Planning and Development Business Model

Proposed Fiscal Strategy

Recommendation

1. That the 2021 operating expenditure budget for the Planning and Development branch be decreased by $2.4 million on an ongoing basis, with an offsetting decrease in the transfer from the Planning and Development Reserve.
2. That the 2021 and 2022 tax-supported branch operating expenditure budgets be reduced by $2.4 million in each year (reduced recoveries), as outlined in Attachment 7 of the November 16, 2020, Urban Form and Corporate Strategic Development report CR_8335, and be offset with funding from the Financial Stabilization Reserve.

Previous Council/Committee Action

At the November 16/18/20, 2020, City Council meeting, the following motion was 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.

Executive Summary

Delivering efficient, predictable planning and development services to city-building partners attracts investment to Edmonton, creates economic prosperity, and supports quality of life for Edmontonians. Similar to funding models in other major Canadian cities, these services are funded through the fees charged for Land Development Applications, Development Permits, Building Permits, and other associated services. Managing expenses, revenues, and the Planning and Development Reserve fund supports predictable service levels, as well as ongoing service improvement in partnership with industry. This model and the resulting outcomes ultimately support the Regional Prosperity strategic goal in ConnectEdmonton.

Administration has been proactively working to ensure the health of the Planning and Development Business Model and align with Policy C610 - *Fiscal Policy for Planning and Development Business*. Early this year a Cost of Service Study was done by a third party that identified the business model was close to, but still below, full cost recovery even after reducing the expense budget by more than 10 percent in 2019. The recent economic downturn and the COVID-19 pandemic has further impacted construction activity and permitting revenue in 2020.

This report highlights a number of key fiscal initiatives that are currently underway to support the health of the Planning and Development Business Model. Without these initiatives the balance of the Reserve is projected to be in a deficit position of $2.2 million at the end of 2021, and deficit position of $5.4 million at the end of 2022. With these measures the reserve balance is projected to be $4.1 million at the end of 2021 and $7.8 million at the end of 2022.

Report

Industry and Economic Outlook

The relationship between city building partners and the City is one of mutual benefit. City building partners and businesses in Edmonton face challenges in the upcoming years, and providing reliable service levels will contribute to the success of our city as a whole.

The Planning and Development Business Model is similar to funding models in other major Canadian cities such as Calgary, Toronto, Vancouver and Winnipeg. The reserve provides a mechanism to stabilize funding with fluctuating construction activity and revenue, and allows Administration flexibility to respond to these fluctuations. Administration's ability to sustain service levels through ups and downs of economic cycles provides stability and predictability, and supports competitiveness and relevance for our businesses at the local and global level, ultimately supporting regional prosperity.

The Planning and Development revenue forecasts (Attachment 1) show a 10-15 percent drop as a result of COVID-19 impacts, but are expected to return to normal levels in 2022. This projection aligns with other regional forecasts. If there is another period of unexpected economic weakness, the potential results may be a deeper, more prolonged slowdown in land development and construction activity.

As Edmonton and Alberta come to grips with the economic impacts of COVID-19, the recovery is expected to be slow and uneven. The recovery will rely on stable oil prices, strong household spending, net positive migration and sustained employment growth. Attachment 2 provides an overview of the impact on the reserve balance.

Carrying out the fiscal initiatives outlined in the report are key in maintaining a positive balance in the Reserve to the end of 2021. Without these steps, the most likely case, as indicated by the orange line in Attachment 2, shows that there would be a negative balance of $2.2 million at the end of 2021 and a negative balance of $5.4 million at the end of 2022 in the Reserve.

For the Reserve to maintain a reasonable positive balance at the end of the budget cycle a combination of ongoing savings or revenues of $5.9 million needs to be identified by the end of 2021.

Revised Reserve Forecast

The revised Planning and Development Reserve forecast, which combines fiscal initiatives outlined below with the economic outlook, shows a decline in the Reserve balance continuing until the end of 2021, and then recovers as a result of pent-up demand in 2022 and 2023 as indicated by the blue line in Attachment 2.

