

# Fall 2019 Supplemental Operating Budget Adjustment

## 2019-2022 Operating Budget

### Recommendation

That adjustments to the 2020-2022 Operating Budget, as outlined in Attachment 2 of the December 5, 2019, Financial and Corporate Services report CR\_7483rev, be approved.

### Previous Council/Committee 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.

### Executive Summary

This Supplemental Operating Budget Adjustment report is part of the City Council approved multi-year budgeting approach to setting the 2019-2022 Operating Budget. This report provides Council with an opportunity to adjust the 2020-2022 Operating Budget in response to changes in external factors such as provincial or federal budgets and/or changes imposed by legislation; adjustments to reflect operating impacts related to the implementation and completion of capital projects; unforeseen changes to economic forecasts affecting costs, service demand volumes, or revenue projections; or Council-directed changes to priorities, policies and programs.

The tax increases for tax-supported operations were initially approved by Council in 2018 at 2.6 percent for each year over the period of 2019-2022. For 2020 this included 1.0 percent for the Edmonton Police Service (EPS), 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 offset by a reduction of 0.3 percent to deliver ongoing City programs and services.

The recommendations in this report have now been updated to respond to the impacts of the recently-released provincial budget and an emerging item related to Community

Recreation Facilities revenue. The City of Edmonton and Edmonton Police Service (EPS) have identified strategies to mitigate these combined pressures and maintain the previously approved tax increase of 2.6 percent for 2019, 2020 and 2021. Should the recommendations in this report (presented as Attachment 2) be accepted, the tax increase for 2019, 2020, 2021 will be maintained at 2.6 percent.

### **Report**

#### **Economic Outlook**

Since 2018, economic growth projections for Edmonton have been scaled back. As a result of past budget decisions made by Council and informed by Administration, the City is well positioned to operate in a slow growth economic environment, with the growth in real gross domestic product (GDP) forecast at 0.5 percent for 2019 and 1.4 percent for 2020. Real GDP growth is forecast to return to the 2 percent range in 2021 and beyond. The scaled back 2019 forecast is largely attributed to a sharper than expected slowdown in construction activity as well as employment losses in the Edmonton Region since the start of 2019. A sluggish energy sector is also holding back growth expectations: fixed capital investments in Alberta's oil and gas sector have declined again in 2019, and ongoing pipeline constraints are further hindering investments.

From a budgetary perspective there is some downside risk to the City's permit revenues over the coming years as construction building activity is anticipated to slow across Edmonton. This in turn could also present downside risk to the growth in incremental tax revenues from real assessment uplifts. Nonetheless, through ongoing commitment to fiscal prudence, the City has been able to maintain the vast majority of services and meet its existing financial commitments to growth in the recommended budget adjustments to maintain the previously-approved tax increase of 2.6 percent for each year over the period of 2020 to 2022.

#### **Recommended 2020 Operating Budget Adjustments**

The 2019-2022 Operating Budget incorporated ongoing savings identified through greater efficiencies, process improvement, technological innovation and prioritization of services. The 2020 budget included \$14.8 million in recoverable savings to achieve the 2.6 percent tax increase.

As part of the original 2019 Fall Supplementary Operating Budget Adjustment Process (presented to City Council on November 5, 2019), Administration identified cost pressures that required funding. As well, Administration worked diligently to identify cost savings that would reduce the impact of these pressures. As emergent items were identified, Administration worked internally to manage the cost pressures within the existing budget where possible, offset the increases with other savings identified, and

utilize the budget set aside for emergent items in 2020 to maintain the 2.6 percent approved tax increase.

During the 2019 Spring Supplemental Operating Budget Adjustment, Council approved several service packages on a one-time basis with funding from the Financial Stabilization Reserve and that funding is to be returned to the Financial Stabilization Reserve over the remaining budget cycle. As well, ongoing funding has been included for the Valley Line LRT West of \$3.0 million on an on-going basis, Exhibition Lands of \$1.1 million in 2020, Animal Protection Act of \$0.2 million, and one time funding for Alberta Avenue and Jasper Place Revitalization Resource Continuation of \$0.3 million in 2020. These amounts have been funded within the approved 2.6 percent tax increase.

