Proposed 2019-2022 Operating Budget

THE CITY OF EDMONTON
November 7, 2018
City Council

Agenda

1. City Building Story
2. Fiscal Policy in the Economic Context
3. Economic Outlook
4. Proposed 2019-2022 Operating Budget
5. Program and Service Review Update

Our City Building Story

2019-2022 OPERATING BUDGET

City Building [Linda Cochrane]:

Good afternoon.

I'm pleased to present the City of Edmonton's proposed 2019–2022 Operating Budget.

Together, the Capital Budget and Operating Budgets are about building a great city. They work together as two parts of our overall commitment to imagining, building and animating our city.

The Capital Budget is about the "stuff" that we build and maintain.

It's about the new - and renewal of - roads, bridges, sidewalks, parks and facilities that we use every day.

The Operating Budget brings this "stuff" we build to life.

The Operating Budget supports:

- the people who help residents plan and build for their futures
- the amenities that make Edmonton a great place to live
- and the dreams we all have for the city we want to become

The 2019-2022 proposed Operating Budget balances our optimism of what we aspire to … and the realism of our fiscal constraints and current economic

environment.
This delicate balance is woven throughout the pages of the Budget as we focus on making the best use of taxpayer dollars.
Each of our City Departments plays a critical role in bringing Edmonton - and our Budgets - to life.
And they are joined together by a shared commitment to continuous improvement.
One of the ways we continue to look to improve is through our Program and Service Review.
And while this Review is not Budget driven, it is Budget related.
It's part of our ongoing effort to ensure our work across the organization is efficient, effective and relevant for Edmontonians.
And while some reductions to expenditures have been identified, we really view this work as a way to remain resilient in a difficult economic environment.
In compiling the 2019–2022 proposed Operating Budget, we have tapped into the experience and expertise of hundreds of dedicated City staff.
And we have asked Edmontonians about their priorities for building our city.
Together, these inputs and insights are at the heart of our Budget recommendations for Council.
Council's informed decisions about expenditures will allow allow us to continue to make Edmonton great.

Now I'll hand it over to Milap Petigara to put some of our fiscal policy in context for you.

- The purpose of this presentation today is to provide some historical context for Council fiscal policy over the past 20-25 years.
    - Specifically, we will discuss the economic pressures and conditions that influenced the various phases of fiscal policy over this period.

Overview

- **Fiscal policy is the set of Council decisions made in respect to:**
  - Taxation
  - Spending
  - Borrowing
- **Economic conditions can influence fiscal policy & fiscal policy can influence the economy**
  - Municipal taxation and spending can influence the economy, but to a lesser degree than the Provincial and Federal Governments
- **Council determines City fiscal policy, largely through budgets and financial policies**

- When we talk about fiscal policy, we are referring to the set of Council decisions made with respect to taxation, spending and borrowing.
- Fiscal policy is often influenced by economic conditions, and in turn fiscal policy can influence the local economy. However, due to the relatively small size of municipal government and its limited flexibility in setting taxation policy, municipal fiscal policy influences the economy to a far lesser extent compared to fiscal policy set by Provincial and Federal Governments. Nonetheless, City Council's fiscal decisions can influence the economy in the following ways:
  - First, City operational spending can provide some positive stimulus to the local economy, and City capital spending can provide positive stimulus to the local construction building sector
  - Second, City taxation has the potential to reduce savings and consumption in the household sector, which can produce negative ripple effects throughout the local economy as aggregate household demand can decline under softening household consumption.
  - And Third, City taxation has the potential to reduce business investment levels, as well as potentially create market distortions that drive business to surrounding municipalities and counties.
- Council are the governors of City fiscal policy, and budgets are instruments through which fiscal policy can be set.

Historical Fiscal Policy Phases

Years	Fiscal Policy Phase	Description
1993-1999	Constrained Fiscal Policy	• Fiscal policy was constrained in response to economic stagnation (mid 90s), deep Provincial budget cuts, and population decline in Edmonton
2000-2004	Stabilization	• Fiscal policy was characterized by base budget increases to counteract inflationary pressures and maintain service standards over time
2005-2007	Fiscal Growth: Service Expansion	• Fiscal policy was characterized by new and enhanced service delivery in response to evolving citizen expectations
2008-2016	Fiscal Growth: Service & Capital Expansion	• Fiscal policy responded to rapid population and economic growth with significant capital growth, infrastructure renewal, and new and enhanced services
2017-2018	Transition to Moderate Growth	• Fiscal policy responded to the economic contraction (2015-2016) by slowing fiscal growth • Continued capital expansion and impacts of capital from previous budget cycle; continued new service growth; however much of the growth was funded through harvested base budget reductions

- **<u>1993-1999: characterized by Constrained Fiscal Policy</u>**
  - This period in Edmonton was marked by a sluggish economy followed by Provincial budget cuts that had significant negative economic impacts in Edmonton.
    - 3 consecutive years of population decline: 1994-1996
  - Council at the time responded to the economic conditions with 4 consecutive years of 0% tax increases (1993-1996).
  - Very limited investments in new or existing infrastructure
    - i.e. Halted LRT system expansion
  - Very limited use of debt financing, which was a byproduct of policy set a decade prior:
    - In 1983, the original Debt Management Fiscal Policy was adopted, which restricted borrowing for general capital works and was designed to retire existing tax-supported debt by 2004 (later pushed to 2007). This policy established that the City did not borrow funds to finance capital projects, instead opting for a pay as you go approach.
  - Absolute reductions in City FTEs
  - Federal & Provincial capital grants had diminished considerably
  - During this time Edmonton did not maintain its infrastructure, and the City's Infrastructure condition deteriorated
  - The Councils of this time focus was primarily on core service delivery only

- **<u>2000-2004: characterized by Stabilized fiscal policy</u>**
  - Base budget increases to maintain service standards
  - Increases in FTEs to keep pace with population growth
  - Very limited use of debt under a very limited capital program
  - Infrastructure condition continued to deteriorate.

