

2019-2022 Supplemental Operating Budget Adjustment

2019 Operating Budget

Motions on the Floor

Moved D. Iveson - S. McKeen (Made at the November 28, 2018, City Council Budget meeting):

That the Police Service, Cannabis Legalization service package, be increased by \$5,577,000 in 2019, on a one-time basis, with funding from the financial stabilization reserve and that Administration add the \$5,577,000 to fund the Police Service Cannabis Legalization service package in 2019 to the running tally of reserve draws associated with cannabis legalization, and that Administration and the Edmonton Police Commission report to Committee quarterly regarding the impacts and actual costs of cannabis legalization.

Moved B. Esslinger - T. Cartmell (Made at the November 28, 2018, City Council Budget meeting):

That the Citizen Services budget be increased by \$3,500,000 in 2019 on a one-time basis to fund the Community Facility Partner Capital Grant with funding from the tax levy.

Moved T. Caterina - B. Henderson (Made at the November 28, 2018, City Council Budget meeting):

That funding for the Arts Common 118 be increased by \$2,500,000 in 2020, \$1,000,000 in 2021, and \$2,500,000 in 2022 on a one-time/multi-year basis with funding from the tax levy, to be held in abeyance subject to provincial and federal funding.

Recommendation

1. That the 2019 tax levy budget be revised by \$3,798,000 to reflect higher than budgeted tax revenue from assessment growth.

2. That amendments to the 2019-2022 Operating Budget, as outlined in Attachment 2 of the April 16, 2019 Financial and Corporate Services report CR_6860, be approved resulting in the following revised 2019 Operating Budget:
 - a. Total tax supported operations with revenues of \$3,026,129,000 and expenditures of \$3,026,129,000 with the tax supported operations revenues of \$3,026,129,000 to include:
 - i. Revenue based on a total property and payment-in-lieu tax levy estimated to be \$1,652,732,000
 - ii. Estimated non-tax revenue of \$1,373,397,000.
 - b. The Community Revitalization Levies operating budget includes:
 - i. Capital City Downtown Community Revitalization Levy with revenues of \$27,822,000 and expenditures of \$27,822,000.
3. That amendments to the 2019-2022 Operating Budget, as outlined in Attachment 2 of the April 16, 2019 Financial and Corporate Services report CR_6860, be approved resulting in the following revised 2020 Operating Budget:
 - a. Total tax supported operations with revenues of \$3,070,201,000 and expenditures of \$3,070,201,000 with the tax supported operations revenues of \$3,070,201,000 to include:
 - i. Revenue based on a total property and payment-in-lieu tax levy estimated to be \$1,725,748,000
 - ii. Estimated non-tax revenue of \$1,344,453,000.
 - b. The Community Revitalization Levies operating budget includes:
 - i. Capital City Downtown Community Revitalization Levy with revenues of \$35,514,000 and expenditures of \$35,514,000.
4. That amendments to the 2019-2022 Operating Budget, as outlined in Attachment 2 of the April 16, 2019 Financial and Corporate Services report CR_6860, be approved resulting in the following revised 2021 Operating Budget:
 - a. Total tax supported operations with revenues of \$3,174,859,000 and expenditures of \$3,174,859,000 with the tax supported operations revenues of \$3,174,859,000 to include:
 - i. Revenue based on a total property and payment-in-lieu tax levy estimated to be \$1,805,778,000
 - ii. Estimated non-tax revenue of \$1,369,081,000.
 - b. The Community Revitalization Levies operating budget includes:
 - i. Capital City Downtown Community Revitalization Levy with revenues of \$38,679,000 and expenditures of \$38,679,000.

5. That amendments to the 2019-2022 Operating Budget, as outlined in Attachment 2 of the April 16, 2019 Financial and Corporate Services report CR_6860, be approved resulting in the following revised 2022 Operating Budget:
 - a. Total tax supported operations with revenues of \$3,276,598,000 and expenditures of \$3,276,598,000 with the tax supported operations revenues of \$3,276,598,000 to include:
 - i. Revenue based on a total property and payment-in-lieu tax levy estimated to be \$1,888,989,000
 - ii. Estimated non-tax revenue of \$1,387,609,000.
 - b. The Community Revitalization Levies operating budget includes:
 - i. Capital City Downtown Community Revitalization Levy with revenues of \$41,972,000 and expenditures of \$41,972,000.

