley Line LRT Southeast and 0.4 percent for Alley Renewal).
    - 0.9 percent to fund growth in infrastructure and services.
2. One decrease related to:
    - (0.3) percent reduction in costs to deliver ongoing City programs and services. This reduction occurred through a variety of methods including eliminating 50 positions while maintaining the programs and services currently provided.

<u>Understanding the impact of recent budget pressures</u>

The most recent provincial budget was introduced on October 24, 2019. Since the release of Budget 2019, the City of Edmonton and the Edmonton Police Service reviewed the approved budgets in light of these updated fiscal circumstances. The direct impacts of the provincial budget on the City of Edmonton's Operating Budget are detailed in Attachment 2 and summarized in the high-level overview below.

Item	Details	Responsibility to Address	Financial Pressure for 2020 Operating Budget
Grants in lieu of taxes	Reduction in taxation revenue	City of Edmonton	$14.0 million
EPS fine revenue	Decrease in revenue from fines and penalties	EPS	$2.7 million
EPS biological testing	New increases for biological case work analysis (i.e. DNA testing)	EPS	$2.3 million
Automated	Decrease in revenue from fines and	Traffic Safety	$7.0 million in automated

enforcement revenue	penalties as the province increases its share of the automated enforcement fines and penalties	Reserve	enforcement in 2020, with an additional $2.0 million in 2021 ($9 million on an ongoing basis starting in 2021)
Total impact on the 2020 Operating Budget			***$26.0 million***

In addition to the above provincial budget impacts, Administration also identified internal pressures. The Fall 2019 Supplemental Operating Budget Adjustment Report included two emerging items related to revenue for Community and Recreation Facilities and Development Services. Administration is recommending a reduction in the approved Community Recreation Facility revenues in 2020, 2021 and 2022 of $2.5 million, $2.5 million, and $2.0 million, respectively. The Development Services item may be brought back for discussion in 2020 after further review and analysis.

Administration has now identified a third emerging item related to the snow and ice control program and is currently assessing the cost impact of achieving bare pavement using only mechanical means (plowing and blading). A detailed estimate of the cost and service options will be presented to Community and Public Services Committee in Spring 2020.

Recommended adjustments to maintain the approved 2.6 percent tax increase

Combining both the $26 million in budget pressures from the recent provincial budget and the $2.5 million to address the revenue challenges for Community and Recreation Facilities, the total operating net requirement is an incremental increase of $28.5 million in 2020, $4.5 million in 2021 and $2.0 million in 2022.

Without any corrective action taken by Administration, these impacts would result in estimated tax increases of 4.3 percent in 2020, 2.9 percent in 2021 and 2.7 percent in 2022 compared to the currently approved tax increases of 2.6 percent in each of 2020, 2021, and 2022.

These increases may be challenging and unsustainable for Edmontonians and businesses to realize in uncertain economic times. To recognize the commitment to maintain the approved tax levy at 2.6 percent, the City of Edmonton and EPS took a thoughtful and methodological approach to identify strategies to honour the approved four year budgets.

Administration's approach related to automated enforcement revenue decrease

Administration will manage the ongoing reductions to automated enforcement revenue of $7.0 million in 2020 and a further $2.0 million in 2021 through the Traffic Safety and Automated Enforcement Reserve (TSAER). This will result in less capital funding available. Administration will return to Council in early 2020 to discuss TSAER funding reprioritization and allocation for the 2020 fiscal year.

EPS approach related to fine revenue decrease and biological testing
EPS will absorb its portion of $2.7 million in reduction of fine revenue within its existing operating budget along with $2.3 million for biological testing.

