

COVID-19 2021 Financial Impacts and Funding Strategy

Recommendation

1. That the 2020 operating budget for Corporate Expenditures and Revenues, be adjusted on a one-time basis to increase revenues by \$158.2 million, to recognize receipt of Municipal Operating Support Transfer funds, with an offsetting increased transfer to the appropriated Financial Stabilization Reserve of \$158.2 million, to reflect the appropriation of previous 2020 COVID-19 budget reduction strategies (\$152.9 million) and the remaining balance of the Municipal Operating Support Transfer (\$5.3 million) within the Financial Stabilization Reserve, to be used to offset COVID-19 2021 operating budget shortfalls.
2. That the Edmonton Public Library 2020 net operating requirement be reduced by \$3.2 million, on a one-time basis, with funds appropriated in the Financial Stabilization Reserve, to be used to offset COVID-19 2021 operating budget shortfalls.
3. That the 2021 operating budget be adjusted on a one-time basis to reflect the adjustments to individual branch revenue and expenditure budgets as reflected in Attachment 2 of the December 7, 2020, Financial and Corporate Services report FCS00181, as a result of the COVID-19 response.
4. That Attachment 4 and 6 of the December 7, 2020, Financial and Corporate Services report FCS00181 remain private pursuant to section 24 (advice from officials) of the *Freedom of Information and Protection of Privacy Act*.

Executive Summary

The total projected financial impact of COVID-19 on the corporation's 2021 operating budget is \$152.0 million. To offset this impact, Administration recommends reducing net expenditures by \$51.2 million through various management strategies, using the additional one-time Land Enterprise dividend and other revenues of \$2.0 million, and applying \$98.8 million from the COVID funding available in the appropriated Financial Stabilization Reserve. This recommendation avoids a tax increase for 2021 to manage the financial impacts of COVID-19.

A summary of the COVID-19 2021 financial impact and funding strategy is provided in Attachment 1. The one-time balanced budget adjustment, to recognize financial

impacts of COVID-19 on the 2021 operating budget and related funding strategy, is included as Attachment 2.

Report

Overall Approach to COVID-19

Administration continues to use the four-stage model (Respond, Relaunch, Recover and Reimagine) previously shared with the Emergency Advisory Committee and Council to address the COVID-19 pandemic. Early in the pandemic, Administration developed a set of principles that guide the City's approach to financial decisions during the pandemic. These principles of safety, combining funding strategies, long-range focus, considering the local economy, honouring relationships, and city building were also applied to develop the 2021 financial response.

The four stage model and guiding principles are included as Attachment 3 to this report.

Administration's actions during the Response and Relaunch stages are intended to balance economic and social needs with public health needs during the pandemic's unpredictable course. The City's response is iterative and aligns with all public health directives from other orders of government.

Budget Approach to COVID-19

Administration will manage the effect of the COVID-19 pandemic on the 2021 operating budget through a one-time budget adjustment that matches the anticipated shortfall with an offsetting funding strategy. The budget adjustment will be a one-time, balanced adjustment with no impact on the 2021 tax levy.

The long-term effect of the pandemic on citizens' needs and preferences, including how they use City services, is unclear. The budget impacts of COVID-19 will be treated as one-time changes until it is determined that the pandemic's effects on service demand are permanent, or it is clear that one-time funding strategies are no longer viable. This approach helps limit the impact to residents by utilizing all available options for funding, including internal expense management and the prudent use of federal and provincial funding.

The November 16, 2020, Financial and Corporate Services report, FCS00078, Fall 2020 Supplemental Operating Budget Adjustment provides ongoing budget reduction strategies for Council's consideration to reduce the 2021 tax levy increase from the 3.2 percent previously approved to zero, and does not include one-time budget impacts or funding strategies related to COVID-19.

