

COVID-19 Financial Impacts and Funding Strategy - Update

Recommendation

That the July 6, 2020, Financial and Corporate Services report CR_8365, be received for information.

Previous Council/Committee Action

At the May 25-27, 2020, City Council meeting, the following motion was passed:

That Administration:

1. bring an updated operating and capital budget analysis to include low and high-impact scenarios out to the end of 2020 and 2021 to give multi-year context for budget shortfalls arising from COVID19.
2. analyze the balance of the 2019-2022 Capital Budget and bring forward prioritized infrastructure cutback scenarios to tax-funded discretionary (pay-as-you-go) and debt-supported projects to transfer to offset ongoing operating budget shortfalls
3. apply the following principles to Part 2 above: that
 - a. cuts be prioritized based on growth before renewal and minimizing risk to critical assets like bridges,
 - b. the corresponding infrastructure deficit is in cosmetic or lower-risk areas where possible,
 - c. facility closures be considered, and
 - d. the leverage of discretionary dollars against time and provincial or federal grants be maintained where possible.
4. that the prioritized budgeting process be advanced to provide a prioritized list of programs and services simultaneous with the above.

Executive Summary

This report is in response to part 1 of the motion made at the May 25-27 City Council meeting for Administration to bring an updated operating budget analysis to include low and high-impact scenarios out to the end of 2020 and 2021 to give multi-year context for budget shortfalls arising from COVID-19. The capital budget analysis,

including prioritized infrastructure cutback scenarios to tax-funded discretionary and debt-supported projects in order to reduce ongoing operating budget shortfalls will be brought back for Council's consideration with the supplementary budget adjustment reports in the fall.

The report provides the following:

- May 31, 2020 Operating Financial update with year-to-date and projected year-end operating financial results, including revised projected financial impacts of COVID-19 on the City's 2020 operating budget (Attachment 1);
- Longer-term financial impacts of COVID-19 on City operations are also provided, along with an assessment of the best, worst, and probable scenarios (Attachment 2);
- An updated impact of COVID-19 on the City's cash flow (Attachment 3),
- An overview of the impact of the COVID-19 pandemic on assessment and taxation (Attachment 4); and
- An overview of the City's response to the COVID-19 pandemic as well as an update on the relaunch of certain services (Attachment 5).

The 2020-2022 approved operating budget is available at edmonton.ca/budget. The 2020 approved operating budget as of May 31, 2020, including one time adjustments responding to the impacts outlined in the April 27, 2020, City Council report, CR_8228 COVID-19 Financial Impacts and Funding Strategy, are reflected in the supplemental information included in Attachment 1.

Report

Overall Approach to COVID-19

Administration has developed a four-stage model for the City's approach to the COVID-19 pandemic that has been shared previously with the Emergency Advisory Committee and Council. The stages reinforce Administration's obligation to help define and shape the future of Edmonton. The four stages are respond, relaunch, recover, and reimagine. Each is briefly discussed below.

- **RESPOND:** The immediate response to the pandemic, that prioritizes public health over all other considerations. It included closure of facilities, measures taken to keep Edmontonians safe, and 2020 budget decisions to manage the financial impacts of the pandemic response.
- **RELAUNCH:** The intentional act of reopening what was closed and activating what was paused. This report includes revised financial forecasts based on the relaunch decisions made to date.
- **RECOVER:** A reassessment of business systems, assumptions and rules. This is the establishment of services when considering the potential health and economic expectations in the midterm.

- REIMAGINE: This crisis has been a shock that will cause deep shifts in preferences and expectations for how we work, consume, learn and interact with one another. Taking a long term view of how the crisis has impacted the assumptions and expectations. The REIMAGINE stage will support informed decision making and responsible action to ensure the long term resilience of the organization. CR_8379 Reimagine - Strategic Response to COVID-19, also provided at the July 6, 2020 City Council meeting, details the City's approach to this stage.

Administration continues to work with other municipalities, orders of government and organizations, such as the Federation of Canadian Municipalities, about operational and financial strategies to best address the impact of the pandemic response. Administration's actions during the response and relaunch phases are intended to balance economic and social needs with public health needs during the pandemic. The City's approach must align with any public health directives from other orders of government.