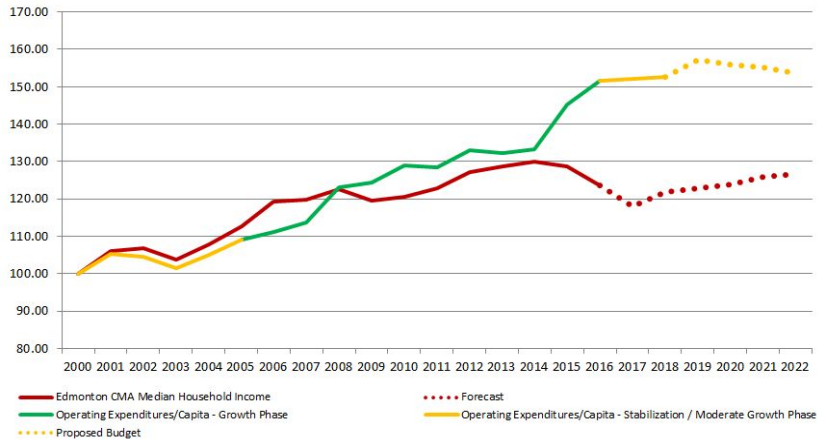
- **<u>2005 to 2016: characterized by Significant Growth & Enhanced Service Delivery</u>**

- Rapid economic and population expansion
  - Edmonton's population grew by 31% between 2005 and 2016, and real GDP grew by ~37% during this time.
- The fiscal policy during this growth phase is broken into two sub-phases:
  - The front end of this phase from 2005 to 2007 saw new service growth and enhanced existing services, but remained under a limited capital program.
  - From 2008 onward, service enhancement continued alongside a significant capital expansion and renewal program
- Overall, expenditure increases during the growth phase consisted of:
  - reinvestment into service areas that experienced cutbacks between 1995 and 1997.
  - Development and delivery of new services & improved service standards
  - Construction of new capital facilities and re-commenced LRT system expansion.
  - Significant investments in recreation facilities, libraries, and enhanced Arterial Roads
  - and Significant investment into infrastructure renewal

- **2017-2018: characterized by a Transition to Moderate Growth**
  - Fiscal policy responded to the economic contraction (2015-2016) by slowing fiscal growth
  - The City continued its capital expansion as per decisions previously approved in the '15-'18 capital budget, with impacts of capital absorbed over these two years, alongside continued new service growth, however much of the growth was funded through harvested base budget reductions
- **Proposed 2019-2022 Budget: characterized by Stabilized fiscal policy**

Expenditure Trends:

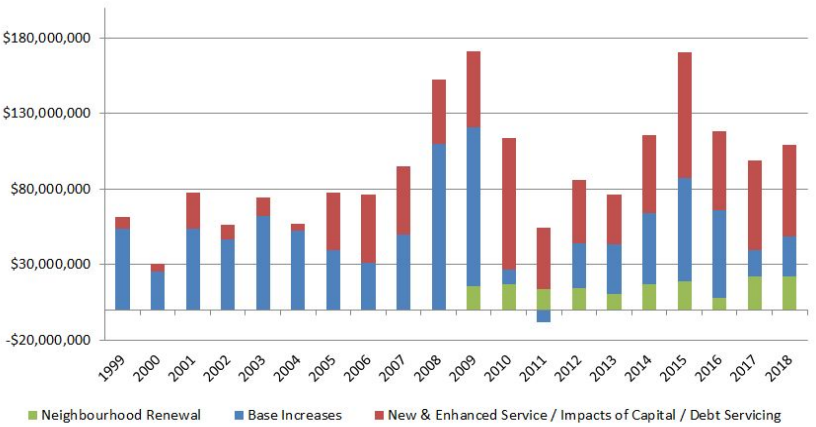
Index of City Spending Per Capita vs. Household Income Growth (Inflation Adjusted)
2000=100.00



- This next slide compares City Spending growth per capita to HH income growth.
- From 2000 to 2014, City spending per capita trended in the same direction as household incomes, growing only 3% more over this 14-year period than household incomes
- But in 2015 and 2016 the divergence between City spending and household incomes became magnified for two reason:
    - First, there were significant spending increases driven by new and enhanced services, impacts of new capital facilities, debt servicing charges, civic union settlements, and dedicated increases for neighbourhood renewal and valley line.
    - At the same time, the economy contracted, which led to a decline in real (inflation adjusted) household incomes for 3 consecutive years.
    - From 2014 to 2016, real City operational spending jumped ahead of household income, growing by 14% in those two years, while real household incomes shrunk by 5%.
- From 2016 to 2018, real City spending on a per capita basis stabilized and flatlined. However, due to higher unemployment in 2017, real household incomes continued to decline, thus further widening the spread.
- It is also important to note that through observed wage growth, employment growth, and a lowering unemployment rate, incomes are expected to continue rebounding in 2019 and beyond.
- It is also important to note that this expenditure by the municipal government sector during the economic contraction provided some economic stimulus to the local economy

Expenditure Trends:

Annual Incremental Operating Expenditure Growth - 1999 to 2018 (Tax Supported Operations)