2020 COVID-19 Budget Impacts

In the April 27, 2020, Financial and Corporate Services report CR_8228, COVID-19 Financial Impacts and Funding Strategy, Administration adjusted 2020 operating budgets on a one-time basis in order to offset the budget impact of COVID-19. That budget adjustment is summarized in the table below:

COVID-19 2020 Budget Adjustment (1)	
(\$millions)	2020
	Budget Adjustment
Revenue reductions - tax-supported	\$(127.5)
Additional COVID related costs - tax-supported	\$(9.7)
Revenue reductions - non tax-supported (Development Services, Vehicle for Hire)	\$(15.7)
Total COVID-19 Impact	\$(152.9)
Expense reductions (net)	\$95.2
Increased transfer from Planning & Development and Vehicle for Hire Reserve (2)	\$11.2
Reduced transfer to capital	\$46.5
COVID- 19 2020 Funding Shortfall	-

(1) Details in Attachment 1 of report CR_8228 COVID-19 Financial Impacts and Funding Strategy (2020)

(2) Used to offset one-time net 2020 budget impacts of COVID-19 on non tax-supported Development Services and Vehicle for Hire operations.

The 2020 COVID-19 budget adjustments were one-time in nature, as a result the 2021 approved budgets remain at pre-COVID amounts, subject to changes through ongoing budget adjustments proposed in FCS00078.

The projected tax-supported impact of COVID-19 in 2020 is estimated to be \$138.8 million, comprising \$127.5 million in revenue reductions, \$9.7 million additional costs, and a further projected year-end deficit of \$1.6 million, based on third quarter operating financial results. However, as the City adjusts its response to the pandemic, Administration anticipates this projected deficit will continue to increase. Final results will be brought forward for Council’s consideration through the preliminary year-end operating results report in the first quarter of 2021, when the final 2020 year-end position is known.

2020 COVID-19 Funding Strategy

For 2020 the strategies to address COVID-19, 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.

Expense management, redirection of capital funding, and transfer from reserves (non tax-supported operations) were used to offset impacts of COVID-19 in 2020. Use of the unappropriated Financial Stabilization Reserve and financial strategies have not been required to date to offset 2020 COVID-19 budget impacts.

Municipal Operating Support Transfer (Safe Restart Funding):

On July 17, 2020, the Government of Canada announced its COVID-19 Safe Restart funding program to support municipal operating and public transit expenditures. On July 28, 2020, the Government of Alberta announced it would match the federal contribution. The funding is provided through the Municipal Operating Support Transfer (MOST) program.

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 as a result of COVID-19 impacts on revenues and operations. The deadline to spend funds is March 31, 2021, with eligible expenditures retroactive to April 1, 2020. The City of Edmonton received the funds from the province in mid-November.

Recommendation 1 of this report increases the revenue budget by \$158.2 million to reflect the MOST funding. Before the MOST funding was finalized, Council had approved \$152.9 million in funding strategies to offset revenue loss and increased expenses due to the pandemic response in 2020. As the MOST funding can be applied to eligible pandemic related costs in 2020, the previously approved \$152.9 million can be applied instead to offset the anticipated impact of the pandemic in 2021. This will be accomplished by transferring these savings to the appropriated Financial Stabilization Reserve. The remaining MOST funding of \$5.3 million (\$158.2 million in MOST funds, less \$152.9 million applied towards 2020 COVID impacts) will also be transferred to the reserve. The rationale of this strategy is to use the MOST funding before its expiration date of March 31, 2021.

The Edmonton Public Library has come forward with a \$3.2 million one-time reduction to their tax-levy funding requirement for 2020 to help offset the City’s COVID-19 budget impacts. Recommendation 2 to this report suggests that the one-time savings be transferred to the appropriated Financial Stabilization Reserve to help offset COVID-19 2021 budget impacts.

On October 1, 2020, City Council approved \$8.0 million of the MOST funds be used to fund the establishment of a 24/7 temporary accommodation at the Edmonton Convention Centre.

After considering the above 2020 items the total funding available in the appropriated Financial Stabilization Reserve, to help offset COVID-19 2021 budget impacts, is \$151.8 million as shown in the table below.