Operating Financial Update - May 31, 2020

Typically, Administration provides regular operating and capital financial updates to City Council as of June 30, September 30 and December 31. The COVID-19 pandemic has affected the City of Edmonton's finances, increasing the need for timely financial information.

The May 31, 2020, operating financial update is included as Attachment 1. The operating financial update reports the year-to-date financial results and the projected year-end results against the approved 2020 budget adjusted for impacts and the response to COVID-19 as approved by City Council on April 27, 2020. Therefore, projected year-end budget variances in this attachment reflect changes from the adjusted budget for regular operations as well as additional impacts of COVID.

The projections are based on the May 31, 2020 year-to-date results and other available information, and include updated estimates for the probable budget impact of the pandemic considering recent relaunch decisions as well as updates to the initial assumptions.

Tax-supported operations are projecting a net unfavourable year-end budget variance of \$(16.9) million or (1.0 percent) of the overall tax-supported budget. This includes a further \$(20.2) million unfavourable budget impact specific to COVID-19 in addition to the budget impacts previously adjusted for on April 27, 2020, based on the original COVID-19 forecasts. Attachment 1 details by branch the 2020 approved budget (before the pandemic), adjustments made for the impacts of COVID-19 on April 27, 2020, and the resulting adjusted budget.

COVID-19 2020-2021 Long Term Forecasts

Attachment 2 provides the forecasted longer term impact of COVID-19 on the 2020 and 2021 pre-COVID operating budgets. This allows for an understanding of the full impacts of COVID-19 on the City’s normal on-going budget. The forecasts are provided under using the best case, probable and worst case scenarios as explained below. The attachment also provides the original forecasts provided to Council on April 27, 2020.

Forecast Scenarios and Assumptions

To develop forecasts for the impact of COVID-19 on the City’s operating budget, Administration used the following scenarios in the original forecasts provided to Council in the spring and the revised forecasts in this report. The forecasts are based on the most recent health guidance and decisions made to date related to the City’s phased relaunch.

Scenario	Original Forecasts (April 27)	Revised Forecasts (July 6)
Best Case	Response in place until June	Most optimistic respond, relaunch, recovery estimates (vary by area)
Probable	Response in place until mid-September	Phased relaunch starting for certain key services in summer
Worst Case	Shutdown extended to December 31	Least optimistic respond, relaunch, recovery estimates (vary by area)

Changes in any of the assumptions in these revised forecasts would affect the estimates in this report. As the pandemic continues, Administration will revise financial forecasts and adjust potential funding strategies to address the impacts of COVID-19. This iterative process intends to provide the best available financial information for decision making purposes.

COVID-19 Impact - Corporate Revenues and COVID Costs

The following table provides the revised forecast for corporate revenue reductions and additional COVID costs, as well as the previous forecast presented to Council in spring, prior to any expense management strategies and expense reductions.

COVID-19 2020 Budget Impacts - Corporate Revenue Reductions and Additional COVID Costs - (Excludes Expense Reductions)

(Forecasts reflect variances from the 2020 approved operating budget prior to adjustments for COVID on April 27, 2020)

(\$ millions)	2020		2021
	Budget Impact (Scenarios as presented April 27)*	Budget Impact Revised (Probable)	Budget Impact Revised (Probable)
Best Case	\$ (93.5)	\$ (150.7)	\$ (53.9)
Probable Case	\$ (163.7)	\$ (171.9)	\$ (114.2)
Worst Case	\$ (252.3)	\$ (201.3)	\$ (158.9)

*as reported at the April 27, 2020 City council meeting

In the spring, the corporate revenue reduction and additional COVID cost forecasts reflected a range of scenarios from a reduction of \$93.5 million (response to the end of June) to \$252.3 million (extended shutdown until December 31). The revised forecasts reflect a range of \$150.7 million to \$201.3 million considering a phased relaunch of some services starting earlier than expected in the summer and over the remainder of the year. The revised best case scenario reflects a more negative budget impact as it assumes a phased relaunch over the summer, in comparison to a full return to normal after June as assumed in the original forecast. The revised worst case scenarios shows less of a budget impact as the original forecast assumed an extended shutdown in response to the pandemic until December 31, 2020, whereas the revised forecasts assume a phased relaunch of services starting over the summer months. The probable case reflects revisions to various assumptions resulting in more revenue reductions and increased costs of COVID.