Approach from Administration to address the remaining shortfall
Reduction strategies address the remaining $16.5 million dollars as part of the 2020 budget pressures. A principled approach, which limited impacts to current permanent employees, identified a comprehensive list of strategies using the following lenses:

- Continuing to honour the four strategic goals of ConnectEdmonton
- Identifying further effectiveness and efficiencies opportunities including those identified through the Program and Service Review
- Delaying projects (operating and capital) that have not already started

The full list of strategies recommended to maintain the currently approved 2.6 percent tax increase for each year of the 2019-2022 budget cycle are included in Attachment 3 to this report. These adjustments will be incorporated in the revised Fall 2019 Supplemental Operating Budget Adjustment to inform Council's upcoming budget deliberations.

Program and Service Review
The objective of the Program and Service Review is to assess the relevance, effectiveness and efficiency of services provided by the City of Edmonton. This helps Council achieve its goals and it strengthens the City's culture of continuous improvement and innovation.

Administration reviews the results of each Program and Service Review completed and empowers business areas to make decisions within their program area. Some of the reduction strategies identified are from the Program and Services Review and future budgets will be adjusted for recommendations that are implemented by Administration. As an example, the recent decision to adjust the business model for survey services within Integrated Infrastructure Services is in the early stages and any budget savings will be incorporated once a robust implementation plan is developed and the revised business model is realized. The implementation of recommendations from Program and Service reviews that are expected to have a significant impact on citizens are assessed by Administration and may be brought forward to Council for endorsement.

<u>Achieving zero percent</u>

At the October 25, 2019, Special City Council meeting, a motion was passed that directed Administration to prepare operating budget reprioritization options to achieve a zero percent tax increase in 2020 to further reduce the city's expenditure on services or contributions to the infrastructure budget.

Achieving a zero percent tax increase in 2020 would require a further reduction of $44.1 million (above and beyond the $28.5 million discussed to maintain the approved 2.6 percent tax increase) as follows:

- $27.9 million in operating budget reductions related to the City of Edmonton
- $16.2 million of the operating budget reductions related to EPS

At the November 5, 2019, City Council meeting, Administration provided a brief summary of key areas that would be explored to identify potential reductions strategies to achieve a zero percent tax increase. Following this discussion, Administration explored previous reduction strategies, recommendations from any in-progress and completed Program and Service Reviews and new options for reducing the operating budget.

In differentiating the reduction strategies between those required to maintain the 2.6 percent tax increase and those options to get to zero percent, Administration considered the impact of the reduction strategy on both Edmontonians and employees. Items that would result in the greatest impacts to Edmontonians and employees formed the zero percent options list. These options are reviewed in Attachment 4.

A number of the reduction strategies within the zero percent options list have implications to City of Edmonton employees. Should any of these options be incorporated into the Fall 2019 Supplemental Operating Budget Adjustment by way of Council motion, Administration will then initiate conversations with any impacted employees and the relevant unions and/or association.

The potential options are presented in six categories:

Addressing the Responsibility of Other Orders of Government - $1.0 million
Work in this area focused on identifying and recommending that the City conclude the provision of certain services that are the legislative responsibilities of other orders of government. This area identifies a strategy where the City would conclude front-line assessment and short term counselling services. Another strategy would conclude the operations of the Landlord and Tenant Advisory Board as the Government of Alberta provides this service.

Reduction in Funding to Partners - $1.4 million
The City provides funding to a number of community partners through a variety of different programs and initiatives. Administration examined opportunities to

reduce or eliminate funding including eliminating minor sport subsidies, discontinuation of non-profit leasing and reducing or eliminating the non-profit grant program. For a number of opportunities identified, Administration determined that implementation within 2020 would be challenging given current agreements and limited opportunities for public engagement.

Strategies identified for consideration in 2020 include the suspension of the Community Facility Partner Capital Grant for any new applications until all agreements are complete, which would conclude the grant program in 2020. Also for consideration is the elimination of Edmonton's Sports Council, with the Live Active Strategy then being implemented by Administration.

