

Fall 2020 Supplemental Operating Budget Adjustment

2019-2022 Operating Budget

Recommendation

1. That adjustments to the 2021-2022 Operating Budget, as outlined in Attachment 2 of the November 16, 2020, Financial and Corporate Services Report FCS00078, be approved.
2. That Attachment 4 of the November 16, 2020, Financial and Corporate Services report FCS00078 remain private pursuant to section 24 (advice from officials) of the *Freedom of Information and Protection of Privacy Act*.

Previous Council/Committee Action

At the November 16/18/20, 2020, City Council meeting, the following motion has passed:

That the November 16, 2020, Financial and Corporate Services report FCS00078 and the November 16, 2020, Urban Form and Corporate Strategic Development report CR_8335 be referred to the December 3, 2020, City Council Non-Statutory Public Hearing - Fall 2020 Supplemental Budget Adjustment meeting.

Please refer to Attachment 1. Each previous action is addressed within this report.

Executive Summary

The Supplemental Operating Budget Adjustment (SOBA) 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 2021-2022 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 initially approved by Council in 2018 were 2.6 percent for each year over the period of 2019-2022. During the Spring 2020 SOBA, Council approved tax increases of 3.2 percent for 2021 and 2.4 percent for 2022. The recommendations in this report reflect ongoing budget adjustments to achieve a zero percent tax increase in 2021 and a 1.6 percent tax increase for 2022. Administration will revisit the 2022 tax increase during 2021.

The recommended tax increase of zero percent for 2021 includes a decrease of 0.5 percent for civic departments from the 2020 base budget, a decrease of 1.0 percent as a result of lower than expected assessment growth, an increase of 0.6 percent for Edmonton Police Services, an increase of 0.6 percent for the Valley Line LRT (0.3 percent for Valley Line Southeast and 0.3 percent for Valley Line West and Metro), and an increase of 0.3 percent for Alley Renewal.

This report is specific to ongoing budget reductions strategies impacting the 2021 and 2022 operating budgets. Consistent with the approach previously discussed with City Council, the 2021 budget impacts of the COVID-19 pandemic are being treated as one-time, and will be addressed with one-time budget strategies discussed separately in report FCS00181 COVID-19 2021 Financial Impacts and Funding Strategy being presented to City Council on December 7, 2020.

This report also addresses the May 25, 2020 City Council motion requesting advancement of the prioritized budgeting process. Administration completed a limited scope priority based budget assessment which was used to inform the ongoing budget reductions within this report. This report includes the results of this assessment and a prioritized list of operating programs and services within Attachment 3.

Report

Economic Outlook

Edmonton's economy is expected to experience a sharp contraction of 6.4 percent in 2020 as a result of the COVID-19 pandemic and measures to contain the spread of the virus. Since measures began to ease in the summer, economic indicators such as employment have shown signs of recovering. However, recovery is expected to be inconsistent and long, with an expected return to pre-COVID levels of output by 2022. Over the medium term, growth projections for real gross domestic product (GDP) are in the range of 3.1 percent annually between 2021 and 2024.

Prior to the COVID-19 pandemic, Edmonton was still recovering from the 2015-2016 recession with estimated real GDP per capita in 2019 around nine percent lower than what was estimated in 2014. Fall 2019 economic growth projections for Edmonton over the medium term were also expected to be moderate compared to pre-2014

rates, adding pressure on governments to exercise fiscal restraint in light of slower economic growth.

The future effects of the virus remain unknown, which means continued uncertainty for households and businesses alike. This uncertainty tilts risks to the downside for Edmonton's economic recovery and for the City's revenue sources.

2021 Operating Budget Approach

The City must address the on-going budget in a manner that respects the taxpayer and takes into account the challenging economic environment. This year adds the unique challenge of budgeting for the City of Edmonton as it navigates through a global pandemic. Administration will use different strategies to address the ongoing budget adjustments affecting the tax levy funding and the one-time adjustments required to offset the anticipated impact of the COVID-19 pandemic.

This supplemental operating budget report focuses on the ongoing adjustments and is the foundation for the 2021 tax levy requirement.