Funding Available in the Appropriated Financial Stabilization Reserve for COVID	
(\$millions)	
Previous 2020 budget reductions redirected to appropriated FSR (Recommendation 1)	\$152.9
Remaining balance of MOST funding not used in 2020 (Recommendation 1)	\$5.3
Edmonton Public Library - one-time 2020 tax-levy funding reduction (Recommendation 2)	\$3.2
Total Funding Available	\$161.4
Funding for Edmonton Convention Center 24/7 Pandemic Shelter (approved by City Council on October 1, 2020)	\$(8.0)
2020 year-end projected deficit	\$(1.6)
Funding Available in Appropriated Financial Stabilization Reserve for COVID (prior to consideration of COVID-19 2021 Budget Impacts)	\$151.8

2021 COVID-19 Budget Impacts

The public health response measures continue to have a significant effect on the finances of many individuals and organizations, including the City’s budgeted revenues and expenses.

The City is projecting a significant decline in revenue in 2021 coupled with additional costs incurred related to the City’s pandemic response. Administration has reviewed and estimated the effect of the pandemic response on the City’s operating budget. A sustained response to COVID-19 will have a substantial effect on the City’s operations and budget and a balanced approach is required to manage the City’s financial viability.

Assumptions

Duration:

Given the difficulty predicting the duration of the pandemic, and uncertainty about the availability and distribution of a vaccine, this report assumes the pandemic will continue and the measures currently in place will remain for the duration of 2021. Due to this unpredictability, Administration has not provided alternate scenarios, and has not estimated effects on the 2022 operating budget.

Service Levels:

Service levels for the duration of the pandemic are assumed to be maintained at existing levels in response to the pandemic. The following assumptions were used for City services that are most affected by the pandemic response:

- Transit service will continue providing full service levels.
- Community recreation facilities will be operating at the current restricted levels.

An option to open certain services in specific recreation facilities, as well as the related financial impact, is provided for Council’s information within the Emerging Items for Consideration section of this report.

As the pandemic response unfolds over the course of 2021, Administration will gain a better understanding of the financial impacts to the organization. This may result in a need to update financial estimates and the funding strategy.

The total corporate impact for 2021 is estimated to be \$152.0 million, comprising \$121.5 million in reduced revenues and \$30.5 million in additional costs.

COVID-19 2021 Corporate Revenue and Additional Cost Impacts (Estimated)	
(\$millions)	2021
Revenue reductions (Tax-supported, non tax-supported - Development Services, Vehicle for Hire)	\$(121.5)
Additional COVID related costs	\$(30.5)
Total COVID-19 2021 Budget Impact	\$(152.0)

The more significant impacts to 2021 budgeted revenues include:

- Reduced transit revenues as a result of lower ridership levels,

- Lower than budgeted community and recreation facility admission, program and rental revenues due to facility closure and reduced service levels,
- Decrease in parking revenues due to less usage of City parking facilities,
- Decrease in building and development permit revenues due to declines in private-sector construction building intentions in Edmonton and lower business activity,
- Reduced tag and fine revenues due to less enforceable activity across the City,
- Decrease in business license revenues due to a slow down in the economy, and
- Lower than budgeted supplementary taxes due to a decrease in housing starts.

Administration is recommending that branch revenue budgets be reduced and expenditure budgets be increased, due to decreased revenues and additional costs as a result of COVID-19, in 2021 on a one-time basis, as reflected in Attachment 2. Additional details on revenue and additional cost impacts are also explained in Attachment 2.

2021 COVID-19 Funding Strategy

To offset the COVID-19 estimated 2021 impact of \$152.0 million, Administration recommends reducing net expenditures by \$51.2 million through various expense management strategies, including support from boards and authorities, use of the additional one-time Land Enterprise dividend and other revenues of \$2.0 million, and applying \$98.8 million from the COVID funding available in the appropriated Financial Stabilization Reserve. This recommendation avoids a tax increase to manage the financial impacts of COVID-19 in 2021. As this is a one-time budget adjustment, in 2022 revenue and expense budgets will be adjusted to normal levels, as appropriate.