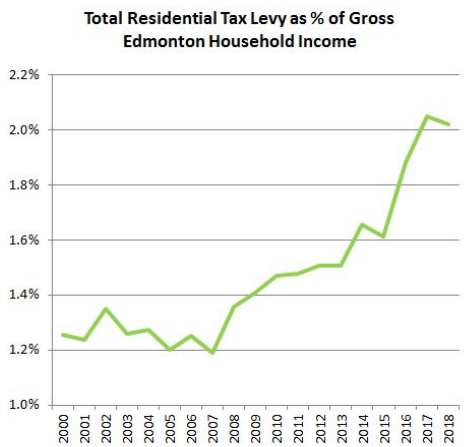


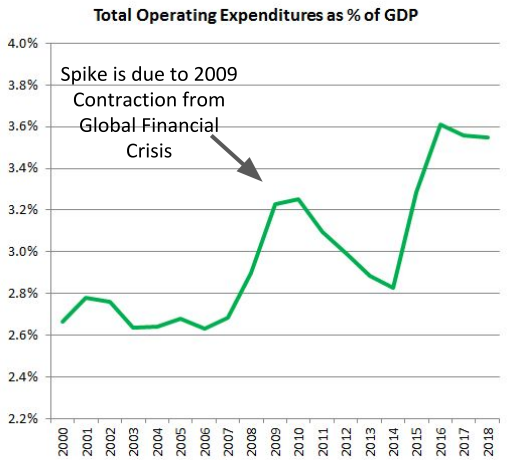
- This slide examines how annual incremental budget increases have mirrored changing fiscal policies over time.
- From **1999 to 2004**, expenditure increases were comprised primarily of base increases---budget increases primarily to counter inflationary pressures so the City could maintain service levels (BLUE BARS)---essentially to maintain the purchasing power of each municipal operational dollar.
    - During this period the City operated under stabilized fiscal policies aimed at delivering core services, maintaining existing service levels over time, limiting new service growth, a limited capital program, and low-to-moderate tax growth
- As the economic fortunes of Edmonton and Alberta lifted during the growth phase from **2005 and onward,** Council priorities shifted to respond to evolving citizens demands for new and enhanced service delivery and toward a greater emphasis on city building and developing modern infrastructure and facilities.
    - This translated into greater expenditure allocations toward delivering new services, increasing service standards, debt financing large capital projects, and absorbing the operating impacts of new capital coming online (i.e. new recreation facilities that would need to be staffed). RED BARS
    - This phase was also characterized by investments in renewing and maintaining the City's existing stock of infrastructure, and building new infrastructure and facilities to meet the growth pressures of a booming city.
    - Beginning in 2009 the City also implemented annual increases for its Neighbourhood Renewal Program. GREEN BARS
- This corresponds with the City's shift toward City building, infrastructure renewal, and enhanced citizen services relative to periods of fiscal constraint and inadequate infrastructure renewal

- from from 1993-2004

Expenditure Trends:

City Taxation & Spending as a % of Gross Household Income & GDP

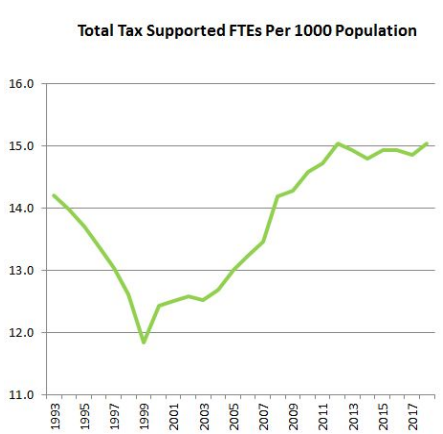


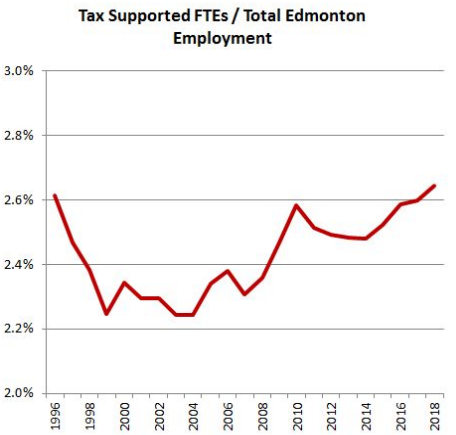


- Drawing your attention to the left-hand chart, we see that the City's fiscal growth phase also saw residential taxes grow as a share of gross household incomes, rising from 1.2% in 2000 to 2.0% in 2017, and stabilizing at 2.0% in 2018.
- Now focusing on the right-hand chart, we see that expenditure increases also contributed to Edmonton's municipal government sector growing as a % of GDP.
    - City operating expenditures grew from 2.7% of Edmonton GDP in 2000 to 3.6% in 2016, then stabilizing at around 3.6% in 2017 & 2018 as the City transitioned to a moderate growth fiscal policy.
    - The spike in 2009 was due to GDP contracting amid the global financial crisis.
- It is import to acknowledge that the baseline for this comparison, the year 2000, is at a relative low point for City operating expenditures because the City experienced a significant contractionary fiscal period from 1993-1999, with low service levels and a limited capital program.