COVID-19 2021 Financial Impacts and Funding Strategy (One-Time Budget Impacts)

Administration will manage the impacts of the COVID-19 pandemic on the 2021 budget through a one-time budget adjustment that accounts for the impacts with an offsetting funding strategy. The budget adjustment will be a one-time balanced adjustment with no impact on the 2021 tax levy and will be presented to City Council through report FCS00181 COVID-19 2021 Financial Impacts and Funding Strategy on December 7, 2020. The budget impacts of COVID-19 will be treated as one-time until it is determined that the effects of COVID-19 are permanent, or that one-time funding strategies are no longer viable or realistic. This approach helps limit the impact to residents by utilizing all available options for funding, including the prudent use of federal and provincial funding, reasonable expense management, and the redirection of capital funding back to the operating budget on a one-time basis. Currently, the only budget impact of COVID-19 managed through ongoing budget strategies is a decrease in property assessment growth, which is discussed later in the report.

2021 Proposed Operating Budget Adjustments (Ongoing Budget Impacts)

Through the development of the budget, Administration balances the needs and expectations for municipal services with sensitivity to the current economic climate and the fiscal reality facing Edmontonians.

The Fall 2020 Supplemental Operating Budget Adjustment responds to Edmonton's economic challenges by reducing the 2021 tax levy increase, from the 3.2 percent

previously approved, to zero. If approved, this would be the lowest tax increase since 1997, which was also zero percent.

Attachment 2 outlines the recommended ongoing budget adjustments to the approved operating budgets to achieve a zero percent tax increase for 2021 and a 1.6 percent tax increase for 2022.

Reimagine

At the July 6, 2020 City Council meeting, Administration presented the Office of the City Manager report CR_8379, Reimagine Report. It explored how the public health and economic crises caused by the COVID-19 pandemic, along with the oil price plunge, will present significant ongoing challenges to the City, and Edmonton's residents and businesses. The Reimagine Report identified that the City will be pressured to make significant adjustments to what it does and how it is done. Reimagine provides the opportunity for the City to emerge from the pandemic more resilient than before while progressing on the goals set out in Council's strategic plan.

Reimagine consciously aligns services and service levels within the new fiscal constraints and toward the strategic direction established in ConnectEdmonton and the City Plan but it is still in its early stages. As Administration assesses all City services through a Reimagine lens, it will return to City Council with recommendations. As these recommendations are considered, any budget impacts will be addressed through future supplemental budget adjustment reports.

The 2021 proposed budget reduction strategies presented in this report are in line with the principles of Reimagine to be bold, brave, agile and smart. Recommended adjustments incorporate recommendations from the Program and Service Review work, a precursor to the Reimagine Services, specifically related to facility closures and efficiencies in facility management and open spaces. The decision to reduce services is not an easy one but these recommendations were developed using principles discussed in Reimagine Financial Viability and supported by the limited scope Priority Based Budgeting Process and with a specific focus on limiting tax increases.

Priority Based Budgeting (Limited Scope)

The January 27, 2020 Financial and Corporate Services report CR_7409 - Work Plan for Implementation of Priority Based Budget Approach outlined the work required over the next two years in order to develop a 2023-2026 budget using a prioritized budget methodology.

Since then, there has been a significant change in financial constraints and economic conditions as a result of the COVID-19 pandemic. Reflecting these changes, on May

25, 2020, City Council moved “that the prioritized budgeting process be advanced to provide a prioritized list of programs and services.”

Administration has applied Priority Based Budgeting on a limited scope basis to rationalize and support the proposed budget reduction strategies to achieve a zero percent increase in 2021. An overview and results of the limited scope prioritization process for operating is included in Attachment 3.

Administration will continue with the full scope of Priority Based Budgeting in preparation for the 2023-2026 operating and capital budgets, with involvement of Executive Committee and City Council throughout the process. Implementation of priority based budgeting on a limited scope basis specific to the 2021 operating budget allows both Administration and Council to become familiar with the process ahead of its use for 2023-2026. Key differences between the limited scope and full scope processes are outlined within the Priority Based Budgeting section of Attachment 3.