Factors that could put downward pressure on the Reserve forecasts include:

- Lower than forecasted net migration levels
- Weaker than expected energy markets
- Economic impacts of a second wave of COVID-19 infections

Any new cost reduction initiatives need to be done strategically to ensure that service levels are not adversely impacted and do not negatively affect Edmonton's economic recovery.

Cost of Service and Municipal Benchmarking Studies

In 2020, a third party Cost of Service study was conducted and showed that the business model was close to, but still below, full cost recovery even after reducing the expense budget by more than 10 percent in 2019. In order to ensure Edmonton's competitiveness, Administration conducted a municipal comparison on Planning and Development fees. Some of the early key findings from the studies include:

- The need to review and potentially reduce and reallocate overhead costs that are not attributable to the business area.
    - Steps are currently underway to reallocate costs and full implementation of this work will result in $3.2 million savings by 2021, reducing overhead costs by 17 percent.
- Costs are under-recovered for upstream development services such as land development applications and subdivision applications and over-recovered in downstream development services such as building permits.
- Areas of under-recovery and misalignment of fees that need to be corrected to sustain service delivery.
- Edmonton is very competitive with similar sized cities; however, there are potential areas for better recovery while still staying competitive.

Fiscal Strategy for Planning and Development Business Model Health

A number of fiscal initiatives are already underway to support the health of the Planning and Development Business Model (Attachment 3).

Current Cost-Saving Actions

In 2019, Administration was able to reduce expenditures by $6.9 million from the original budget and thereby limit the amount drawn from the Reserve. To limit ongoing draws, Administration identified combined cost avoidance/cost savings of $4.6 million in 2020, $5.8 million in 2021 and $8.0 million in 2022.

An additional $4.4 million savings in 2020 was identified to offset the impact of COVID-19 by continuing to hold unfilled positions vacant, savings from temporary layoffs, ending temporary staff contracts, negotiating with vendors, plus other savings. Vacancy management will continue into 2021.

Targeted fee increases

To ensure that the under-recovering services can continue to be provided at current levels while ensuring Edmonton's competitiveness, the 2021 proposed fee schedule changes (Attachment 4) has targeted fee adjustments. The changes highlighted are expected to generate an additional ongoing $0.4 million.

Inflation price adjustments are being paused for 2021 and will be included as part of the 2022 proposed fee changes to help support the industry's recovery. Any major fee adjustments will need to be done in concert with a substantial economic recovery.

An additional $5.3 million in cost savings or revenue generation still needs to be identified over 2021 and 2022 to ensure the reserve has a positive balance by the end of 2022.

Longer-term cost reduction actions

Longer-term cost reduction actions (Attachment 5) will continue to support the focused work on returning the Reserve to the minimum target balance of 30 percent of annual operating expenses while maintaining service levels. Longer-term fiscal initiatives will be addressed through a combination of focused fee changes and the following long term cost reduction initiatives:

- Implementation of cost reductions and cost reallocations (Attachment 3)
- Exploration of additional cost reduction actions such as reduced consumption of office space and other corporate services.
- Revision and Continued implementation of Policy C610 (Fiscal Policy for Planning and Development Business)
- Zoning Bylaw Renewal Initiative
- Service Improvement Projects
    - The current improvements build on the success of the Urban Business Transformation project completed in 2019 (Attachment 6). Report CR 7581 Reductions to Small Business Regulations, presented to the Executive Committee on October 26, 2020, provides more information on improvement work completed and underway.
- Setting Service Levels

Next Steps

Administration will provide an annual update to City Council in Q4 2021 or sooner if the outlook changes materially. The next annual update will include financial impacts of some of the longer-term cost reduction plans as part of the long term sustainability and health of the Planning and Development Business Model.

Financial/Budget Implications

The fees inflation pause will impact 2021 revenues by $0.588 million. Next year this will be offset by additional reductions in both personnel and non-personnel costs. 2022 targeted fee increases will address the ongoing impact of the inflation pause.

While efforts have been in place to reduce direct program expenses and clarify the Business Model scope, indirect program expenses such as shared service costs have not yet been adjusted accordingly.