The 2021 forecast reflects a range of revenue reductions compared to the approved 2021 budget of \$53.9 million to \$158.9 million. These are largely due to reduced transit revenues, community recreation facility program and admission revenues, and less than budgeted property taxes due to reduced assessment growth.

COVID-19 Impact - Tax-Supported Operations

The following table provides the net impact on the operating budget of revenue reductions and expense reductions for tax-supported operations.

COVID-19 Revised Budget Impacts - Tax Supported Operations (Revenue and Expense Impacts)
(Forecasts reflect variances from the 2020 approved operating budget prior to adjustments for COVID on April 27, 2020)

(\$millions)						
Year	2020				2021	
Scenario	Budget Impact- April 27 (Mid-September Scenario)*	Tax Increase Equivalent	Budget Impact Revised (Probable)**	Tax Increase Equivalent	Budget Impact (Probable)	Tax Increase Equivalent
Revenue reductions	\$(127.5)	7.6%	\$(133.5)	8.0%	\$(92.2)	5.3%
Expense reductions (net)	\$(81.0)	(4.8)%	\$(66.8)	(4.0)%	\$(7.0)	(0.4)%
COVID-19 Funding Shortfall before capital reduction	\$46.5	2.8%	\$66.7	4.0%	\$85.2	4.9%
Reduced transfer to capital	\$(46.5)	(2.8)%	\$(46.5)	(2.8)%	-	-
COVID- 19 Funding Shortfall	-	-	\$20.2	1.2%	\$85.2	4.9%
Approved Tax Increase					\$55.4	3.2%
Reduction to Achieve 0% Tax Increase in 2021					\$(140.6)	(8.1)%

*as reported at the April 27, 2020 City council meeting

** Based on current information available and a phased relaunch of certain services starting in summer. The additional COVID-19 funding shortfall (unfavourable budget variance) is reflected within the May 31, 2020 Operating Financial Update (Attachment 1)

2020 Revised Probable Forecast

For 2020, the probable impact of COVID-19 reflects a reduction in tax-supported operating revenue of \$133.5 million. Net expense reductions, including expense management strategies, and additional COVID costs are forecasted to be \$66.8 million. The resulting net operating impact of COVID-19 is a funding shortfall of \$66.7 million (before the reduced transfer to capital). This is equivalent to a 4.0 percent tax increase. After factoring in the previously approved reduced transfer to capital of \$46.5 million, an additional budget shortfall of \$20.2 million is expected for 2020.

With the exception of gas franchise fees, which have not experienced the reduction anticipated, revenue reductions in 2020 are greater than anticipated when compared to the original forecast for the following reasons:

- While recreation facilities, originally anticipated to be closed until mid-September, are reopening earlier, current health guidance requires a reduction in facility capacity.
- Ridership and fare revenue in Edmonton Transit Service is expected to experience slower return to normal than originally contemplated.
- Tag and fine revenues are lower than expected, mainly due to reduced parking enforcement and other activities enforced through bylaws.
- City leases and rentals are lower as a result of expected defaults and rent forgiveness.

Expense reductions in 2020 are less than anticipated when compared to the original forecast as a result of:

- lower than expected savings resulting from timing of temporary layoffs;
- increased materials and utility costs (earlier facility re-opening);
- enhanced cleaning costs on buses, LRT cars, stations, transit centres and DATS;
- services being relaunched earlier than mid-September due to recent health guidance;
- reduced expenditure recoveries for detour work; and
- additional COVID-19 response costs across the corporation.

There were greater cost reductions from temporary layoffs due to changes in calculation of wage top ups as employees were placed on the federal government's Canada Emergency Response Benefit (CERB) rather than Employment Insurance.