Recommended 2021 and 2022 Operating Budget Adjustments (Ongoing)

During the Spring 2020 SOBA on April 27, 2020, Council approved a 3.2 percent tax increase for 2021 and 2.4 percent tax increase for 2022.

Guided by the City’s Multi-year Budgeting Policy (C578) the supplemental budget adjustment process categorizes adjustments to the four-year budget as follows:

- External Factors/Changes in Legislation: allows the City to respond to external factors such as provincial or federal budgets or changes imposed by legislation;
- Operating Impact of Capital: incorporates the operating impacts related to the implementation and completion of capital projects;
- Changes to Economic Forecast: includes adjustments that affect costs, changes service demand volumes, or revenue projections; or
- Council-directed changes to priorities, policies and programs.

Recognizing that the City of Edmonton is operating in a very different economic environment than existed in late 2018 when Council set the four-year budget, this report also recommends net tax levy adjustments of \$56.5 million to achieve a zero percent tax increase. Budget adjustments are summarized in total on Attachment 2 and outlined by department, branch and strategy in Attachment 3.

Recommended Adjustments to Achieve a Zero Percent Tax Increase in 2021

To develop the fall supplemental budget adjustment, Administration identified a comprehensive list of strategies for reduction using the following lenses:

- *Safety* - The public’s safety is a top priority

- *Long-Range Focus* - Mindful of impacts on the municipal corporation's long-term financial sustainability
- *Local Economy* - Continue to support stabilization of the local economy
- *Honour Relationships* - Workforce and partnership funding strategies will be fair and respectful
- *City Building* - Consider how to align resources to focus on the City's objectives
- *Demonstrate Empathy* - Limit tax increases for Edmontonians
- *Combination of Tools* - Use a range of budget reduction strategies, such as efficiencies, expense reductions (e.g., reduction in consulting and contractor services), facility closures, funding to partners, revenue/recovery generating opportunities, service level reductions, and workforce strategies, including vacancy management. Reduction strategies balance impacts to front line and support services.

As identified in the Reimagine Report, the City has two options to manage its financial challenges. One path contains traditional, "easy" and potentially anticipated decision making where municipal spending is realigned to provide 'back-to-basic' services. The other path, moving 'forward with focus', consciously aligns services and service levels within the new fiscal constraints and toward the strategic direction established in ConnectEdmonton and the City Plan.

The City is pursuing the latter path, which is lined with difficult decisions and choices to prioritize long-term outcomes over short-term priorities. The goal is that Edmonton emerges as a healthy, urban and climate-resilient city that supports a prosperous region. Although impacts to front line services, staff, service levels, and the City's partners were limited as much as possible, each was affected to some extent to achieve a zero percent tax increase in 2021.

A total of \$56.5 million in net budget reductions strategies are being proposed. These reduction strategies are incorporated in recommended adjustments in Attachment 2. A summary of savings by strategy type is shown below. The full list of recommended strategies are included in Attachment 3 to this report within the Budget Reduction Strategies section with additional details in the Department/ Branch Summary Tables.

- **\$9.7 million - Efficiencies** represent Administration's efforts to optimize, re-align or re-design the delivery of a service. These efficiencies include adjustments to the way a service is delivered internally within the Corporation or externally to citizens and reflect a commitment to continuous improvement and the efficient use of taxpayer dollars.
- **\$6.4 million - Expense reductions** reflect cost control efforts within the Corporation and generally include reductions to contracts, professional services, travel, and training. Reductions of this nature reflect the

Administration's ongoing commitment to prudent cost control across the Corporation.

