

Operating Financial Update – December 31, 2020

Recommendation

1. That the 2021 Operating Budget be adjusted to increase expenditures by \$10,482,842 offset by an equivalent transfer from amounts currently appropriated in the Financial Stabilization Reserve, to address the delay of expenditures into 2021, as outlined in Schedule A, Table 1, Attachment 2 of the March 15, 2021, Financial and Corporate Services report FCS00281.
2. That the 2021 Operating Budget be adjusted to increase expenditures by \$9,859,000, offset by an equivalent transfer from the Industrial Servicing Fund Reserve, to address the timing of expenditures within Urban Form and Corporate Strategic Development, City Planning, as outlined in Table 2, Attachment 2 of the March 15, 2021, Financial and Corporate Services report FCS00281.
3. That the 2021 Operating Budget be adjusted to increase expenditures by \$7,793,000 and to transfer the equivalent amount from the Financial Stabilization Reserve, to fund the carryforward of expenditures where 2020 program commitments exist, as outlined in Schedule E, Table 1, Attachment 2, of the March 15, 2021, Financial and Corporate Services report FCS00281.
4. That \$7.6 million be appropriated within the Financial Stabilization Reserve from the 2020 tax-supported surplus to potentially cover the outstanding loan balance due from Waste Services Utility, as outlined in Attachment 2 of the March 15, 2021, Financial and Corporate Services report FCS00281.
5. That \$24.8 million be appropriated within the Financial Stabilization Reserve from the 2020 tax-supported surplus to be used to cover potential impacts of the COVID-19 pandemic, as outlined in Attachment 2 of the March 15, 2021, Financial and Corporate Services report FCS00281.

Executive Summary

To meet the expectation of transparent and timely reporting, Administration provides Operating Financial Updates three times a year. This report outlines the preliminary 2020 operating financial results, including year-end results compared to the approved budgets (including one-time COVID related adjustments) for tax-supported, enterprise/utility and Community Revitalization Levy (CRL) programs. Based on information available to March 1, 2021, results are preliminary, unaudited and subject to change until the approval of the audited consolidated financial statements.

Recommendations for operating budget carryforward are included in this report. Carryforwards reflect expenses in the 2020 budget that were not completed within the fiscal year but are expected to be completed as planned in 2021. As these items contribute to the surplus Administration recommends funding these expenses from the Financial Stabilization Reserve.

This report also provides recommendations for carryforward of items previously approved by City Council with funding already appropriated within the Financial Stabilization Reserve. The report details the unappropriated and appropriated balance of the Financial Stabilization Reserve (FSR).

Report

Attachment 1 presents the preliminary 2020 operating financial results compared to the approved budget for tax-supported, enterprise/utility and Community Revitalization Levy (CRL) programs. As of December 31, 2020, tax-supported operations reflect a net favourable year-end variance of \$40.2 million, meaning actual results came very close to the budget that was adjusted in response to COVID-19 in spring 2020; \$40.2 million is 1.4 percent of the overall tax supported revenue and expense budgets of \$2.9 billion. Without early budget adjustments the City could have ended the year with a deficit of over \$100 million.

With the recommended adjustments to carryforward \$7.8 million in expenditures that were budgeted and/or considered in 2020 but now anticipated in 2021 (recommendation 3) and appropriate \$7.6 million to address the outstanding loan with the Waste Utility (recommendation 4). Administration recommends that the remaining \$24.8 million be appropriated within the FSR to support the City's pandemic response.

Financial uncertainty during a global pandemic

In the early months of the pandemic, Administration recognized the impact COVID-19 could have on the normal operations of the City, particularly to transit and recreation revenues. The following provides a high level financial chronology related to the operating budgets in 2020:

January - March: In January, the World Health Organization declared a public health emergency of international concern in response to the outbreak of a novel coronavirus (COVID-19) and subsequently recognized COVID-19 as a global pandemic. In March 2020, in response to the pandemic, Alberta's provincial government declared a state of public health emergency under the Public Health Act.