2021 Probable Scenario

For 2021, the range of the expected budget shortfall is \$37.8 million to \$120.2 million, with the probable scenario reflecting a COVID-19 funding shortfall of \$85.2 million as reflected in the table above. To put this in perspective, to address this shortfall through the tax levy, it would result in a tax increase of 4.9 percent over and above the planned 3.2 percent in 2021. To hold the tax levy at 2020, levels would require the Corporation to find savings of \$140.6 million, equivalent to an 8.1 percent tax increase reduction.

The 2021 revenue reductions are largely due to lower than budgeted revenues for recreation facility and transit revenues, and less than expected assessment growth. 2021 growth is based on activity in 2020, which has been negatively impacted both by falling oil prices and COVID-19. A decline in construction projects and completions will result in lower supplementary taxes and ultimately lower assessment growth in 2021. There are also forecasted reductions in tag and fine revenues due to less parking fine

and other ticketing revenue, as a result of less activity across the City, and less than budgeted parking and other revenues within Parks and Roads branch services.

Overall expenses are expected to be lower than budgeted as a result of COVID-19 in 2021. Recreation facilities operating costs are expected to be lower due to the phased re-opening of facilities. This is partially offset by enhanced cleaning costs on buses, LRT cars, stations, transit centres and DATS, increased losses from tax appeals, and reduced expenditure recoveries for detour work. The economic impact of COVID-19 pandemic will affect properties' assessed value and will present an unprecedented challenge of establishing a credible valuation in a highly volatile market. This is expected to increase the volume of assessment complaints potentially leading to greater assessment complaint losses. The impacts on supplementary taxes, property assessment growth and tax appeals are discussed further below in the Impact of COVID-19 on Assessment section of the report.

Attachment 2 Table 1 provides the impacts of COVID-19 on tax levy operations.

Non-Tax Supported Operations

Attachment 2 Table 2 provides the impacts of COVID-19 on non-tax levy operations, including:

- Development Services (non-tax-supported portion);
- Vehicle for Hire;
- Investment earnings, and
- Waste Management Services.

Attachment 2 includes two main tables. Table 1 provides COVID-19 budget impacts for tax-supported operations and Table 2 provides the impacts for non tax-supported operations. Each table is broken into different sections which are explained in the cover to Attachment 2.

Attachment 2 reflects only the budget impacts of COVID-19 on the operating budget. The 2020 revised and original forecasts show variances from the pre-COVID 2020 operating budget (before the one-time adjustments made through the COVID-specific budget adjustments on April 27, 2020), in order to outline the full impact of COVID-19 on the operating budget. For 2021 forecast amounts reflect the expected variance from the operating budget specifically due to COVID. Forecast for 2022 would be difficult to provide with any accuracy at this time and therefore have not been included in the revised forecasts.

Strategy to Address COVID-19 Financial Impacts

As previously discussed with City Council, the financial impacts of COVID-19 will be offset using the following strategies in order of preference:

1. Expense management
2. Redirection of capital funding to operating
3. Transfer from Financial Stabilization Reserve
4. Repurposing of the emergent items operating budget

Should financial support be provided by other orders of government, it will be used first to address shortfalls.

Another revision to COVID-19 financial forecasts for 2020 and 2021 will be provided to City Council in the fall.

Administration proposes to address the additional financial impact of COVID-19 on the 2020 operating budget through a transfer from the Financial Stabilization Reserve or further reductions to capital after the completion of the year-end financial reporting process, when actual year-end results and the impacts of COVID-19 are known and final. Preliminary year-end financial results are provided to City Council in the first quarter of 2021 and a final recommendation to offset the impacts of COVID-19 on the City's 2020 operating budget can be made at that time. Administration does not recommend adjusting 2020 budgets further at this time in response to the financial impacts of the pandemic. Spending will be managed across the corporation to limit the overall unfavourable impact of COVID-19 on the City's 2020 operating budget.