- **\$1.4 million - Facility closures** were based on recommendations from completed Program and Service reviews and align with the City's approach to Reimagine Services. Council directed Administration to consider facility closures through the May 25, 2020 motion to prioritize the remainder of the capital budget and return with infrastructure cut-back scenarios. Future renewal costs avoided through closure of these facilities are conservatively estimated to be \$26.6 million. The renewal costs were not planned for in the 2019-2022 capital budget cycle so do not reduce the capital budget and are estimates of basic rehabilitation over the next eight to ten years. The proposed facility closures are discussed in detail in the Fall 2020 Supplemental Capital Budget Adjustment, report CR_8486. The operating savings from those proposed closures are included as reduction strategies in this report.
- **\$6.4 million - Funding to partners** generally reflect reductions to grants or operating support to community partners.
- **\$1.2 million - Increased revenues/recoveries** reflect opportunities within the budget to increase revenue for a service or increase the recovery level of a service. As the City moves from limited scope Priority Based Budgeting to full scope Administration will look for more opportunities to generate or adjust revenue. The recently passed Council Policy C624 Fiscal Policy for Revenue Generation will provide the foundation for that work. Recommended adjustments are consistent with the new policy.
- **\$13.2 million - Service level reductions** reflect adjustments to the current level of services provided. These reductions were brought forward within the context of Reimaging Services.
- **\$18.2 million - Workforce strategies** across the Corporation include vacancy management, personnel reductions, overtime reductions, and strategies that consolidate work, such as the consolidation of the City's corporate strategy functions within the newly created Service Innovation and Performance branch, Financial and Corporate Services department.

Changes to Corporate Estimates and Economic Forecasts

The following adjustments reflect changes to corporate estimates or economic forecasts:

Assessment Growth

- **Assessment Growth** - Decrease in assessment growth of \$15 million. Growth is based on construction activity in 2020, which has been negatively affected by both falling oil prices and COVID-19, causing less growth than originally contemplated in the budget.

Corporate Expenditures and Revenues

- Investment earnings - a decrease in investment earnings of \$13 million in 2021 and an additional \$0.8 million in 2022 as a result of market conditions. This decrease in revenue is offset by a reduced transfer to capital through pay-as-you-go in the same amounts for both years.
- Debt servicing - a net increase of \$0.7 million in 2021 due to changes in borrowing forecasts for various tax-supported debt projects. The debt servicing budget in 2022 has been decreased by \$11 million due to delays in land purchases for the Valley Line West LRT. Administration reviews and adjusts the tax-supported debt servicing budget twice a year.
- EPCOR franchise fees - a decrease in franchise fee revenues in 2021 of \$1.4 million for power (one-time basis) and \$1.2 million for water and wastewater (ongoing) based on revised forecasts provided by EPCOR.
- Tag and fine revenues - a decrease in tag and fine revenue in 2021 and 2022 of \$1.2 million based on trending of tag/fine revenues.
- Revolving Industrial Servicing Fund - a decrease transfer of \$0.2 million in 2021 and an additional \$0.1 million in 2022 to the fund.
- ATCO Gas franchise fee - an increase in gas franchise fee revenue in 2021 of \$11 million (ongoing) based on revised delivery rate forecasts provided by ATCO gas.
- Local improvement revenues - an increase in local improvement revenues of \$4.5 million due to greater than expected construction completion in 2021, offset by an increased transfer to the Local Improvement reserve of \$4.5 million.

External Factors/Changes to Legislation

The following adjustments are a result of external factors or changes in legislation:

- ALERT Funding (Edmonton Police Services) - EPS positions currently assigned to provincial Alberta Law Enforcement Response Team (ALERT) with a total cost of \$1.4 million funded through the provincial ALERT program.
- Municipal Police Assistance Grant (Edmonton Police Services) - an increase of \$0.6 million in Municipal Police Assistance Grant (MPAG) revenues to reflect updated population figures, offset with an increase in expenditures in the same amount to support critical public safety priorities.

Adjustments to Operating Impacts of Capital

The following adjustments are operating budget impacts due to changes to capital projects:

- Valley Line Southeast - a one-time decrease in 2021 operating expenditures of \$17.8 million due to project delays, offset by a decreased transfer of \$17.8 million from the LRT reserve.
- Smart Fare System - a one-time decrease of \$2.0 million in operating expenditures as a result of the timing of the Regional Smart Fare System pilot.
- Dr. Anne Anderson High School & Community Centre - an increase in operating expenditures of \$0.4 million, partially offset by an increase in net operating

requirements of \$0.2 million on an on-going basis starting in 2021 for net costs associated with providing programs and services at the Dr. Anne Anderson High School & Community Centre scheduled to open September 2021. As this is an operating impact of capital, a funded service package has been included in Attachment 3 to this report.