April: To mitigate the financial risk and uncertainty, Administration proposed adjustments to the budget that were approved with the spring SOBA. Edmonton was one of the first municipalities in Canada to forecast impacts of the pandemic and to proactively publicly adjust the budget. The strategies to address COVID-19 in the 2020 budget, in order of preference, were:

- Expense management and use of external financial support
- Redirection of capital funding to operating
- Financial Stabilization Reserve and other reserves, and
- Repurposing of the corporate financial strategies budget.

Revenue budgets were reduced by \$142.6 million and partially offset with corresponding reductions in expense budgets. To balance the budget without impacting the 2020 tax rate, the remaining shortfall was addressed by reducing operating transfers to capital funding by \$46.5 million. Given the timing of the adjustments, assumptions were made that support from other orders of government would be limited. Use of the unappropriated Financial Stabilization Reserve and financial strategies were not recommended or required.

Given that neither health nor financial experts could fully predict the effect of the pandemic in the months ahead, making budget adjustments was the most responsible and transparent action.

July: The federal Safe Restart program was announced, which included \$2 billion in national support for municipalities. The federal government commenced discussions with provinces regarding funding distribution.

September to October: The province worked with the federal government to formalize the Safe Restart Agreement and Municipal Operating Support Transfer (MOST) arrangements. The funding allocation for Edmonton was informally communicated in mid-October with the final agreement provided in mid-November.

The City of Edmonton's MOST allocation was \$158.2 million, comprising \$98.5 million for general operations and a transit-specific component of \$59.7 million. Municipalities may use MOST funding for incremental operating costs incurred due to COVID-19 response and restart, as well as other operating losses or deficits incurred from COVID-19's impacts on revenues and operations. The deadline to spend funds is March 31, 2021.

November to December: Financial updates were provided to City Council on November 16, 2020 (financial updates and operating and capital budgets) with the last quarter's financial assumptions. The City of Edmonton received the Safe Restart funds from the province, through MOST, in mid-November.

The last financial presentation was made to Council on December 7, 2020, and Council passed the 2021 budget December 11, 2020. Even at that time, there was uncertainty in how City operations would function in 2021, as reflected in the additional provincial restrictions introduced December 13, 2020.

During the pandemic many of the City's operations have become more expensive to deliver. Operating transit at regular service levels with significantly lower ridership results in less revenue from user fees and more expenses for personal protective equipment and cleaning.

The variation in recreation facilities operations creates different financial demands. Operating recreation facilities during the pandemic requires the City to limit attendance in the facilities and programs, again resulting in less revenue from user fees and higher expenses for additional cleaning. Closing recreation centres completely results in financial savings as the majority of the recreation facilities operated by the City are subsidized by the tax levy.

Although budgets were adjusted once early in the pandemic, the City was required to adjust service levels multiple times in the year to address new health orders. Achieving a budget surplus of \$40.2 million on a \$2.9 billion budget in such an unpredictable environment required a high level of effort and coordination across the corporation. Factors driving this surplus include revenue and expense adjustments for the response to the COVID-19 pandemic, such as management expense and capital reduction strategies.

To guide financial decisions related to the pandemic, Administration developed and applied the following principles:

- Safety - The public's safety is a top priority and will not be sacrificed while managing the COVID-19 related financial impacts.
- Combining funding strategies - Revenue reductions will be addressed with a combination of one-time funding strategies as well as strategic decisions on spending and service reductions.
- Long range focus - Funding strategies will be mindful of the impact on the City's long-term financial sustainability.
- Local economy - Continue to support stabilization of the local economy.
- Honour relationships - Workforce strategies implemented as a part of the expense management strategies will be fair and respectful to City employees.
- City building - Administration has evaluated the capital plans for 2021 and 2022 and has provided Council with options for capital budget reductions through the Fall 2020 Supplemental Capital Budget Adjustment report.

- Limit property tax increases - The recommended funding plan to offset the impacts of COVID-19 includes no additional tax increases for 2021.

These principles formed the basis of the adjustments to reduce revenue and expense budgets significantly and lowered the transfer to the capital budget by \$46.5 million.