COVID-19 2021 Budget Adjustment	
(\$millions)	2021
	Budget Adjustment
Revenue reductions (Tax-supported, non tax-supported - Development Services, Vehicle for Hire)	\$(121.5)
Additional COVID related costs	\$(30.5)
Total COVID-19 Impact	\$(152.0)
Funding Strategies:	
Expense management	\$50.3
Boards and authorities	\$0.9

Land Enterprise dividend and other	\$2.0
COVID-19 2021 Funding Shortfall before use of appropriated FSR	\$(98.8)
Transfer from appropriated FSR	\$98.8
COVID- 19 2021 Funding Shortfall	-

Expense Management:

Expense management strategies include the reduction of budgeted expenses to offset impacts of COVID-19, as a result of:

- decreases in service levels and demand for services, including workforce impacts,
- strategies implemented to reduce spending on contractors, consulting, training, hosting and business travel,
- Other one-time expense management items not necessarily related to COVID-19 impacts. All one-time 2021 budget savings, whether related to COVID-19 or not, are proposed to be used to offset COVID-19 2021 budget impacts.

Expense reductions of \$50.3 million are expected to be short-term and intended to provide flexibility to return to normal service levels in the future when it is prudent to do so. Decreased service levels and demand for services will result in corresponding workforce savings of \$21.4 million and non-personnel expense reductions of \$28.9 million. Details of workforce strategies are included in Attachment 4.

Boards and Authorities:

The Edmonton Arts Council, Heritage Council and REACH have come forward with voluntary one-time budget reductions in tax-levy support for 2021 totalling \$0.9 million to support the City with COVID-19 budget challenges.

Land Enterprise Dividend:

City Policy C516B Land Enterprise Dividend approves an annual dividend to tax-supported operations based on 25 percent of actual net income of the prior year of the land development activity of Land Enterprise. The estimated 2021 land dividend provided to tax-supported operations within Corporate Expenditures and Revenues is to be increased by \$1.9 million on a one-time basis based on the 2020 projected year-end net income. This additional dividend will not have long-term impacts on the

financial sustainability or operations of the enterprise and is in accordance with the dividend policy.

After consideration of the COVID-19 2021 budget impacts and proposed funding strategies, the funding remaining in the appropriated Financial Stabilization Reserve to assist with additional funding needs is \$53.0 million, as reflected in the table below:

Funding Available in the Appropriated Financial Stabilization Reserve for COVID	
(\$millions)	
Funding Available in Appropriated Financial Stabilization Reserve for COVID (prior to consideration of COVID-19 2021 Budget Impacts)	\$151.8
Transfer to support COVID-19 2021 Budget Impacts	\$(98.8)
Funding Available in Appropriated Financial Stabilization Reserve for COVID (after consideration of COVID-19 2021 Budget Impacts)	\$53.0

There are various emergent items, potential impacts to be monitored, and other unforeseen items that could have related financial impacts. Emergent items and potential impacts to be monitored are discussed below. Administration suggests that any use of the funds remaining in the appropriated Financial Stabilization Reserve for COVID for the following items be considered cautiously.

Emergent Items for Consideration

The following is a list of emergent items with additional funding requirements. These items have not been included as part of the funding strategy recommended in this report.

Relaunch of Certain Recreation Facilities

Following the closure of recreation facilities in March 2020 due to COVID-19, Administration developed a phased approach to the relaunch consistent with Government of Alberta guidelines and health orders.

Phase 2 of the relaunch plan suggests reopening six additional aquatic and three additional fitness amenities throughout the city. The incremental net budget requirement is estimated to be \$7.5 million. A list of facilities currently open, closed, and those considered for reopening as a part of the original Phase 2 relaunch plan, along with associated financial impacts is included in Attachment 5.

Based on current COVID-19 case counts and health guidance, Administration is not recommending opening these facilities.