Staffing Trends:

City FTEs in Relation to Population and Total Edmonton Employment

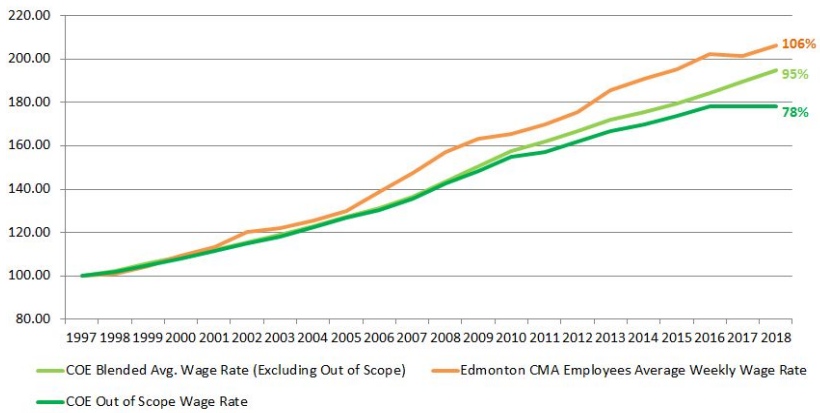




- City staffing trends reflected the broader shifts in fiscal policy over the past 25 years:
  - from 1993 to 1999, during the constrained fiscal policy phase, City tax supported FTEs decreased in absolute terms by 14%, from 8,900 tax-supported FTEs in 1993 to below 7,700 in 1999.
- Drawing your attention to the left hand chart, Relative to the City's population, tax supported FTEs per 1,000 population dropped from 14.2 FTEs to 11.8 over this policy phase.
- Then from 2000 to 2004, during the stabilization phase, the rate of FTE's Per 1,000 population stabilized at around 12.5.
- Following that, from 2005 to 2012, during the growth phase, the rate of FTEs began to increase as Edmontonians began to expect both new services and improved service levels. Additionally, the City's capital growth program delivered new facilities that required personnel growth for their operations.
  - FTE's per 1,000 population increased to 15.0 over this period.
- FTE's per 1,000 population have remained at around 15.0 through to 2018.
  - Important to note that this rate of FTEs per 1,000 population is higher than what was observed prior to the fiscally constrained phase of the 1990s.
- Drawing your attention now to the right hand chart, we take an economy-wide employment perspective and compare the City's tax-supported FTEs to total employment in Edmonton. This chart depicts a similar trend, demonstrating a decline from 2.6% in 1996 to 2.2% in 1999, then stabilizing at around 2.2% through to 2004, then growing back to 2.6% by 2010 and remaining in that range since. At present, tax-supported FTEs at the City represent 2.6% of total Edmonton employment.

Compensation Trends:

Wage/Earnings Growth Index: City Compared with Edmonton Average Wage Rate
1997=100.00



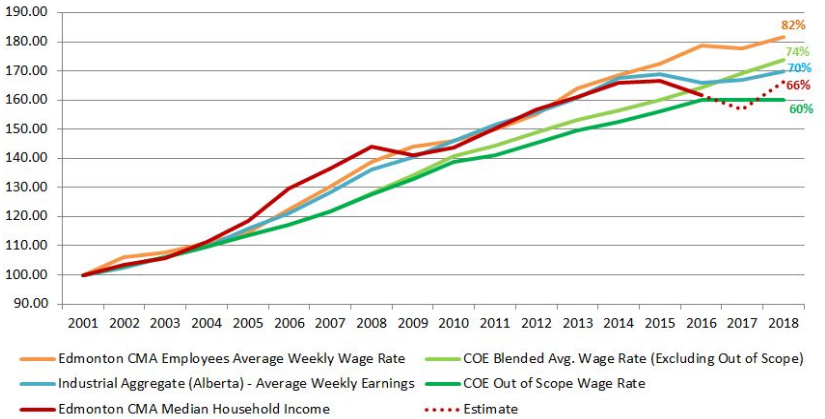
- Because Wages, Salaries, & Benefits make up ~55% of the City's operational expenditures, these next few slides takes a closer look at City wage growth in the context of the economy.
  - Before interpreting these slides, it is important to note that these charts only compare growth rates of wages. They do not compare wages themselves.
  - It is also important to note that we are comparing city-top-of-range wage growth with industry earnings. City earnings growth will be slightly higher than top-of-range wage growth shown with the green lines, as some employees experience in-range salary increases through their development.
- In this chart we see that over the 22 year long-term, COE wages trended in the same direction as average wages in Edmonton:
  - The **orange line** shows the 22-year growth rate of **wages in the Edmonton metropolitan area**, having grown by 106% from 1997 to 2018.
  - The **light green line** shows the growth of **City blended average** rates excluding out of scope, having grown by 95% over this period.
  - And the **dark green line** shows the growth of **City Out of Scope** wage rates, having grown by 78% over this period.
- There are two important recent trends to pull out from this chart:
  - The first is that the divergence between union and out of scope employees has become especially pronounced over the last 2 years, as out-of-scope wages have been held flat. However this divergence began as early as 2008, due to higher historic union, fire, and police settlements over multiple years.
    - *(Fire was higher than CEMA in 2008, 2009, 2010, 2011, 2012; Police was higher than CEMA in 2009, 2010, 2011, 2013, 2014, 2015, 2016. They were significantly higher from 2008-2011, by 1-2%)*
    - *(Higher union (52/33/569/etc.) agreements above CEMA in 2011 and 2016)*
    - *(CEMA holding flat at 0% for 2017 and 2018 while unions increased)*
  - The second is that over the past few years since the economic downturn, City union growth rates have outpaced the growth in Edmonton average wage rates. This can be

- most clearly seen by the slight reduction in Edmonton metropolitan wage rates from 2016 to 2017 (orange line), while the City union rate has continued to escalate (light green).