If certain expenditures being requested for carryover had occurred in the 2020 fiscal year as planned, or the expense reductions not been accomplished, the City would have ended the year in a significant deficit position.

The actions taken in 2020 have added stability as the City faces uncertainty about how long the pandemic will last and what long term challenges are ahead. Adjusting the 2020 budget allowed the City to respond quickly to the financial pressures and resulted in the creation of an appropriated reserve to address continued pandemic pressures, as continued financial support from other orders of government is uncertain.

Although some municipalities chose to budget for deficits in 2020, the City of Edmonton's transparently outlined plans to address the challenges.

2020 Preliminary Operational Financial Results

The \$40.2 million surplus is the result of a number of factors.

- Revenues for items such as gas franchise fees, business licenses, and tax penalties did not decline as expected contributing to the net favourable year-end variance.
- Financial Strategies ended the year with a favourable variance as this budget was established to provide flexibility for emerging items, such as a contingencies for a utility and fuel costs. The overall costs for fuel and utilities did not increase and, with the combined impact of lower prices with lower consumption during the pandemic with the closure of facilities and reduced vehicle usage, the actual costs were lower than anticipated.
- Recreation centres are subsidized by tax levy when they are open and fully operational. The recreation centre closures resulted in cost savings and reduced subsidization, leading to a favourable variance from budget.
- These favourable variances were offset by unfavourable variances, the most significant being in Edmonton Transit where transit revenues were \$14 million lower than the already adjusted budget.
- Personnel costs were extremely close - 0.2 percent - to what was budgeted.

Adjustments for items previously appropriated in the FSR

As noted in Attachment 2, Administration is recommending an adjustment for \$10.5 million for appropriated expenditures that will now occur in 2021. These include items

such as the temporary housing pandemic shelter (Tipinawâw) and the Bus Network Redesign and are strictly timing adjustments.

Industrial Servicing Fund Reserve

As noted in Attachment 2, \$9.9 million in operating commitments made in the 2020 approved budget were not completed by year-end. Therefore, budget adjustments are being recommended to reallocate 2020 expenses and offsetting funding sources.

Recommended Funding Carryforwards

Carryforwards are a key consideration in the year end process; a portion of the \$40.2 million is recommended for carryforward to the 2021 budget. As per City Policy C217D - Reserve and Equity Accounts, the entire 2020 tax-supported surplus is transferred to the Financial Stabilization Reserve (FSR) prior to recommendations for funding. The transfer provides City Council with the ability to see the balance of the Financial Stabilization Reserve against the minimum and target balances determined by policy prior to making further financial commitments.

Recommendation 3 requests \$7.8 million of funding from the FSR for operating budget carryforward for support programs, such as the Economic Recovery Grant and Affordable Housing Campaign, as well as projects that were impacted or delayed by the COVID-19 pandemic.

Recommendation 4 requests \$7.6 million of funding to be appropriated in the FSR to cover the potential write-off of an outstanding non-regulated notional loan with Waste Services Utility that needs to be repaid by 2025.

To address non-regulated program losses and achieve target cash balances, the Waste Services Utility was given authorization through the 2015 Operating Budget process to draw on a short-term loan from the City of Edmonton's working capital (equity loan). This has ensured that non-regulated losses are covered by the loan as opposed to regulated revenues, and assists in reducing non-regulated rate increases. The loan was to cover non-regulated losses related to the commercial business lines including closure of the Construction and Demolition (C&D) Recycling Facility and the wind-down of Commercial Collections. The C&D Recycling operations were initiated by the City and the Waste Services Utility; as such the Financial Stabilization Reserve may be required to cover this loan balance as the C&D operation is now wound down. The December 4, 2020 City Operations report CR_8447 Non-Regulated Loan Repayment Plan outlined repayment options for this loan. Discussion at this meeting indicated the Committee's preference to address the loan outside the regulated utility.

Once the carryforward recommendation and the funding for the write-off are considered, the remaining amount of the current year operating surplus available is \$24.8 million.