Explore Edmonton

While Explore Edmonton has adjusted their operations to their revised mandate, their finances have been significantly affected by the decline in tourism and the visitor economy, and the inability to host events of any significance at the convention centres. The November 30, 2020, Citizen Services report CR_8299, Explore Edmonton Net Operating Requirement 2021 to 2024 outlined Explore Edmonton's multi-year one-time funding requirements in 2021 and 2022.

YMCA of Northern Alberta

On December 2, 2020, Citizen Services report CR_7419, Update on Partnership with YMCA of Northern Alberta, was provided to Community and Public Services Committee.

The YMCA of Northern Alberta is facing significant financial challenges due to the impacts of the COVID-19 pandemic and as a result has formally requested \$1 million in 2021 operating funding from the City of Edmonton to reopen the Castle Downs Family YMCA.

Economic Incentives/Rebates to Support High-Impact Construction Projects

At the October 16, 2020, Executive Committee meeting, Administration was asked to prepare options in the form of rebates or construction-period progressive/supplemental tax exemptions to support high-impact private construction projects starting in the 2021 construction season that might not proceed without incentive support. Administration will return with options for consideration and related financial impacts in a report scheduled for January 18, 2021.

Potential Impacts to be Monitored

The following items involve a greater degree of uncertainty and as a result Administration is not able to estimate the budget impact at this time. Administration will continue to monitor each matter and update City Council as necessary:

- The province is anticipated to release its 2021 budget in February 2021. Provincial budget reductions could affect some aspects of the City's capital and operating budgets. Details of budget items possibly affected by provincial reductions are included in Attachment 6.
- External organizations may come forward with additional funding needs as a result of the pandemic.
- Additional funding required to support vulnerable populations as a result of the pandemic.

- The duration and severity of the pandemic may result in further effects to the City operating budget.

Capital Prioritization and Potential Reductions

At the May 25-27, 2020, City Council meeting, a motion was passed directing Administration to analyze the balance of the 2019-2022 capital budget and provide infrastructure cutback scenarios to offset operating budget shortfalls. The process and findings of this analysis are included in the November 16, 2020, Financial and Corporate Services report CR_8486, Fall 2020 Supplementary Capital Budget Adjustment report.

Based on the analysis, if required, \$24.3 million could be reduced from the remainder of the 2019-2022 capital growth budget and between \$24.0 million and \$54.5 million could be reduced from the Neighbourhood Renewal Program on a one-time basis to release operating contributions from the capital budget (i.e., pay-as-you-go and tax-levy). As noted above, use or redirection of these funds would be considered an amendment to Policy *C595B Neighbourhood Renewal Program* and would require a non-statutory public hearing.

Since the capital prioritization motion was passed on May 25, 2020, funding has been committed from both the federal and provincial governments to mitigate the impacts of COVID-19 on the economy and the City's budget. However, given the emergent items and potential impacts discussed above, and the potential for other unforeseen items, there is an opportunity for Council to review the prioritized list of capital projects and consider options to cancel or pause projects.

Public Engagement

The financial impacts of the COVID-19 pandemic require time-sensitive decisions by Administration, City Council and its Emergency Advisory Committee, so the opportunity for public engagement is limited.

Administration received perspectives from approximately 4,400 residents, business owners and property owners on how the pandemic has financially impacted them, and on potential tax increases, to provide Council with additional information for its decision-making. The public opinion survey on tax tolerance that was conducted from November 5-15, 2020. Complete survey results will be provided to City Council as an addendum to FCS00078.

Public input helped shape the 2019-2022 capital and operating budgets. The public will have the opportunity to address City Council directly during the non-statutory Public Hearing on December 3, 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) 0.0% (2021) 1.6% (2022)

Attachments

1. COVID-19 2021 Financial Impacts and Funding Strategy - Summary
2. COVID-19 2021 Operating Budget Adjustment
3. COVID-19 Four-Stage Model and Guiding Principles
4. COVID-19 2021 Workforce Strategies (PRIVATE)
5. Phase 2 Recreation Facility Reopening Considerations and Financial Impacts
6. Summary of Provincial Budget Exposures (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