

Spring 2021 Supplemental Operating Budget Adjustment

Recommendation

1. That amendments to the 2021-2022 Operating Budget, as outlined in Attachment 1 of the April 19, 2021, Financial and Corporate Services report FCS00451, be approved.
2. That the 2021 operating expenditure budget for the Office of the City Manager, be increased by \$8.0 million, on a one-time basis, with funding from the COVID-19 funds within the appropriated Financial Stabilization Reserve, for the purpose of emergent COVID-19 recovery needs, which may include items such as, but not limited to, municipal election modification expenses, re-opening of civic services and facilities, or temporary support for vulnerable populations, provided that no single category exceeds \$2.0 million, and with reporting back to Council on use of funds.

Executive Summary

The primary purpose of the Spring 2021 Supplemental Operating Budget Adjustment (SOBA) report is to finalize the 2021 tax levy approved by Council in December 2020 prior to setting the 2021 tax rate. The 2021 property tax bylaw will be brought forward to City Council on May 3, 2021.

This report recommends adjustments to the already approved 2021-2022 operating budgets as a result of updates to economic forecasts, administrative adjustments and Council directed updates (funded service packages).

With Council's approval of the recommendations in Attachment 1, the municipal tax levy for 2021 will reflect a decrease of 0.3 percent (0.6 percent increase for Edmonton Police Services, 0.6 percent increase for Valley Line LRT, 0.3 percent increase for Alley Renewal, offset by a 1.8 percent net decrease for municipal services, including assessment growth). This is a further decrease from the zero percent approved by Council during fall 2020 budget deliberations. As of now, the 2022 tax increase would remain at 1.6 percent, as approved during the fall 2020 budget deliberations.

The municipal tax levy is being proposed at a 0.3 percent decrease to achieve no overall tax increase after consideration of the education tax requisition as reflected in Attachment 2.

Attachment 3 of the report includes service packages Council has requested to be brought back for consideration as a part of the Spring 2021 SOBA discussions.

A recommendation is also provided for use of \$8.0 million in COVID-19 funds appropriated with the Financial Stabilization Reserve (FSR), as authorized by the City Manager. A list of City programs, operational changes and financial support for Edmontonians in response to the COVID-19 pandemic is included as Attachment 4.

Report

The Supplemental Operating Budget Adjustment process allows the City to adjust its multi-year budget in response to external factors such as:

- provincial or federal government budgets;
- changes imposed by legislation;
- operating impacts from implementing and completing capital projects;
- unforeseen changes to economic forecasts affecting costs, service demand volumes, or revenue projections; and
- Council-directed changes to priorities, policies and programs.

COVID-19 - 2021 Funding Needs

This report is specific to the Spring 2021 Supplemental Operating Budget Adjustments and related tax-levy impacts, and does not include any further 2021 financial impacts and funding strategies related to COVID-19. Council previously approved the 2021 financial impacts and funding strategies related to the pandemic through one-time budget strategies (COVID-19 2021 Financial Impacts and Funding Strategy, FCS00181, presented to City Council on December 7, 2020).

Since that time, additional funding needs as a result of the pandemic have arisen. Recommendations will be brought forward for City Council's consideration for use of the remaining COVID-19 funds appropriated within the Financial Stabilization Reserve to fund these items during future Council meetings.

Certain COVID-19 funding needs may require more immediate attention, including items such as, but not limited to, municipal election modification expenses, re-opening of civic services and facilities, or temporary support for vulnerable populations. In order to expedite the process for distribution of funds for these COVID-19 recovery efforts, Administration is proposing that \$8.0 million in COVID-19 funds currently appropriated in the FSR, be transferred to the City Manager's Office to be used for any of the above items as approved by the City Manager. Administration also recommends limiting use of the \$8.0 million in COVID funds to a maximum of \$2.0 million for any one category, to ensure even distribution of COVID recovery efforts authorized by the City Manager. Use of the funds will be authorized by the City Manager and will not be brought forward for approval for City Council; however, use of funds will be reported back to City Council through future Council meetings, and at minimum through the regular

quarterly operating financial updates. This is included as Recommendation 2 to the report.

A list of City programs, operational changes and financial support for Edmontonians in response to the COVID-19 pandemic is included as Attachment 4.

Spring 2021 Supplemental Operating Budget Adjustments

Attachment 1 recommends adjustments to the approved operating budgets to address changes since the Fall 2020 Supplemental Operating Budget Adjustment. Adjustments include changes to economic and corporate forecasts, administrative adjustments that have no impact on the net tax levy requirement but require Council approval, and Council directed funding requests.

Attachment 1 reflects revisions to the municipal tax levy in an effort to achieve no overall tax increase after consideration of the education tax requisition. The strategy to achieve this is discussed further below and is reflected in Attachment 2 as well.