**Provincial Budget Impact & Emerging Items**

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 summarized 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 enforcement revenue	Decrease in revenue from fines and penalties as the province increases its share of the automated enforcement fines and penalties	Traffic Safety Reserve	\$7.0 million in automated enforcement in 2020, with an additional \$2.0 million in 2021 (\$9 million on an ongoing basis starting in 2021)
<i>Total impact on the 2020 Operating Budget</i>			<b>\$26.0 million</b>

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 now 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. As a result of continued

pressure on the Development Services Reserve, 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.

As identified in the December 5, 2019 report to Council, CR\_7747 - Options to Further Reduce 2020 Operating Budget, the provincial budget impacts and the internal pressures have been assessed and strategies to mitigate the impact on the tax increase have been incorporated into the 2019 Fall Supplemental Operating Budget Adjustment and results in maintaining the previous approved tax increase of 2.6 percent.

### 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 4 to this report. These reduction strategies are incorporated in recommended adjustments in Attachment 2.

### **Summary of Recommendations**

The recommended adjustments in Attachment 2 relate to one of four categories that align with the Multi-year Budgeting Policy (C578) approved by City Council on September 10, 2014. The four categories include changes to: economic forecasts, external factors, operating impacts of capital, or Council directed. Attachment 2 also includes administrative adjustments that do not impact the overall tax levy; however, do require Council approval.

### Changes to Economic Forecasts

It is recommended that the following changes to economic forecasts be adjusted as follows:

#### ***Corporate Expenditures and Revenues:***

- Decrease of \$7.4 million expenditures for debt servicing requirements in 2020 partially offset with a revenue decrease of \$1.9 million,
- Increase of \$1.8 million in revenue partially offset with an increase of \$0.3 million in expenditures for taxation appeals and penalties,
- Decrease of \$1.1 million in revenue as the Provincial funding was received a year earlier,
- Decrease of \$0.2 million in transfer to the Revolving Industrial Servicing Fund Reserve expenditures due to delays and cancellations of some developer rebates,
- Decrease of \$2.6 million in revenue for gas, power and water franchise fees,
- Decrease of \$1.5 million in revenue to align Tag & Fine revenues with current trends and expected results,

- Decrease of \$0.3 million in revenue for lower forecasted business licencing revenues,
- Decrease of \$0.3 million in the Ed Tel Dividend offset with a decreased transfer to capital.

### ***Development Services:***

- Decrease of \$15.2 million in external revenue offset with a \$4.6 million decrease in expenses as a result of cost savings resulting in a decreased transfer to the reserve of \$10.6 million. This update is to reflect the reduction in permitting revenues from the original forecast due to the economic slowdown.

### ***Community Recreation Facilities:***

- Decrease of \$2.5 million in revenue to reflect the revenue pressures at City's recreation facilities.

### **External Factors/Changes to Legislation**

It is recommended that the following be adjusted as follows:

- Increase of \$0.5 million in expenditures for Community and Recreation Facilities to cover the additional costs of converting contract staff to out-of-scope City positions to align with the Program Specialist classification, and for an increase in use of both stadiums by various sports groups;
- Increase of \$0.6 million in expenditures for Open City and Technology for the ongoing costs related to the Data Centre move to a new location that was required earlier this year.
- Increase of \$0.9 million in expenditures for Fleet and Facility Services is required to fulfill the obligations of the Living Wage Policy (C612) for facility maintenance services contracts.
- Reduction of Grants in Lieu of taxes of \$14 million as a result of changes in the provincial budget offset with various reduction strategies as detailed in Attachment 4.
- Decrease in EPS fine revenues of \$2.7 million an increase in EPS biological case work expenditures of \$2.5 million, offset with EPS expenditure reduction strategies.
- Decrease in automated enforcement revenues of \$7.0 million, offset by a decreased transfer to the Traffic Safety and Automated Enforcement Revenue Reserve (TSAER).