Revenue Generation and Cost Recovery - $0.7 million
Work in this area reviewed and identified opportunities to increase the cost recovery of programs and services. Considerations include an increase in arena revenues and an increase in recreation pass revenue by reducing the pass discounts for City employees, organizations participating in the Corporate Wellness Program and Community League Program members.

Operating Impacts from Capital - $6.8 million
Work in this area examined opportunities to reduce the impact of the capital budget on the operating budget.

Included within this strategy is the potential to pause the dedicated alley renewal tax levy requirements in 2020 resulting in a potential savings of $6.8 million (0.4 percent reduction in the 2020 tax increase). The tax levy requirement of $6.8 million for alley renewal would then be revisited as a part of the 2023 operating budget discussions.

Late in 2018, Council committed to proceeding with an Alley Renewal Program to improve the condition of alleys in the city to achieve zero alleys at condition index Grade F, within 25 years (2019-2043). In order to meet these targets and achieve a fully funded program of $22.3 million annually by 2022, Council approved funding for this program through a dedicated tax levy from 2019 through 2022. This program received the first year of funding in 2019 of 0.3 percent of tax levy. Currently, the overall 2020 tax increase of 2.6 percent, includes a dedicated tax increase of 0.4 percent for alley renewal ($6.8 million). If the 2020 funding of $6.8 million is deferred until 2023, the alley renewal program will adjust to more moderately ramp up the amount of alleys being completed through 2022 to accommodate the reduced budget. If still fully funded by 2023, the long term targets of the program should still be achieved.

Service Reductions - $7.2 million
Work in this area focused on a variety of approaches that would result in the City no longer providing some services, considering alternative service delivery (eg. contracting out or using other models) or adjusting service levels. Reduction strategies include closure of under-performing facilities, reduction in turf maintenance, reduction of tanker crew and ladder crew for Fire Rescue Services and changes to services provided by 311.

Workforce Strategies - $10.8 million
The focus for this area examined the current organizational design for certain areas, assessed opportunities to provide the same service, both public facing and internal, in a different way or consolidating services into one business area.

Administration also looked at a variety of workforce strategies that could realize savings related to the current City of Edmonton workforce, including but not limited to:
- removal of vacant positions
- furlough days
- removal of merit increases for management and out of scope employees
- review and standardization of position classifications

Enacting this approach would result in a reduction to the number of employees and could have further impacts to service delivery and impacts to overall employee engagement and culture.

The items outlined in Attachment 4 are not included in the upcoming Fall 2019 Supplemental Operating Budget Adjustment.

The 2019-2022 Capital Budget
Similar to the Supplemental Operating Budget Adjustment, the Supplemental Capital Budget Adjustment provides Council with an opportunity to adjust the approved capital budget. Adjustments are considered in response to evolving project needs, new funding opportunities and challenges, emerging issues, changing priorities and economic realities.

<u>Understanding the impact of recent budget pressures</u>
The direct impacts of the provincial budget on the City of Edmonton's 2019-2022 Capital Budget are detailed in Attachment 5 and summarized in the high-level overview below.

Item	**Financial Pressure**

Municipal Sustainability Initiative (MSI) reduction	$57.5 million
MSI Replacement (New Local Government Fiscal Framework) reduction	$36.6 million
Sub-total of MSI and MSI replacement funding reductions	***$94.1 million***
Alberta Community Transit Fund (ACT) program elimination	$89.3 million
Total impact to 2019-2022 City of Edmonton Capital Budget	***$183.4 million***

Principles for addressing 2019-2022 capital funding reduction
As discussed with Council on November 5, 2019, Administration's approach to address the above budget pressures is similar to the following principles applied in previous supplemental capital adjustments:

- Maintaining the overall level of renewal program outcomes approved by City Council in the 2019-2022 Capital Budget.
- Using available corporate pool funding only for emerging items related to previously approved capital projects.
- Responsible use of debt-financing based on the City's Debt Management Fiscal Policy.

Administration's approach also takes into account the uncertainties regarding the impacts of future provincial budgets.