Previous Council/Committee Action

Refer to Attachment 1.

Executive Summary

This report recommends adjustments to the 2019-2022 Operating Budgets resulting from updates to economic forecasts, the financial impacts of annexation and required administrative changes. In addition to the recommended adjustments, there are several other initiatives being brought forward in the form of unfunded service packages for Council's consideration. If the recommendations are approved, the 2019 municipal property tax increase would remain 2.6 percent, as approved by Council in December 2018.

Report

Since Council approved the 2019-2022 Operating Budgets in December 2018, Administration has finalized assessment growth for 2019. In addition to the adjustment for assessment growth, this report recommends adjustments to approved operating budgets to address changes that have occurred subsequent to the previous approval.

Change to Economic Forecasts

The amount of assessment growth for 2019 is greater than the estimate in the budget approved by Council in December 2018. The tax revenue available as a result of this growth is \$3.8 million more than what Council previously approved. This amount includes an increase of \$0.7 million related to properties in the newly annexed area.

Community Revitalization Levy (CRL) Budgets have also been adjusted based on updated forecasts and assessment figures. The actual performance or growth in each of the CRLs was greater than what was forecasted due to higher than anticipated development in each of the CRL areas. The details of the adjustments are included on page 2 of Attachment 2.

It is recommended that the Corporate Expenditures and Revenue Budget be adjusted for the following:

- Increase of \$1.3 million in revenue for higher forecasted investment earnings. This increase is offset by an increase in expenditures of \$0.1 million and an increase in the transfer to capital of \$ 1.2 million for additional pay-as-you-go funding available for capital expenditures,
- Increase of \$1.2 million in revenue for higher forecasted gas franchise fees,
- Increase of \$1.4 million in supplementary tax revenue due to an expected increase in build completion within the rental market.
- Increase of \$1.0 million in revenue from the Land Enterprise Dividend based on higher than anticipated 2018 year end results,
- Decrease of \$2.3 million expenditures for debt servicing requirements in 2019 partially offset with an expenditure increase of \$0.4 million in transfer to reserve.
- Increase of \$0.8 million in expenditures for WCB Premiums as information on rates is higher than the estimate included in the 2019 approved budget.

Edmonton Police Service (EPS) requires an adjustment of \$0.5 million for cannabis costs that were originally approved on a one-time basis but are ongoing in nature. EPS also requires an increase of \$0.2 million to address additional expenditures for police-based victim services offices. This increase is offset by an additional \$0.2 million in revenue from the Government of Alberta.

External Factors/Changes to Legislation

As per the Order in Council Annexing Land from Leduc County and the Town of Beaumont to the City of Edmonton, 359/2018 section 6(1) & 6(2) orders the City to pay Leduc County \$0.5 million per year from 2019 to 2028. An increase in expenditures of \$5.3 million is required for the accrual of payments for 10 years. This increase in expenditures will be offset by a transfer from the Interim Financing Reserve of \$4.8 million. The resulting net \$0.5 million annual expenditure budget will be used to repay the reserve over the same 10 year period.

Additionally, a one-time payment of \$3.2 million in 2019 to the County of Leduc has been included in the City's Corporate Expenditure budget, per the Leduc Annexation Order.

Administrative Adjustments Requiring Council Approval

There are administrative budget adjustments that require Council approval. Although these adjustments impact the overall revenue and expenditure budgets, they do not impact the annual net amount required from tax revenue or the annual tax rate increase.

A portion of the downtown arena debt servicing was originally planned to be funded by increased parking revenues; however, the revenues have not materialized as expected. In response, Council approved the use of downtown CRL revenues to cover this debt at the November 27, 2018 City Council meeting (CR_6492 Downtown CRL Update).

The Planning and Development reserve requires an adjustment to reallocate the reserve transfers with an increase in expenditures of \$0.5 million offset by an increase in revenue of \$0.5 million.

An increase in expenditures of \$3.8 million is offset by an increase in revenues of \$3.8 million in one-time provincial grant funding to establish a Regional Transit Services Commission in the Edmonton Metropolitan Region. Administration will bring an update report on the Regional Transit Services Commission to Council on May 15, 2019.