Council Directed

The following adjustments are as a result of previous Council decisions:

- Edmonton Police Services funding - At the July 6, 2020 City Council meeting, Council requested amendments to reduce the Edmonton Police Service budget from 2021 levels by \$11 million with reductions split over the 2021 and 2022 budget years. The Edmonton Police Services operating expenditure budget has been decreased by \$5.5 million in 2021 and by \$5.5 million in 2022, with funds held corporately for redirection based on guidance from the Community Safety and Well-Being Task Force. Further discussion on the July 6, 2020 referred motion regarding the Edmonton Police Commission is discussed within the Edmonton Police Services Funding Formula section of this report.
- Edmonton Global shareholder subsidy - an increase in expenditures of \$1.0 million in 2021 and 2022 is needed for the Edmonton Global shareholder subsidy as approved during the shareholders' meeting.
- Edmonton Economic Development Corporation (EEDC) Surrender Agreement - At the October 19, 2020 City Council meeting, Council approved the Surrender Agreement between the City of Edmonton and EEDC. This resulted in a decrease in building operating recoveries of \$0.2 million (previously recovered from Explore Edmonton) and decrease in lease revenues of \$0.4 million within the Real Estate branch as a result of the surrender and transfer of the Advanced Technology Building in the Edmonton Research Park by EEDC. These costs are being funded through financial strategies within Corporate Expenditures and Revenues.
- Other Membership fees - An increase of \$0.5 million in expenditures required to fund existing agreements and Council-directed membership fees for various boards.

Administrative Adjustments Requiring Council Approval

Administrative budget adjustments require Council approval when:

- the adjustment is greater than \$2 million,
- the proposed source of funding is a reserve, or
- the adjustment impacts approved funding for boards and authorities.

Although these adjustments impact the overall revenue and expenditure budgets or the transfers to and from a reserve, they do not impact the annual net tax levy requirement.

- Sanitary Servicing Strategy Fund (SSSF) - The SSSF is a funding program established for construction of trunk sewers servicing new development and growth in the City for the next 40 years. Projects constructed under this strategy are development driven and funded by SSSF. The program is funded through expansion assessments, sanitary sewer trunk charges, and utility contributions and interest earned. Due to a decline in development growth activity, the revenue and expenditure forecast need to be adjusted downward to align with the current economic condition. This adjustment reduces project expenditures funded through SSSF by \$11.3 million in 2021 on a one-time basis to recognize slower growth needs, offset by reduced revenue collection of \$1.7 million (expansion assessments, trunk charges and utility contributions) and a reduced transfer from the SSSF reserve of \$9.6 million (revenue).

Service Packages

Attachment 3 provides a summary of service packages, including:

- Unfunded service package for Valley Line Southeast precursor services. Due to the differences in timing of opening the Valley Line Southeast and implementing the Bus Network Redesign in spring 2021, a precursor express bus route will be required to operate from April 2021 until December 2021. Costs for the precursor services are expected to be \$4.8 million on a one-time basis in 2021 with funding from the LRT Reserve.
- A funded service package for operating impacts of capital related to Dr. Anne Anderson High School & Community Centre as discussed above. Operating impacts of capital are brought forward to Council consideration as funded service packages.
- Summary of service packages that have been withdrawn or deferred
- Summary of the service packages previously approved during the 2019-2022 budget deliberations and during the prior three SOBA processes.

Transit Fares

At the December 11, 2019 City Council meeting, during the Fall 2019 SOBA, Council passed a motion that further transit fare increases for 2021 and 2022 be put on hold pending the outcome of discussions from the Spring 2021 SOBA about the impacts of transit service improvements, such as Bus Network Redesign and Smart Fare technology. The Edmonton Transit Service branch 2021 revenue budget includes an increase of \$2.7 million as approved by City Council in the original 2019-2022 approved budget. The fares to support this revenue are included in the User Fees, Fines and Permits section of Attachment 3.