Strategies to address MSI and MSI-Replacement grant funding reduction ($94.1M)
Specific to MSI and MSI-Replacement funding, Administration has identified the following approach for addressing the capital funding reduction:

- Identify funding that can be released from projects close to completion.
- Identify existing growth or renewal projects where previously identified work is likely to be carried out in the 2023-2026 Capital Budget Cycle.
- Delay or cancel currently approved growth projects.

The following table summarizes the related strategies over the 2019-2022 capital budget cycle.

MSI and MSI-Replacement Grant Funding Reduction Strategy	**Relevant Attachment**	**Financial Impact**
Funding that can be released from projects close to completion	Attachment 6	$24.7 million
Interest income on unspent MSI	Further detail below	$4.6 million
Re-allocation from the corporate funding pool relates to available funding sources other than the Federal Gas Tax	Attachment 7	$10.8 million
Existing growth or renewal projects where previously identified work is	Further detail below	$27.5 million

likely to be carried out in the 2023-2026 Capital Budget Cycle		
Delay or cancel currently approved growth projects	Attachment 8	$26.5 million
Total strategies to address to 2019-2022 Capital Budget pressures		***$94.1 million***

Each of these strategies are described in additional detail below:

Funding Releases - $24.7 million (Attachment 6)
Following a review of profiles with projects that were complete or are forecasted to be complete at the end of 2019 and a review of updated project estimates, Administration has identified $24.7 million in funding that is no longer required. Some of these releases related to projects that were delivered ahead of schedule, at lower costs than originally anticipated or both.

Income Earned on MSI Grant Funds - $4.6 million
The MSI capital grant program guidelines encourage municipalities to invest and earn income on all unexpended grant funds. The amount of income earned on the funds becomes part of the total MSI capital funding available for eligible projects. For 2019, it is projected that the City will earn $4.6 million of interest on unexpended MSI grant funds. The dollar value of committed but unspent MSI is discussed further below.

Allocation from Corporate Funding Pool - $10.8 million (Attachment 7)
The corporate capital funding pool represents available funding (unallocated) held to address emergent capital items. The forecasted available funding balance prior to the 2019 Fall Supplemental Capital Budget Adjustment was $93.8 million. The adjustments recommended in Fall 2019 Supplemental Capital Budget Adjustment presented to Council on November 5, 2019 require $25.6 million of the available balance leaving $68.2 million in available funding.

Administration is proposing that $10.8 million in available funding be used to offset a portion of the MSI reduction, leaving a total of $57.1 million (unallocated one time Fuel Tax funding). Administration would recommend that this funding remain unallocated and available for future emerging items that arise over the remainder of the 2019-2022 Capital Budget Cycle.

Administration chose to use unallocated funding from the corporate pool of $10.8 million rather than release funding as a result of re-cash-flowing expenditures on the basis that already approved commitments would be honoured prior to any additional funding decisions being made.

Growth and Renewal Projects for Revised Cash Flows - $27.5 million

At the end of the 2015-2018 Capital Budget cycle, the City had $450 million in unspent corporate pool funding (MSI and Pay-As-You-Go) as a result of work carried forward from previous budget cycles. Based on historical spending averages, Administration projects that at the end of the 2019-2022 capital budget cycle this balance will be reduced to $345 million.

Based on a review of the 2019-2022 renewal budget, Administration identified $65 million in project expenditures that could be delivered within the next budget cycle. However, Administration is recommending $27.5 million in expenditures be re-cash flowed to the next budget cycle in an effort to meet the majority of the renewal commitments in the 2019-2022 budget cycle. The corresponding MSI and Pay-As-You-Go funding balances will be released from Capital Profiles CM-12-000 Facility: Service Delivery - Renewal ($16.8M) and CM-32-0000 Open Space: Parks - Renewal ($11.0M). Impacted renewal projects will be re-assessed in the next budget cycle with a goal to achieve the intended outcomes of the renewal program and limit the risk of asset deterioration.