Longer term effects of COVID-19 on the City's 2021 operating budget can be addressed through the fall 2020 supplementary operating and capital budget adjustment processes. To assist with this, Administration is working to advance elements of the priority-based budget process. The capital budget will be prioritized based on the motion made at the May 25-27, 2020, City Council meeting, to identify operating savings through capital reductions in:

- Tax-funded discretionary spending, including pay-as-you-go and tax-supported debt projects
- Growth before renewal
- Non-critical infrastructure assets (cosmetic in nature)
- Consideration of facility closures
- Projects not impacting the City's ability to leverage provincial and federal grants

Administration is committed to manage the longer term impacts of COVID-19 without impacting the already approved tax increases.

The City continues to have discussions with other orders of government in an effort to obtain financial support to ease the impacts of COVID-19. At the time of writing, no financial support for the City of Edmonton had been announced.

COVID-19 Cash Flow Impacts

Given the ongoing impacts of COVID-19, on April 27, 2020, City Council approved the delay of property and Business Improvement Area tax penalties until September 1, 2020. Edmonton's property tax collection rate has historically been high - with 95 to 98 percent of the levy received by December 31. The COVID-19 impact on business and household finances is of sufficient magnitude that the City should expect difficulty and delay in property tax collection that will ultimately impact the City's cash positions. Attachment 3 provides an analysis of the City's cash position and the impact of the delay in tax collection.

The Impact of COVID-19 on Assessment

The impact of the COVID-19 pandemic on the economy is also expected to affect the assessed value and will present an unprecedented challenge of establishing a credible valuation in a highly volatile market. This is expected to increase assessment complaints potentially leading to greater assessment complaint losses. A decline in construction projects and completions will result in lower supplementary taxes and ultimately lower assessment growth in 2021.

Volatility in the assessment base can also result in changes in tax distribution, resulting in certain inventories experiencing higher tax increases.

Further detail on the potential implications to assessment is included as Attachment 4.

Overview of Response and Relaunch Activities

Early in the pandemic the City of Edmonton made decisions to close, cancel, reduce or pause programs and services. Most of these decisions were made for one of the following three reasons:

- Public Safety and Health Guidance: the closure of facilities including recreation centres, city attractions, libraries, playgrounds, sports courts and fields, outdoor amenities, city events and summer recreational programs.
- Reduction in service in response to lower demand: reductions in certain services such as transit in response to lower ridership.

- Reductions in service to mitigate financial challenges: reductions in service, primarily internally-focused prioritization of projects, to reduce expenditures as part of the City’s expense reduction strategy.

Decisions on the closure of services were reviewed by the City’s COVID Task Team, endorsed by the Executive Leadership Team and communicated to City Council at Emergency Advisory Committee.

As the City moves through the relaunch phase, the following questions will drive relaunch decisions:

- Is it possible to relaunch a program/ service venue while still complying with provincial health orders?
- Is it financially viable to relaunch a program/ service/ venue given new economic realities?
- Can the program/service/venue be dialed back or closed if there is a change in health conditions in Edmonton?
- Are partners who play a role in operating the program/ service/ venue in a position to support relaunch?

Attachment 5 provides the status of services as at the date of writing.

Public Engagement

Public engagement was not conducted for this report. The financial impacts of the COVID-19 pandemic are due to time-sensitive decisions required of Administration, City Council and its Emergency Advisory Committee.

Resident input helped shape the 2019-2022 capital and operating budgets. The public will also have the opportunity to address City Council directly during non-statutory Public Hearings in fall 2020 before consideration of budget adjustments for 2021.

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 increases.	No tax increase required to fund COVID-19 financial impacts from 2020-2022. (2022 impacts not assessed in this report)	1.3% (2020) 3.2% (2021) 2.4% (2022)

Attachments

1. [Operating Financial Update - May 31, 2020](#)
2. [COVID-19 Long-Term Budget Impacts - Forecasts 2020-2021](#)
3. [COVID-19 Cash Flow Impacts](#)
4. [COVID-19 Impact on Assessments](#)
5. [COVID-19 Overview of Response and Relaunch Activities](#)

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