The 2019–2022 corporate shared service recovery budget was initially calculated in 2018. Considering the subsequent and significant financial adjustments to the Business Model there is a desire to revisit and recalibrate budgeted shared service cost recoveries.

Administration estimates that approximately $2.436 million annually over 2021 and 2022 reflects a commensurate reduction to shared service costs in alignment with direct / frontline cost management strategies and adjustments to the scope of the Business Model. This reduction to shared service recoveries represents approximately 20% of budgeted recoveries.

The reduced demand on shared services and transition of services to the tax levy will result in reduced recoveries (revenues) for tax-supported areas originally recovered from the Planning and Development Business Model. Administration recommends the reduced recoveries be offset with a transfer from the Financial Stabilization Reserve to avoid an impact to the tax-levy. Attachment 7 outlines the adjustments by branch.

This one-time budget adjustment will provide shared service areas with the appropriate lead time to adjust resourcing levels (stranded costs) to align with the reduced recoveries and assess the appropriate level of support resources moving forward. The shared service cost model will be recalibrated and a new baseline resource level will be reset for the 2023-2026 budget cycle.

Public Engagement

Administration engaged with key city-building partners on the recommended fee changes and elements of the fiscal strategy. Partners included:

- Alberta Sign Association (ASA)

- Canadian Home Builders Association (CHBA)
- Edmonton Construction Association (ECA)
- Infill Development Association in Edmonton (IDEA)
- Urban Development Institute (UDI)
- National Association for Industrial and Office Parks (NAIOP)

Engagement with key stakeholders and city building partners revealed that predictable timelines were critical to business success. In response to some of the difficult challenges stakeholders are facing, Administration has paused any inflation fee increases and only proposed targeted fee increases.

Corporate Outcomes and Performance Management

Corporate Outcome(s): Conditions of Success			
Outcome(s)	**Measure(s)**	**Result(s)**	**Target(s)**
The City of Edmonton has a resilient financial position	The Planning and Development Reserve as a percentage of annual operating expenditure	12% of annual operating expenditures can be covered by the Planning and Development reserve by the end of 2020.	30% of annual operating expenditures can be covered by the Planning and Development reserve by the end of 2025.

Risk Assessment

Risk Element	Risk Description	Likeli-hood	Impact	Risk Score (with current mitigations)	Current Mitigations	Potential Future Mitigations
Financial	If the recommended strategy is not approved, the Planning and Development Reserve Fund will be depleted and the ability to fund service delivery will be reduced	5 - almost certain	2 - moderate	10 - medium	Hiring restraint to maintain favourable cost variance Cost reductions plan to ensure expenditure match lower revenues	Revisions to the proposed fiscal strategy based on Council direction
Economic	If construction activity slows beyond current forecasts, the Planning and Development Reserve Fund will be depleted and the ability to fund service delivery will be reduced	4 - possible	3 - moderate	6 -medium	Improve revenue forecasting model and incorporate changes to forecasts into the budget	Develop a flexible workforce strategy that allows for resources to be deployed as volumes and revenues fluctuate
Customers / Citizens	If the recommended strategy is not approved, further cost reduction will be required to avoid	3 - possible	2 - moderate	6 - low	Develop contingency plans for achieving further cost reduction	Revisions to the Planning and Development Business Model that improve

	depletion of the Planning and Development Reserve Fund and the ability to deliver service will be reduced				Process improvement work, to ensure better delivery of services without increasing costs	long-term service stability

Attachments

1. 2020-2023 Revenue Forecast
2. Reserve Balance - Previous and Revised Forecast
3. Summary of planned budget revisions starting in 2019
4. 2021 Planning and Development Business Model fee changes
5. Summary or longer-term cost reduction actions
6. 2019 Urban Form Business Transformation Accomplishments
7. Planning and Development Business Model's shared service 2021 and 2022 budget reallocation adjustments

Others Reviewing this Report

- M. Persson, Deputy City Manager and Chief Financial Officer, Financial and Corporate Services
- 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
- B. Andriachuk, City Solicitor