After this adjustment, the projected unspent MSI and Pay-As-You-Go balance at the end of the cycle is expected to be $317 million. This funding is expected to be carried forward to the 2023 capital budget year at the end of the current cycle to fund work that was not completed in the 2019-2022 capital cycle.

Defer Currently Approved Growth Projects - $26.5 million (Attachment 8)

Administration reviewed the currently approved growth projects that were funded in the 2019-2022 capital budget. Based on this review, Administration is recommending deferral of $26.5 million in growth projects. The details by project and the rationale for the recommendation are documented in Attachment 8. These projects will be removed from the budget and placed on the unfunded list for future consideration.

The above adjustments will be reflected in the revised Supplementary Fall 2019 Capital Budget Adjustment.

<u>Strategies to address the removal of $89.3 million in ACT grant funding</u>

The projects funded with ACT in the approved 2019-2022 capital budget are as follows:

- CM-99-6060 - ACTF - Infrastructure Planning and Design
- CM-99-9001 - ACTF - Infrastructure Delivery
- 19-10-1011 - Stadium LRT Station Upgrade
- 19-22-9004 - Terwillegar Drive Expressway Upgrades Stage 1

- 19-22-9005 - Terwillegar Drive Expressway Upgrades Stage 2
- CM-61-3620 - Electric Buses - ACT Funded

The above capital profiles totaled $287.2 million, of which $89.3 million was funded with the ACT Grant, $195.1 million was funded with tax-supported debt, and $2.8 million was funded from Pay-As-You-Go.

At the November 5, 2019, City Council meeting, a motion was made for the civic debt capacity allocated to matching ACT-funded projects to be reprioritized within and beyond the ACT projects.

ACT projects have been re-scoped and estimates to deliver the work have been revised. After these revisions the total costs of all ACT projects excluding Electric Buses is $165.5 million. Reallocating the debt to these re-scoped projects would leave $32.4 million of the $195.1 million in debt originally contemplated for these ACT Projects. Details of the re-costing and the allocation of debt are included in Attachment 9.

Approved ACT projects included Electric Buses. Administration entered into an agreement for Electric Buses in April 2019 prior to the ACT program being eliminated and in advance of the borrowing bylaw which has not yet received third reading. As the *Municipal Government Act* does not allow projects to commence prior to the passing of a borrowing bylaw, Administration is using the Bus Fleet & Equipment Rehab & Replacement composite profile (CM-66-3600) to fund the Electric Bus order. In order to maintain the appropriate level of bus replacement, the remaining $32.4 million of debt identified for ACT projects could be used to further fund the Bus Fleet & Equipment Rehab & Replacement composite profile (CM-66-3600) and the profile would contain electric and diesel buses. The reallocation of ACT debt is not being included in the revised Supplementary Capital Budget Adjustment. If Council does not add the revised debt allocation contemplated in Attachment 9 to the Capital Budget then the purchase of Electric Buses will be absorbed into the composite profile and will result in a reduction of diesel bus purchases.

On November 5, 2019, City Council also requested that Administration rescope the combined Terwillegar Drive Expressway Upgrade Phase 1 (19-22-9004) and Phase 2 (19-22-9005) projects as follows:

a. to account for the elimination of the province’s specific requirements around the dedicated transit elements, while maintaining appropriate transit and alternate mode accommodation;
b. bring an analysis of the merits of keeping the phases combined or breaking it back into separate phases.