Compensation Trends:

Wage/Earnings Growth Index: City Compared with Edmonton & Alberta Average Wage Rate, and Median Household Income

2001=100.00

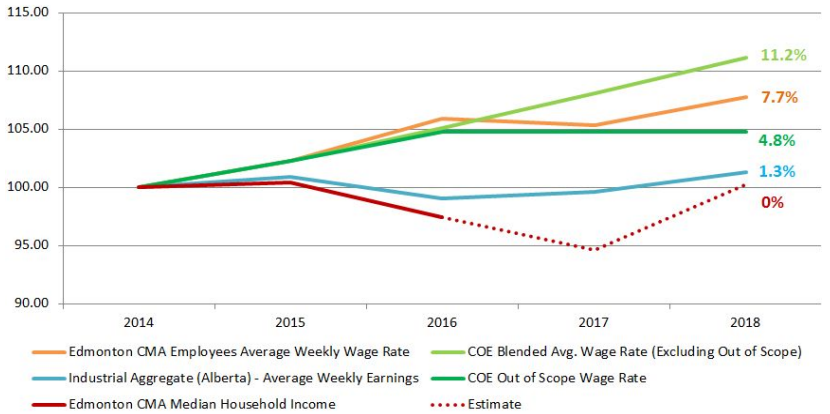


- In this next chart we rebase the starting year to 2001 and add in two additional trendlines: Alberta average weekly earnings (blue line), and Edmonton median household income (red line).
- **Alberta's average earnings (blue line)** began slowing in 2014, peaked in 2015, then dropped in 2016 as the economy contracted due to low oil prices and has slowly recovered since. The effect of the recession has impacted the overall Alberta earnings growth trend in recent years, creating a divergence from the Edmonton growth trend in 2015. As a consequence, Alberta's average earnings have grown by 12% less than average Edmonton earnings over this 18-year period.
    - *(ASIDE: Some of this is possibly explained by average wages in large urban areas tending to grow at higher rates than those in smaller cities, towns and rural areas due to a higher percentage of higher-paying high-skilled jobs and an overall labour market trend demanding higher-skilled workers.)*
- **Edmonton median household income** is shown with the **red line:** the story about household income is different than private-sector wage rates alone. While Edmonton private sector wage rates have increased, household income has dropped due to higher unemployment, but is projected to begin recovering in 2018 as unemployment rates fall.

Compensation Trends:

Wage/Earnings Growth Index: City Compared with Edmonton & Alberta Average Wage Rate, and Median Household Income

2014=100.00



- This next chart presents the same growth trends as the previous chart, but with a focus on the previous round of collective agreements that coincided with the economic downturn, and rebases the starting year to 2014. This index shows the % change of each trendline from 2014 to 2018.
- Here we see how the City blended average wage rate has grown by 11.2% since 2014 while Edmonton metropolitan wages have grown by 7.7%, and City Out of Scope rates have grown by 4.8% in this period.
- The growth trend for Edmonton median household income is also shown, having dipped for two years, but is now recovering due to dropping unemployment rates, for a total 0% growth from 2014 to 2018.

Summary of Trends

- The mid-to-late-90s were a fiscally-constrained period
- The 2000 to 2004 period stabilized to maintain core service levels
- From 2005 to 2016, fiscal policy shifted towards a growth phase
- In 2017 & 2018 the City shifted toward moderate growth
- 2019-2022 Proposed Operating Budget stabilizes fiscal policy in a moderate economic growth period

- The mid-90s were a fiscally-constrained period, with minimal investment in infrastructure, reductions in service levels, and 4-consecutive years of 0% tax increases. These decisions were partly a consequence of economic conditions at the time.
- The 2000 to 2004 period stabilized to maintain core service levels, with base budget increases to maintain service levels against population growth and inflation
- From 2005 to 2016, fiscal policy shifted towards a growth phase
    - Rapid economic and population growth.
    - City responded with new services and enhanced service standards to meet evolving citizen demands
    - Infrastructure Renewal (i.e NRP) investments to make up for a backlog of renewal needs that were not met in the 80s and 90s
    - New growth infrastructure and facilities to meet growth needs and evolving citizen demands (i.e. LRT and Rec facilities)
    - Reinvestments into service areas that were reduced in the 90s.
- In 2017 & 2018 the City shifted toward moderate growth in response to the sluggish economy, using harvested base budget reductions to fund service growth and impacts of capital
- 2019-2022 Proposed Budget stabilizes fiscal policy in a moderate economic growth period

Key Messages

1. City building is long term
2. Council governs fiscal policy
3. Budget is an instrument of fiscal policy

- City building is long term, and happens over many decades.
- You are governors of fiscal policy
- The Operating Budget is one of the main instruments of fiscal policy

Economic Outlook
Edmonton
THE CITY OF EDMONTON
2019 - 2022
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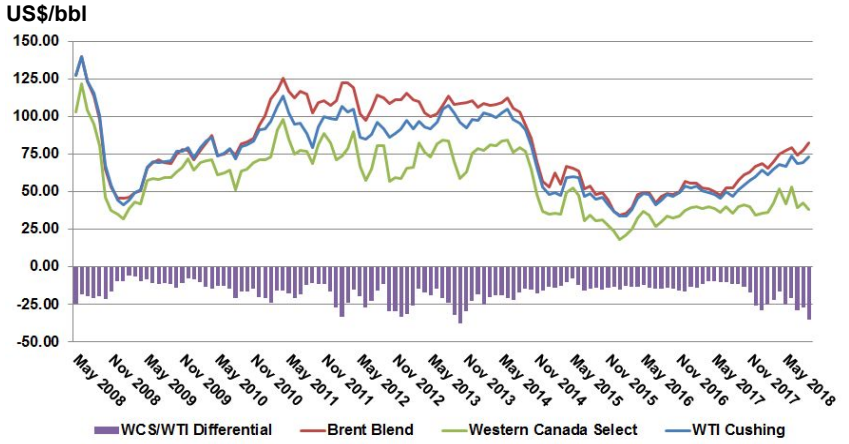
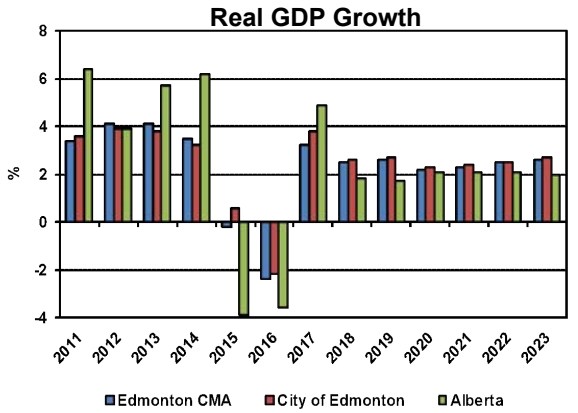
Some Oil Prices are Improving