Change to Economic Forecasts

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

- Assessment growth and taxation forecasts - The amount of assessment growth and taxation revenue for 2021 is \$5.7 million higher than the budget approved by Council in December 2020. This is mainly due to construction activity being stronger than anticipated for 2020 and changes to other taxation forecasts.
- Repayment to the Financial Stabilization Reserve (one-time adjustment) - The 2020 operating budget included a one-time transfer from the Financial Stabilization Reserve of \$2.2 million to offset one-time costs, and the 2021 operating budget included a repayment to the reserve in the same amount. As a result of the 2020 preliminary tax-supported surplus position (as presented to City Council on March 15, 2021 through Financial and Corporate Services report FCS00281, Operating Financial Update - December 31, 2020), the funds were not withdrawn from the reserve in 2020 and therefore the repayment to replenish the FSR in 2021 is no longer required. There is no overall impact to the Financial Stabilization Reserve.

Vehicle for Hire

Attachment 1 includes an administrative adjustment related to the Vehicle for Hire program that requires Council approval. The adjustment has no overall impact on the net tax levy requirement for 2021; however, it does affect the Vehicle for Hire Reserve and COVID-19 funds within the appropriated Financial Stabilization Reserve.

In Fall 2020, as a part of the COVID-19 2021 financial impacts and funding strategy, \$0.9 million was estimated to be required from the COVID-19 funds within the appropriated Financial Stabilization Reserve, to offset the reduced Vehicle for Hire revenue impacts. Following more detailed assessment of the Vehicle for Hire Reserve, Administration believes that the Vehicle for Hire Reserve balance is sufficient to absorb the impact of the revenue reduction due to COVID. As a result, an adjustment is being recommended to increase the transfer from the Vehicle Hire Reserve by \$0.9 million, and decrease the transfer of \$0.9 million from the appropriated Financial Stabilization Reserve on a one time basis.

Financial Strategies

The financial strategies budget is an amount held corporately that provides flexibility for unknown amounts over the four year budget cycle, and also provides a mechanism to manage fluctuations within the operating budget while maintaining the desired tax increases.

The net tax-levy impact of the adjustments in Attachment 1 is \$7.9 million, before considering any changes to the financial strategies budget. The \$7.9 million consists of ongoing funding of \$5.7 million due to changes in assessment growth and other tax forecasts, and \$2.2 million in one-time savings as a result of a reduced transfer to the Financial Stabilization Reserve. Both of these adjustments are explained above. Administration is recommending that the \$2.2 million in one-time funding as a result of reduced transfer to the Financial Stabilization Reserve, and \$0.4 million in ongoing funding (portion of the \$5.7 million ongoing funding) be used to increase the financial strategies budget by a total of \$2.6 million in 2021. The \$0.4 million in ongoing funding allocated to financial strategies can be used by Council for ongoing needs including unfunded service packages brought forward for consideration in this report. The remaining \$5.3 million in ongoing funding as a result of changes in assessment growth and other tax forecasts is proposed to be used to achieve no overall tax increase. This is discussed in more detail in the next section.

Strategy to Achieve No Overall Tax Increase

During the fall 2020 budget deliberations, Council approved no increase to the municipal tax-levy. After factoring in the provincial education tax requisition, which was

finalized through the release of the provincial 2021 budget on February 25, 2021, the overall tax increase (considering the municipal and education tax portions) is 0.1 percent and 0.7 percent, for the residential and non-residential sectors, respectively. Although the provincial government implemented a provisional tax freeze for 2021, market value fluctuations and the City's over-under levy and associated requisition allowance affected the required requisition. This 2021 tax requirement is reflected in Table 1 in Attachment 2, along with an explanation of the education tax increase.

However, in an effort to maintain no overall tax increase, Administration is recommending a municipal tax decrease of 0.7 percent in the non-residential category as well as a reduction in the education requisition for both residential and non-residential properties. The resulting combined municipal tax decrease would be 0.3 percent after factoring in no tax increase for the residential subclass approved previously in fall 2020.

To achieve a combined 0.3 percent municipal tax decrease, the net tax levy requirement needs to be reduced by \$5.3 million. This report proposes that the additional \$5.3 million in taxation revenue (resulting mainly from assessment growth), discussed above, be used to offset the requirement. In other words, the \$5.3 million in additional assessment growth is being returned to non-residential property owners.

This recommended strategy to achieve a no overall tax increase is reflected in the 2021 proposed budget adjustments in Attachment 1 and explained in Attachment 2, Table 2 - 2021 tax requirement.

Community Revitalization Levy Adjustments

Community Revitalization Levy budgets have also been adjusted based on updated assessment figures and revised forecasts, including changes to debt servicing. The details of the adjustments are included on page 2 of Attachment 1.

Service Packages

City Council requested the following service packages be brought forward for consideration during the Spring 2021 SOBA.

The Speed Limit Reduction and Safety Codes Excavation Inspections service packages are included in Attachment 3 for Council's consideration.

The Social Development Operating Subsidy service package is being proposed for deferral until the Fall 2021 SOBA in December 2021.

Below is a detailed update on each service package.