As it relates specifically to Terwillegar Drive Expressway Upgrade Stage 1 (19-22-9004) and Stage 2 (19-22-9005), the projects were reviewed and rescoped to account for the elimination of the province's specific technical project requirements around the dedicated transit elements, while maintaining appropriate transit and alternate mode accommodation. Should this project be funded, the recommendation is to proceed with a modified staging plan that would reallocate elements of Stage 1 (Terwillegar Drive widening south of Rabbit Hill Road) and accelerate elements of Stage 2 (Whitemud and Terwillegar interchange and Rainbow Valley Bridge widening) to address the most critical contributors of congestion over 2019-2022 and 2023-2026. The total budget of the alternative staging plan is $104 million. Additional information on this revised project scope will be provided to City Council for discussion on December 11.

Details of the re-scoped ACT projects and revised funding are included in Attachment 9.

Reconsideration of Debt Funded Projects
With the uncertainty of the potential pressures of future provincial budgets and given the current economic environment, Administration assessed the impact of large debt funded projects for which construction has not yet started and the impact that would have on the tax levy. Projects that are financed from debt impact both the operating budget and the capital budget.

Projects were selected and reviewed based on:
- their current phase in the gated project delivery process,
- the ability of the project to meet its program objectives based on its current budget and schedule,
- the use of tax supported debt as the predominant funding source.

Should Council wish to take steps to offset the impact of the economic environment or limit future tax increase, the following projects could be deferred or cancelled:

Lewis Farms Facility and Park
Design for the Lewis Farms Facility and Park is continuing to advance and is forecasted to be complete in early 2021. The project is currently progressing to checkpoint 4 where major capital expenditures would commence with construction activities currently planned to start in 2021 carrying through to the in-service date by the end of 2025.

The current capital budget for the project is estimated at $321.3 million. Of this amount, $296.7 million is funded with tax-supported debt, $21.1 million is from partnership funding, and $3.5 million is funded from Pay-as-You-Go. To date, $4.5 million of tax-supported debt has been borrowed on the project and will be repaid over 25 years and a further $3.8 million of project expenditures will be borrowed in 2020.

The estimated annual debt servicing associated with this project once complete is $18.5 million. Based on current projections, the anticipated tax increase, spread over 2020 - 2026, associated with debt servicing of the project is 0.93 percent, or an average annual tax increase of 0.13 percent over these seven years. If the project were deferred, this increase would be avoided, with the exception of the debt servicing costs on the amount borrowed to date.

Beginning in 2026, the estimated operating costs of the facility are $11.3 million annually, offset with revenues of $7.0 million for a net operating impact of $4.3 million annually, which represents a tax increase of 0.19 percent increase in 2026.

Coronation Recreation Centre

Design for the Coronation Recreation Centre is continuing to advance and is forecasted to be complete in early 2021. The project is currently progressing to checkpoint 4 where major capital expenditures would commence with construction activities currently planned to start in 2021 carrying through to the in-service date by mid to late 2024. Administration recommends that the project work be completed to checkpoint 4, at which time the project could be deferred.

The current capital budget for the project is estimated at $112.3 million. Of this amount, $107.3 million is funded with tax-supported debt, $4.0 million is from partnership funding and $1.0 million in funded from Pay-as-You-Go. To date, the City has not borrowed for this project.

The estimated annual debt servicing associated with this project once complete is $6.8 million. Based on current projections, the anticipated tax increase, spread over 2021 - 2026, associated with debt servicing of the project is 0.34 percent, or an average annual tax increase of 0.06 percent over these six years. If the project were deferred, this increase would be avoided.

Beginning in 2025, the estimated operating costs of the facility are $4.7 million annually, offset with revenues of $2.9 million for a net operating impact of $1.84 million annually, which represents a tax increase of 0.09 percent in 2025.

Co-located Dispatch and Emergency Operations Centre

This project was tendered and came in over-budget and was on the "emerging items list" of the Spring and Fall 2019 Supplemental Capital Budget Adjustment reports. An opportunity exists for the City of Edmonton and the Edmonton

Police Service to re-evaluate and determine the best way to meet these business needs in a constrained budget environment going forward.

To allow for this re-evaluation, Council could defer this project which would allow time to update the business case to confirm efficiencies before commiting capital funding. This approach is in alignment with the project development and delivery model.