### **Adjustments to Operating Impacts of Capital**

It is recommended that the following items related to Operating Impacts of Capital be adjusted as follows:

- Increase of \$0.3 million in expenditures for Talent Acquisition, Service & Solutions for the Visier People Learning Module - an additional learning module

that will enable the City to leverage existing Visier functionality, data and security models;

- Increase of \$0.2 million in expenditures for Open City & Technology to move to Next Generation 9-1-1 (NG911) IP Call Handling for all of Canada by 2023.

### Council Directed

It is recommended that the following items related to previous Council decisions be adjusted as follows:

- Increase of \$3.0 million in expenditures for Valley Line LRT West
- Ongoing funding is required for the following service packages that were approved during the Spring 2019 Supplemental Operating Budget Adjustment:
  - Increase of \$1.1 million in expenditures partially offset with an increase of \$0.05 million in revenue for the Exhibition Lands Interim Operations,
  - Increase of \$0.3 million in expenditures one-time to fully fund Alberta Avenue and Jasper Place Revitalization and Resource Continuation in 2020,
  - Increase of \$0.25 million in expenditures partially offset with an increase of \$0.1 million in revenue for the Animal Protection Act Enforcement,
- Increase of \$0.08 million in expenditures for the Edmonton Metropolitan Region Board - Membership increase.

### Administrative Adjustments Requiring Council Approval

There are several administrative budget adjustments that require Council approval. Although these adjustments impact gross revenues and expenditure amounts, they will not impact the balance of the overall tax levy.

Further detail on all of the recommended operating budget adjustments mentioned above can be found in Attachment 2. All of the recommended adjustments result in maintaining the approved tax rate increase of 2.6 percent for 2020-2022.

### **Service Packages**

Attachment 3 includes the unfunded service packages that were not debated during the 2019-2022 budget deliberations or during the discussion in the Spring. Also, Administration made a commitment to Council at the July 2, 2019 City Council Meeting to apply a prioritization lens to the unfunded service package list (based on the Priority Based Budgeting Report presented to Council that day). As a first step in providing a prioritization lens to the unfunded service package list, Administration applied a high-level “operational criteria” scoring methodology to each of the unfunded service packages, as well as identified the primary service or program that each service package relates to.



The Operational Criteria scored included Mandate, Safety Risk, Corporate Operational Risk, Operational Efficiency, Sustainability, and Financial Benefit. The end result of this work is the unfunded service package list included in Attachment 3 being sorted into High, Medium and Low priority categories.

The attachment includes:

- Summaries and one page descriptions of the outstanding unfunded service packages in priority order of high, medium, low for the Civic Departments;
- Summary of service packages that have been withdrawn or deferred;
- Summary of the service packages that were previously approved during the 2019-2022 budget deliberations or during the Spring.

### Public Engagement

Specific public engagement was not completed to inform this Supplemental Operating Budget Adjustment. As part of the 2019-2022 Operating and Capital Budgets development and approval process, education and engagement opportunities included event and festival outreach, a My Budget survey and a non-statutory public hearing. There will be an opportunity for the public to provide feedback on the Supplemental Operating Budget Adjustment at the Non-statutory Public Hearing on December 5, 2019.

### Budget/Financial Implications

With the approval of the recommendations including the adjustments in Attachment 2, the average percentage increase of the municipal residential property tax will remain at the Council approved 2.6 percent for 2020-2022.

Approval of the adjustments will result in the operating budget for tax-supported operations having revenues and expenditures of \$3,017,268,000 in 2020, \$3,124,918,000 in 2021 and \$3,215,919,000 in 2022.

### Corporate Outcomes and Performance Management

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



**Attachments**

1. Previous Related Council Budget Motions
2. 2020-2022 Operating Budget Changes
3. Fall 2019 Supplementary Operating Budget Adjustment
4. Reduction Strategies to Maintain 2.6% Tax Increase

**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