Source: Bloomberg

Growth Moderates in the Longer Term



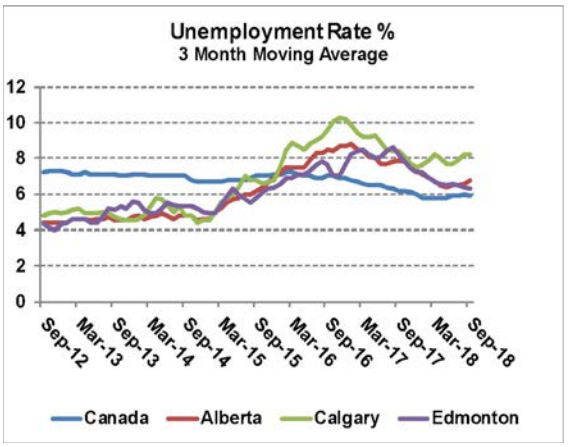
- The City of Edmonton experienced a sharp slow down in mid-2016.
- City and region made a clear recovery to faster growth in 2017 along with the province
- Continuing in-migration will allow the City and the region to grow more rapidly by boosting the available labour force and stimulate the consumer side of the local economy. Hence while alberta will be growing at about 2% over the forecast Edmonton should see growth of 3 to 3.5%.

Source: City of Edmonton, Conference Board of Canada

Economic growth as captured by inflation adjusted GDP has since 2017 returned to growth. However the modest outlook for the energy sector means growth will be well below historical numbers.

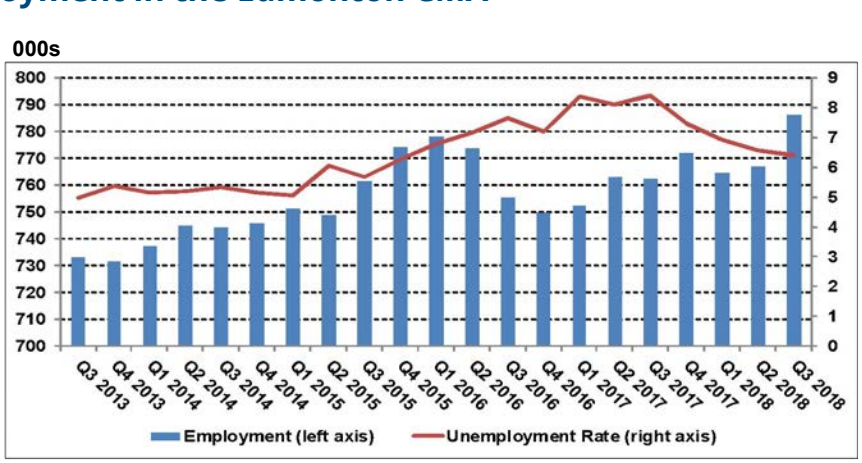
Unemployment Moving Lower

- Higher unemployment in Edmonton is driven largely by labour force growth.
- A recent shift away from part-time job gains will support consumer spending over the next 12 to 18 months.
- Unemployment in the Edmonton region will drift down slowly from the 6.3% range over 2018 and into 2019.



Source: Statistics Canada

Employment in the Edmonton CMA



Source: Statistics Canada

Risks to the Outlook

1. **Oil prices fall through 2018 and 2019 causing severe slump in energy investment and provincial government spending**
2. **Consumer confidence falters with concerns growing over housing prices, debt, rising interest rates, and inflation**
3. **Conclusion of a number of major construction projects leads to further contraction in the building sector**
4. **Stricter controls on carbon emissions and opposition to energy investments constrain longer term growth**
5. **Growing international trade conflicts limit global growth and depress commodity prices**

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Proposed Tax Increases

	2019	2020	2021	2022
Maintain Services	-	0.3%	0.3%	0.4%
Service Changes	0.7%	0.3%	(0.2%)	-
Dedicated Tax Increase	0.9%	1.0%	0.6%	0.6%
Edmonton Police Service	1.7%	1.1%	1.3%	1.0%
Proposed Tax Increase	**3.3%**	**2.7%**	**2.0%**	**2.0%**

Administration is proposing a four year operating budget that continues with a focus on city building but at the same time tries to strike a balance between optimism and realism. This is achieved through a proposed tax rate increase of 3.3% for 2019, 2.7% for 2020, and 2.0% in 2021 and 2022.

These proposed increases compare with the forecasted consumer price inflation over the next four years of 1.6 percent, two percent, and 1.9 percent in 2021 and 2022.

A further breakdown on the proposed increases shows that for base service levels and growth adjusted for new revenues a general tax increase of 0.0% is required in 2019, followed by a 0.3% increase in 2020 and 2021 and a 0.4% increase in 2022.

Administration is also proposing some changes to service that result in a 0.7% increase in 2019, 0.3% increase in 2020, and a 0.2% decrease in 2021.

The dedicated tax increase for Valley Line LRT is expected to add 0.6 % in the first two years, followed by a reduction to 0.3% for the last two years. Alley Renewal is a new dedicated increase for this budget cycle and adds a 0.3% increase in 2019, a slight increase in 2020 to 0.4% and then another 0.3% increase in each of 2021 and 2022.