The current capital budget for the project is estimated at $66.2 million. Of this amount, $62.8 million is funded with tax-supported debt and the remainder funded with Pay-as-You-Go. To date, the City has borrowed $5.4 million for the project.

The estimated annual debt servicing associated with this project once complete is $3.8 million. Based on current projections, the anticipated tax increase, spread over 2020 - 2024, associated with debt servicing of the project is 0.18 percent, or an average annual increase of 0.04 percent over these five years. If the project were deferred, this increase would be avoided.

Beginning in 2025, the estimated operating costs of the facility are $0.12 million annually, which represents an additional tax increase of 0.01 percent in 2025.

<u>Summary of revisions to the Fall 2019 Supplemental Capital Budget Adjustment</u>
When the revised Fall 2019 Supplementary Capital Budget Adjustment is released ahead of the December 11, 2019 deliberations, Council and the public will see the original recommendation from November 5, 2019 plus the following adjustments:

1. $94.1 million of strategies related to the MSI and MSI-replacement funding reductions
2. $89.3 million related to the cancellation of all previously approved ACT projects

The reallocation of ACT debt, re-scoping of the ACT profiles and the deferral/cancellation of the Lewis Farms Facility and Park, the Coronation Recreation Centre and the Co-located Emergency Dispatch and Operations Centre are for Council's consideration but will not be included in the revised Fall 2019 Supplemental Capital Budget Adjustment. Should Council wish to proceed with any of these items, Council will need to put forward a corresponding motion.

Next Steps
A non-statutory public hearing is scheduled for December 5, 2019 where members of the public will share their thoughts and perspectives on the Fall 2019 Supplemental Operating Budget Adjustment and the Fall 2019 Supplemental Capital Budget Adjustment, previously presented to City Council on November 5, 2019.

In order for the public hearing to be meaningful - with up-to-date information available to all interested parties - this report provided an overview of the capital and operating budget strategies Administration will recommend to mitigate the impacts of the provincial budget, options to achieve a zero percent tax increase in 2020 and information related to the related to the potential deferral of other debt financed projects.

As the public hearing proceeds, the operating strategies related to maintaining the 2.6 percent tax levy increase and the capital strategies discussed in this report will be consolidated into revised Fall 2019 Supplemental Operating Budget Adjustment and Fall 2019 Capital Budget Adjustment Reports, respectively. The revised reports will return to City Council for deliberations on December 11, 2019.

Corporate Outcomes and Performance Management

Corporate Outcome(s): The City of Edmonton has a resilient financial position.			
Outcome(s)	**Measure(s)**	**Result(s)**	**Target(s)**
The City of Edmonton has a resilient financial position.	Adjustments to the approved Operating Budget results in the same or lower approved tax increase.	N/A	2.6 percent (2020)

Attachments

1. Previous Council Actions
2. Summary of Provincial Budget Impacts & 0 percent Target - Operating Budget
3. Reduction Strategies to Maintain a 2.6 percent Tax Increase (2020-2022)
4. Reduction Strategies to Achieve a 0 percent Tax Increase (2020)
5. Summary of Provincial Budget Impacts - Capital Budget
6. Capital Projects with Released Funding
7. Funding Balances - 2019-2022 Capital Budget Cycle
8. Growth Capital Projects for Deferral
9. ACT Grant Funding Removal and Strategies to Mitigate

Others Reviewing this Report

- C. Owen, Deputy City Manager, Communications and Engagement
- G. Cebryk, Deputy City Manager, City Operations
- J. Meliefste, Acting Deputy City Manager, Integrated Infrastructure Services
- K. Armstrong, Deputy City Manager, Employee Services
- R. Smyth, Deputy City Manager, Citizen Services

- S. McCabe, Deputy City Manager, Urban Form and Corporate Strategic Development
- B. Andriachuk, City Solicitor