- Speed Limit Reduction (Attachment 3 - Funded Service Package) - On November 4, 2020, City Council passed the second and third readings of Charter Bylaw 19282 which is the first step in reducing the city-wide default speed limit from 50 km/h to 40 km/h. The work for this change was completed through Capital Profile CM-66-2580 Speed Limit Reduction, which was approved by Council on May 25, 2020 in the Spring 2020 Supplemental Capital Budget Adjustment, Financial and Corporate Services report CR_8009. The estimated operating impacts of capital for this work are \$0.5 million and are related to providing public awareness and advising Edmontonians of when new speed limits will become effective. As this is an operating impact of capital, the proposed budget adjustment is included in Attachment 2 and the related funded service package has been included in Attachment 3, reflecting an increase of \$0.5 million in expenditures, offset with an increased transfer from the Traffic Safety Automated Enforcement Reserve of \$0.5 million. This service package does not impact the 2021 tax levy requirement and supports the Council-approved capital work.
- Safety Codes Excavation Inspections (Attachment 3 - Unfunded Service Package) - At the January 19, 2021, Urban Planning Committee, in response to the Urban Form and Corporate Strategic Development report CR_8099, Infill Compliance Team Annual Report 2020, Committee passed a motion requesting an unfunded service package for consideration by Council during the 2021 Spring SOBA to explore increased resources for excavation inspections, and enforcement and compliance. Estimated costs of a new safety codes inspection program and procedure for excavations and enforcement are \$0.3 million on an ongoing basis starting in 2021 and \$0.1 million on a one-time basis. An unfunded service package has been included in Attachment 3 for Council's consideration and requires funding. If Council chooses to fund this service package, Administration is proposing the use of the additional budget with financial strategies as a result of assessment growth.
- Social Development Operating Subsidy (Proposed deferral to Fall 2021 SOBA) - During the Fall 2020 budget discussions, Council directed Administration to work with the Community Services Advisory Board and reimagine the Community Investment Operating Grant (CIOG) for 2022 and include an unfunded service package in the Spring 2021 SOBA report. A working group of the Community Services Advisory Board initiated this process with the support of City staff. The working group is developing a process to ensure community voices are heard to guide recommendations regarding eligibility of the program. The goal is to bring the revised policy to City Council for approval in summer 2021, with an unfunded service package to come forward as a part of the Fall 2021 SOBA report in December 2021.

Transit Fares

During fall 2020 budget deliberations, City Council approved transit fares for 2021 and 2022, with exception of the cash transit fare increase which was postponed from February 1, 2021 to May 1, 2021.

There are two reports for Council's information and consideration related to transit fares.

City Operations report CO00410, Transit Statistics 2019 and 2020 responds to a Council inquiry about transit ridership for 2019 and 2020 and fare sales revenue for 2020, including cash fares, tickets, adult pass, youth pass, and senior pass. The report also discusses the revenue implications of the change in ridership and other measures taken by ETS during the pandemic. This report was presented to Executive Committee on April 12, 2021.

City Operations report CO00444, 2022 Transit Fee Schedule recommends adding a single trip rate for Smart Fare users to the 2022 Transit Fee Schedule for ETS previously approved through the Fall 2020 SOBA. The amendment would create a fare category for riders using the Smart Fare system to support implementation timelines for the Smart Fare system. This report was presented to Executive Committee on April 12, 2021 and is on the April 19, 2021, City Council meeting agenda for consideration.

Unless otherwise directed by City Council, the 2021 and 2022 transit fares approved by City Council during the Fall 2020 SOBA will remain in place, with increased cash transit fares effective May 1, 2021.

Public Engagement

Public engagement was not conducted as part of the development of this Supplemental Operating Budget Adjustment.

Administration delivered operating and capital engagement events as part of the original 2019-2022 operating and capital budgets development and approval process in 2018, and non-statutory public hearings were held for each of the fall supplemental operating budget adjustment process in 2019 and 2020.

Residents will have the opportunity to address City Council directly during non-statutory Public Hearings in fall 2021 before consideration of adjustments for 2022. The spring supplemental operating budget adjustment process finalizes the tax rate approved by Council in December 2020.

Budget/Financial Implications

With Council’s approval of the recommendations including the adjustments in Attachment 1, the 2021 municipal tax levy will reflect a decrease of 0.3 percent (0.6 percent increase for Edmonton Police Services, 0.6 percent increase for Valley Line LRT, 0.3 percent increase for Alley Renewal, offset by a 1.8 percent decrease for municipal services). Approving the adjustments will result in operating budgets for tax-supported operations having revenues and expenditures totalling \$3,032,011,000 in 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.	(0.3%) (2021) 1.6% (2022) (Spring 2021 SOBA)	0.0% (2021) 1.6% (2022) (Fall 2020 SOBA)

Attachments

1. 2021-2022 Operating Budget Changes
2. 2021 Tax Requirement
3. Service Packages
4. Actions to Support Edmontonians Coping with the Impacts of COVID-19

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