Finally Edmonton Police Services is proposed to receive the equivalent of a 1.7% tax increase in 2019, 1.1% in 2020, 1.3% in 2021, and 1.0% in 2022.

Funded Changes to Service

	2019	2020	2021	2022
Impact of Capital	($1,656)	$5,813	$8,582	$603
Annexation	4,722	(22)	-	-
Cannabis (Excluding EPS)	199	(197)	1,109	-
Growth/New	11,787	2,678	(1,747)	(409)
Council Directed	-	2,800	(2,800)	-
Total	**$15,052**	**$11,072**	**$5,144**	**$194**

Within these tax increases, Administration has proposed some changes to services. These changes result from operating impacts associated with bringing capital assets into service, specific items such as annexation and legalization of cannabis, items administration believes are critical and any items resulting from previous direction of Council.

Impacts of capital include bringing hazmat and tanker units along with other fleet items into operation for Fire Services. Impacts from transit related projects such as smart fare, Heritage Valley Park and Ride and additional energy charges for the Valley Line SE LRT have also been included over the 4 years.

The growth or new service changes that have been proposed deal with:

- enhanced safety and security on the transit system,
- support for employees that have been involved in traumatic incidents,
- the decommissioning and remediation associated with underground storage tanks at the Westwood site, and
- additional expenditures to support the 2021 municipal election.

Finally, Council has provided previous direction to include support for Edmonton to host the 2020 ITU World Triathlon Grand Final.

Unfunded Changes to Service

	2019	2020	2021	2022
Council/Committee Motions	$13,829	$1,833	$4,124	($2,731)
Council Initiatives	5,097	2,016	234	958
New/Enhanced Service	2,550	1,128	5,347	(384)
Partner Requests	7,531	2,536	1,263	1,640
Total	**$29,007**	**$7,513**	**$10,968**	**($517)**

The budget also contains information on several service packages that have not been proposed and are not included in the tax rate increases. A summary of these unfunded requests can be found starting on page 50 of the budget document.

The majority of the unfunded changes to service have been previously discussed or presented to Council or Committee through a report and were requested to be included for consideration as part of the budget deliberations.

External boards and agencies have also submitted requests for additional operating funding for a variety of the initiatives that are planned for 2019-2022.

Ms Padbury will now discuss the impacts and potential implications on the operating budget of debt servicing.

Debt Servicing Charges on Approved Debt to Date

	2018	2019	2020	2021	2022
New Net Operating Requirement for Tax Supported Debt Charges		+$9,213	+$18,662	+$11,847	+$8,829
Total Net Operating Requirement - Tax Supported Debt Charges*	$115,046	$124,259	$142,921	$154,768	$163,597

*Excludes Debt Service Charges on Valley Line South East

The proposed 2019 to 2022 operating budget includes increases to the net operating requirement for tax-supported debt charges. The increases shown on this slide relate to debt charges associated with projects council has previously approved, but have not yet been 100% borrowed for in the previous capital budget cycle. Examples of these projects include the Yellowhead Trail Freeway Conversion, the Westwood Transit Garage, Land required for Valley Line West, and the Northwest Police Station. The figures presented in this slide do not include any of the debt-eligible projects that were presented to council for consideration in the 2019 to 2022 capital budget.

Debt servicing charges related to the Valley Line South East have also been omitted from this slide, as they are being funded through the 3.6% tax levy increase previously approved by Council that is currently being phased in from 2016 to 2022.

Valley Line South East - Tax Levy

	2016	2017	2018	2019	2020	2021	2022	Total
Annual Tax Levy Increase (%)	0.60%	0.60%	0.60%	0.60%	0.60%	0.30%	0.30%	**3.60%**
Annual Tax Levy Increase ($)	$8,244	$8,674	$9,132	$9,750	$10,300	$5,300	$5,700	**$57,100**

The table presented on this slide shows the 3.6% tax levy increase approved by Council over the period of 2016 to 2022 to fund operating impacts of the Valley Line South East. A portion of this tax levy revenue is being used to fund the average $45 million dollars per year in debt servicing costs related to the Valley Line South East. Debt service payments for the Valley Line South East are managed through the LRT reserve to allow the taxes to be levied on a gradual basis to address the debt servicing.

Additional Debt Servicing - Debt Eligible Projects (If Approved)

	2019	2020	2021	2022	Total 2019-25
Lewis Farms	0.01%	0.08%	0.19%	0.23%	1.00%
Terwillegar Drive	-	0.02%	0.08%	0.13%	0.35%
Stadium LRT Station	-	0.01%	0.02%	0.04%	0.12%
Edmonton Soccer	0.01%	0.03%	0.03%	-	0.07%
LED Streetlight	0.01%	0.04%	0.04%	0.04%	0.13%
Other	0.01%	0.09%	0.18%	0.18%	0.67%
Total	**0.04%**	**0.27%**	**0.54%**	**0.62%**	**2.34%**

The capital budget presented to Council on October 23rd included a list of potentially debt funded profiles for Council Consideration. The table on this slide represents the estimated additional tax levy increase that would be required to fully fund the projects on that list. A complete listing of these projects and estimated debt service impacts can be found on page 26 of your Capital Budget binders.

The tax levy impacts listed on this slide are not included in the 2019 to 2022 operating budget presented today. These impacts will be added to the total estimated tax levy requirement should Council choose to approve any of the potentially debt funded profiles in the 2019 to 2022 Capital Budget deliberations. The estimated tax levy increases in this slide do not include projections for Council prioritized LRT expansion projects.