Explore Edmonton

Ongoing funding to Explore Edmonton will be adjusted to reflect the entity's new mandate. Explore Edmonton has experienced a significant drop in revenue as the COVID-19 pandemic has necessitated the closure of the Edmonton Convention Centre and the Edmonton Expo Centre to events, as well as a loss in tourism-related funding. The significant decline in revenue resulting from the COVID-19 pandemic will likely require additional one-time (multi-year one-time) support from the City. Administration continues to work with Explore Edmonton and will return to Executive Committee on November 30, 2020 with an update on Explore Edmonton, including a discussion of funding strategies.

Edmonton Police Service Funding Formula

At the July 6, 2020 City Council meeting, Council requested that Administration prepare adjustments to suspend the Edmonton Police Service Funding Formula Policy C604 pending review and reframing as an Edmonton Community Safety and Well-being Funding Policy.

The newly formed Community Safety and Well-being Task Force will provide its initial recommendations to Council in the first quarter of 2021. Based on those findings, Administration will develop a new police funding policy effective for the 2023-2026 operating budget.

In the interim, the annual budgetary increases for 2021 and 2022 as required through the existing Edmonton Police Service Funding Formula Policy C604 have been reduced by \$5.5 million in each year as requested by Council, for a total of \$11 million. The application of the policy, after this reduction, results in annual tax levy increases of \$10.8 million (\$383.8 million total tax levy funding) and \$11.9 million (\$395.7 million total tax levy funding for Edmonton Police Services) in 2021 and 2022 respectively.

In the August 31, 2020 Citizen Services report CR_8452 Bylaw 19407 Community Safety and Well-Being Task Force, Administration estimated that the task team requires \$0.48 million in one-time funding. For 2020, \$0.18 million is being reallocated from the existing Citizen Services 2020 operating budget and in 2021, \$0.3 million will be allocated from the \$11 million in Edmonton Police Service funds held corporately.

Reduction in Supervisory Positions

At the September 23, 2020 City Council meeting, Council passed the following motion:

That Administration return to the Fall 2020 Supplemental Operating and Capital Budget Adjustment deliberations as appropriate with two scenarios to reduce supervisor FTEs by 5% (up to 92 FTEs/\$13.2 million) and 10% (up to 184 FTEs/\$26.4 million), aligning with page 18 of the September 18, 2020, Office of the City Auditor report OCA00035.

To date Administration has incorporated reductions in supervisory FTE positions of 108.3 FTEs, or 5.8 percent of all supervisory positions, over the 2020 to 2022 operating budgets. This includes reductions approved through the original 2019-2022 operating budget, as well as further reductions through subsequent supplemental operating budget adjustments, including those proposed in this report.

Administration will continue to examine the 10 percent target over the remainder of the budget cycle and will update Council through future supplemental operating budget adjustments. Strategies to achieve this target will include a thorough review of the City's organizational design through the Organizational Design Framework, as well as consideration of the programs and services Administration will be able to provide and the supportive workforce resources required. As part of this work and budget processes (full scope Priority Based Budgeting), Council will set direction on how the City will prioritize services and programs, which may also impact the workforce.

Public Engagement

The City recognizes COVID-19's severe effects on employment and business revenue in Edmonton. Administration is conducting an online survey to quantify these effects among property owners, business owners and the general public. The survey is open November 4 to 15, and results will be shared ahead of Council's budget deliberations beginning December 9.

As part of the 2019-2022 operating and capital budgets development and approval process, education and engagement opportunities included event outreach, a My Budget survey and a non-statutory public hearing. The public can provide feedback on the SOBA at the Non-statutory Public Hearing on December 3, 2020.

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 rate increase.	TBD	0% (2021)

Attachments

1. Previous Council/Committee Budget Actions
2. 2021-2022 Operating Budget Changes

3. Fall 2020 Supplemental Operating Budget Adjustment
4. Budget Reduction Strategies (Private)

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