These adjustments have been included in Attachment 2.

Tax Smoothing Strategy

The approved 2019-2022 operating budget includes transfers to and from the Financial Stabilization Reserve (FSR) to smooth annual tax increases over the next four years such that each annual increase in the municipal tax rate will be 2.6 percent. As part of the adjustments for 2019, Administration recommends that the approved transfers to and from the FSR also be adjusted so that the overall municipal tax rate increase in each year remains 2.6 percent.

These adjustments will require less funding to be drawn from the FSR in 2019 and 2020 than originally approved in the 2019 - 2022 operating budget. Because the projected balance of the FSR as of January 1, 2019 is close to the minimum balance, this approach will provide greater financial flexibility in the event that the City must address any unplanned expenditures during fiscal year 2019.

Education Tax

The City has not yet received the 2019 Provincial Education Tax requisition. The April 16, 2019 City Council Report CR_7092 - Education Levy and Rate Setting outlines

possible options for estimating the provincial education tax requisition. A further breakdown of municipal and education property tax rates for 2019 is outlined in Attachment 3. The education tax rate is based on the approach recommended in CR_7092. However, Council may choose an alternative approach.

Service Packages

Administration indicated it would bring forward any unfunded service packages that were not debated during the 2019-2022 budget deliberations to future Council meetings where Supplemental Operating Budget Adjustments will be discussed. Attachment 4 of this report includes:

- Summaries and one page descriptions of the outstanding unfunded service packages,
- Additional service packages that Council or Council Committees have asked to be considered in the spring Supplemental Operating Budget Adjustment since the approval of the 2019-2022 operating budget in December 2018, and
- A summary list of unfunded service packages that were included as part of the proposed 2019-2022 operating budget but are now being recommended to be withdrawn or deferred.

Additional Information

During 2019-2022 operating budget deliberations, Council passed several motions requesting that Administration provide additional information prior to the passing of the 2019 tax rate bylaw.

Police Services - Cannabis Legalization:

Council directed Police Services to return to the Spring Supplemental Operating Budget Adjustment with more information about the impacts and real costs of cannabis legalization and more information about provincial funding.

At the Community and Public Services Committee on March 20, 2019, the Edmonton Police Commission indicated that they will provide the information in a separate report and the revised due date of June 26, 2019 was approved.

Multi-year Demand and Cash Flow Analysis:

Council directed Administration to provide multi-year demand and cash flow analysis for the Community Facility Partnership Capital Grant.

The Community Facility Partner Capital Grant has an annual base budget of \$4.75 million, which includes \$2.9 million transferred from the Traffic Safety and Automated Enforcement Reserve (TSAER). The following table shows approved multi-year funding and demand for the grant including the Heritage Valley project. Any multi-year

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projects approved, changes in funding sources or additional commitments made to projects outside of the regular grant application process would further reduce the amount available for allocation in future years.

	2019	2020	2021	2022
Funding Base Budget	\$1,850,000	\$1,850,000	\$1,850,000	\$1,850,000
Transfer from TSAER	\$2,900,000	\$2,900,000	\$2,900,000	\$2,900,000
Total Funding Available	\$4,750,000	\$4,750,000	\$4,750,000	\$4,750,000
Awarded and Committed	\$2,284,000	\$1,523,000	-	-
Dr. Anne Anderson High School - Heritage Valley community wing	\$1,833,000	\$1,833,000	\$1,833,000	-
Total allocated	\$4,117,000	\$3,356,000	\$1,833,000	-
Balance Remaining	\$633,000	\$1,394,000	\$2,917,000	\$4,750,000
Reduction from TSAER (Outlined in report CR_6603)	-	-	\$1,067,000	\$2,900,000
Potential Tax Levy Increase to Maintain funding	-	-	0.06%	0.16%

If Council proceeds with the amendment to the 2019-2022 Operating Budget put forward at the November 28, 2018 Council meeting, the Citizen Services 2019 operating budget would be increased by \$3.5 million on a one time basis funded by a tax levy increase that is equivalent to 0.2 percent for 2019. Administration has discussed and performed an analysis related to the grant and opines that approving one time funds for 2019 is not required. As communicated at the March 20, 2019 Community and Public Services Committee meeting through City Operations report CR_6603 - Traffic Safety and Automated Enforcement Reserve Schedule - Implications of Reducing Operations Budgets, the \$2.9 million from TSAER can remain

in place for 2019 and 2020 and be reduced to \$1.8 million in 2021 before it is eliminated as a transfer in 2022.