Through recommendation 5 Administration is recommending that this \$24.8 million be appropriated within the FSR to address the continuing effects of the COVID-19 pandemic and the City's recovery efforts. Administration has made this recommendation on the basis that much of this one-time surplus can be attributed to the effect of COVID-19 on the City's 2020 operations; significant financial risks and pressures will remain in 2021 and 2022. This will supplement the \$3.9 million not yet allocated within the appropriated FSR and will permit more flexibility for pandemic response.

Council could choose to instead direct this surplus to replenish a portion of the \$46.5 million reduction in capital transfers with the COVID budget adjustments.

Administration's recommendation contemplates the uncertainty about the duration of the pandemic and its continued financial effects, and recognizes the risk of a difficult economic recovery. Administration will continue to examine funding solutions to address the lower capital transfer through priority based budgeting and a review of capital cash flows.

The possible future costs of the COVID-19 pandemic for 2021 are not known at this time. Some potential items that may need funding from the Financial Stabilization Reserve in 2021 that have been raised at Council include:

- Operations of the City-led temporary housing pandemic shelter (Tipinawaw) and further support for vulnerable populations (\$2.2 million approved on March 4, 2020 to extend the shelter to the end of April)
- Assistance with the COVID-19 vaccine rollout,
- Possible business and economic support programs to fund economic recovery efforts (e.g., continued business licence relief or recovery grants), and
- Requests for recovery support from non-profit organizations.

Recommendations 1 through 5 are detailed in Attachment 2, including the following:

- carryforward and other recommendations with new funding from the Financial Stabilization Reserve,
- carryforward recommendations for items previously approved by City Council from the Financial Stabilization Reserve,
- other carryforward recommendations funded through reserves and other external non tax-levy funds,
- details of the appropriated balance of the Financial Stabilization Reserve, and
- projected balance of the Financial Stabilization Reserve.

Results are preliminary and unaudited while Administration finalizes the City’s 2020 annual consolidated financial results. Administration will provide the audited financial statements, presented on a public sector accounting basis as required for legislative reporting, to Audit Committee on April 16, 2021, and to City Council on April 19, 2021.

Economic Update

An Economic Update is included as Attachment 3. It highlights improvements in some economic indicators as Edmonton’s economy recovers, including employment growth and a rebound in quarterly housing starts. Even though economic growth of four percent is projected for 2021, uncertainty about the course of the pandemic and progress towards broad immunization are expected to be the two most prevalent factors affecting Edmonton’s economic performance. This underscores the recommendation to secure surplus funds for the City’s pandemic response.

Financial Reporting

Throughout the year a number of organizations review the City’s Financial Reporting. Financial Reports are reviewed by Standard and Poor’s in conjunction with our annual credit rating, the Government Finance Officers Association (GFOA) as part of their annual financial reporting and distinguished budget awards programs and the C.D. Howe Institute as part of their assessments of fiscal transparency. Administration is committed to accurate and transparent financial reporting. The City has been awarded a number of awards for its financial reporting and budget presentation from the GFOA over the years. Each year as part of the process the city receives comments and feedback which is incorporated into the following years financial reporting.

Administration has met with the executive of the C.D. Howe Institute to share concerns with the recent assessment of the City of Edmonton’s fiscal transparency. Feedback has been provided to the institute for consideration. Administration continually seeks to enhance financial transparency. An overview of the Financial Reporting reviews undertaken by external agencies is summarized in Attachment 4.

Corporate Outcome(s): The City of Edmonton has a resilient financial position			
Outcome(s)	Measure(s)	Result(s)	Target(s)
Financial reporting demonstrates corporate accountability and performance	Actual year-end variance to budget for tax-supported operations (projected revenue net of projected expenses)	\$40.2 million favourable variance (as of December 31, 2020) 1.4% of the total budget \$24.8 million net increase to the financial stabilization reserve after approved carryforward requests.	Financial results match approved budgets.

Attachments

1. Operating Financial Update - December 31, 2020 - Preliminary Results
2. Financial Stabilization Reserve (FSR), Operating Carryforwards and Other Items
3. Quarterly Economic Update
4. Summary of External Assessments of Financial Reporting

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
- K. Fallis-Howell, Acting City Solicitor