Administration recommends that the same level of annual funding for the Community Facility Partner Capital Grant of \$4.7 million be maintained for 2022 and beyond. This would require replacing the \$2.9 million in funding from TSAER with the same amount from the tax levy. In fall 2019, Administration will bring forward a report that will provide further details and options for the program for Council's consideration.

Vendor Management Strategy:

Council directed Administration to pursue a vendor management strategy for both operational and capital spends that would target a reduction to the overall external services budgets.

Administration has developed an approach in response to Council's motion to reduce the external services budget over the next four years by the following cumulative amounts:

- 2019 - 4 percent
- 2020 - additional 3 percent
- 2021 - additional 2 percent
- 2022 - additional 1 percent

Administration's approach to reducing external service costs include:

- Sending letters to major vendors requesting a cost reduction through contract efficiencies;
- Selecting targeted contracts that are coming up for renewal to negotiate cost reductions;
- Deploying a corporate supplier management program for all departments to enhance supplier performance outcomes;
- Reviewing procurement evaluation criteria for upcoming procurements to prioritize innovation and cost efficiencies; and
- Targeting key vendors to standardize billing rates for consulting services.

Some departments have undertaken cost reduction strategies that were included in their 2019 - 2022 budgets, which may hinder the City's ability to achieve Council's motion targets. Administration will review other areas to make reductions, including contract savings when procuring goods, services, and construction to assist in achieving these targets.

Pursuing an external services budget reduction may impact the success of other procurement and contract management council initiatives, such as:

- Procurement using qualification-based selection criteria,

- Developing a social procurement policy development,
- Enhancing supplier performance, and
- Developing an Indigenous procurement policy.

Administration will target Council's percentage reductions to the 2019 - 2022 external services budget using the vendor management strategy described above. The Corporate Procurement and Supply Services Branch will manage this strategy and will work with all departments to determine which vendors and contracts to target in order to achieve budget reductions. Administration will report to Council in 2020 on progress against these targets during Supplemental Capital and Operating Budget Adjustments.

Internal Reallocations:

Council directed Administration to provide the details of internal reallocations in excess of \$500,000 by branch over the past three years. These reallocations are included in Attachment 5 of this report.

Public Engagement

Administration launched a public engagement program related to the proposed 2019-2022 operating budget during the summer and fall of 2018. During this period, Administration attended 19 events and festivals throughout Edmonton and engaged with more than 3,000 residents to share information about the budget and encourage them to access the yegcitybudget.ca website for additional details. Residents were also encouraged to complete the online My Budget survey, an interactive tool where users create their own version of the City's operating budget by increasing or decreasing funding allotments to various departments.

Non-statutory Public Hearings were held on November 15, November 26 and November 28, 2018. These dates provided an opportunity for citizens to address City Council directly about the proposed 2019-2022 operating budget.

Budget/Financial Implications

With the approval of the recommendations including adjustments in Attachment 2, the average percentage increase of the municipal residential property tax for 2019 will remain at 2.6 percent (0.8 percent increase for services, 1.2 percent increase for Edmonton Police Services and 0.6 percent increase for Valley Line LRT). Approval of the adjustments will result in operating budgets for tax-supported operations having revenues and expenditures of \$3,026,129,000 in 2019.

Corporate Outcomes and Performance Management

Corporate Outcome(s): The City of Edmonton has a resilient financial position
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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.	N/A	2.6% (2019)

Risk Assessment

This report falls under a list of report types that, due to their nature, do not require a risk assessment.

Attachments

1. Previous Council/Committee Action
2. 2019-2022 Operating Budget Changes
3. 2019 Tax Requirement
4. Summary of Service Packages - Unfunded
5. Internal Reallocations

Others Reviewing this Report

- C. Owen, Deputy City Manager, Communications and Engagement
- G. Cebryk, Deputy City Manager, City Operations
- A. Laughlin, 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