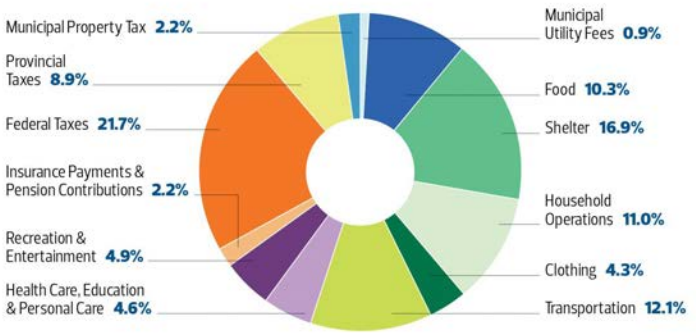
Impact of the Proposed 2019-2022 municipal tax increase on a Typical Homeowner ($397,000 Assessed Value)

	2018 Budget	2019 Budget	Annual Impact	2020 Budget	Annual Impact	2021 Budget	Annual Impact	2022 Budget	Annual Impact
Municipal Services[1]	1,649	1,666	17	1,681	15	1,685	4	1,698	13
Police Services[2]	525	566	41	596	30	628	32	655	27
Alley Renewal[3]	246	253	7	264	11	272	8	280	8
Valley Line LRT[4]	41	55	14	71	16	79	8	87	8
Total Property Tax Bill	2,461	2,540	79	2,612	72	2,664	52	2,720	56

From the perspective of a typical homeowner with a house assessed at $397,000, the proposed 2019-2022 operating budget would increase the municipal tax bill by $79 annually in 2019, $72 in 2020, $52 in 2021 and $56 in 2022.

On a monthly basis the increase from 2019-2022 is $6.58, $6.00, $4.33 and $4.67 respectively.

Average Annual Household Spending in 2016 for a Typical 2-Income, Owner-Occupied Edmonton Household $106,754



According to the City's analysis of the most recent Statistics Canada data[1], the average monthly expenditure for a typical Edmonton household[2] in 2016 was $8,896.

This includes all expenses to live and enjoy life in Edmonton, including: food; shelter; household operations; clothing; transportation; health care, education, and personal care; recreation and entertainment; insurance payments; pension contributions; and, taxes.

The average household spent $2,995 per month on taxes, duties, premiums, levies and fees to all orders of government in Canada, amounting to 33 percent of their monthly expenditure.

Of this $2,995 only 9 percent or $270 per month goes to support all the programs and services, including waste, that the City of Edmonton provides.

Building the Budget with Edmontonians

- **Budget Roadshow**
  - 19 events in August and September, connected with more than 3,000 Edmontonians
- **"My Budget" online survey**
  - 4,500 visits and almost 1,500 completed surveys
- **yegcitybudget.ca**
- **November 15 Non-statutory Public Hearing**

To develop practical, transparent and responsible Budgets that reflect the goals of residents, the City relies on ongoing and meaningful conversations with the public about their priorities.

Over the past six months, City of Edmonton staff have used a number of different tools and tactics to engage and inform Edmontonians about our City's Budgets. One of the major initiatives included the Budget Roadshow which travelled to festivals and community events in the months of August and September. It included fun, budget-themed games to help start conversations and inform participants about basic City Budget facts. We visited 19 events and festivals and connected directly with more than 3,000 Edmontonians.

We also had the "My Budget" online survey which encouraged residents to identify their spending priorities for the upcoming City budgets, and share their comments. More than 4,500 people visited the site and almost 1,500 completed the survey. According to the vendor who developed the site, this survey had one of the highest participation rates they have seen.

The City also continues to use the interactive site Yegcitybudget.ca where

Edmontonians can join in the conversation about the City Budget and ask questions. We have committed to answering every question. And we have detailed information on the City of Edmonton site with information about City budgeting and spending as well as links to open data and other City building information.

As with prior budget processes, a public hearing has been scheduled on November 15 to provide Edmontonians a chance to voice their thoughts on both the 2019-2022 Capital and Operating Budgets.

Next Steps

- November 15: Council submits written questions to Administration
- November 15: Non-statutory public hearing
- November 23: Administration provides written responses to questions
- November 28: Budget deliberations commence
  - Presentations from Boards and Agencies
  - Capital Budget
  - Operating Budget
- November 29 to December 14: Council budget deliberations continue

In terms of what is scheduled over the next several weeks for budget, the deadline to have Council questions on the operating budget submitted to Administration is November 15. This will allow Administration to provide a response to those questions by November 23.

As mentioned previously, also scheduled for November 15 is the non-statutory public hearing.

Budget deliberations will begin on November 28 with the presentations from boards and agencies. This will be followed by the discussion on the capital budget and then we will move into discussions on the operating budget. All of these meetings will allow Council to discuss the budgets and ultimately make decisions that will determine the outcome and resource allocations for the next 4 years.

This ends the presentation on the proposed 2019-2022 operating budget, I will now turn things over to Ms. McCabe who will provide an update on the Program and Service Review.

Thank you Mike.

The next part of this presentation, provides Council with an update on the program and service review progress since April.

In the fall of 2015, City Council formalized our commitment to continuous improvement by directing Administration to develop an approach for the Program and Service Review.

This review is necessary as we transform into a modern municipal corporation and to ensure we are offering Edmontonians the most relevant, efficient and effective programs and services.

Three Vital Questions

"Why are we doing things?"

"Are we doing the right things?"

"And are we doing the right things well?"

The program and service review asks three vital questions:

"Why are we doing things?"

"Are we doing the right things?"

"And are we doing the right things well?"

Service Reviews with Edmontonians

The Program and Service Review is a **made-in-Edmonton** process

External feedback is secured through **Challenge Panel** members, comprising of comparable municipalities, and leaders from the business, non-profit, and academic sectors

And we have not been conducting this review alone.

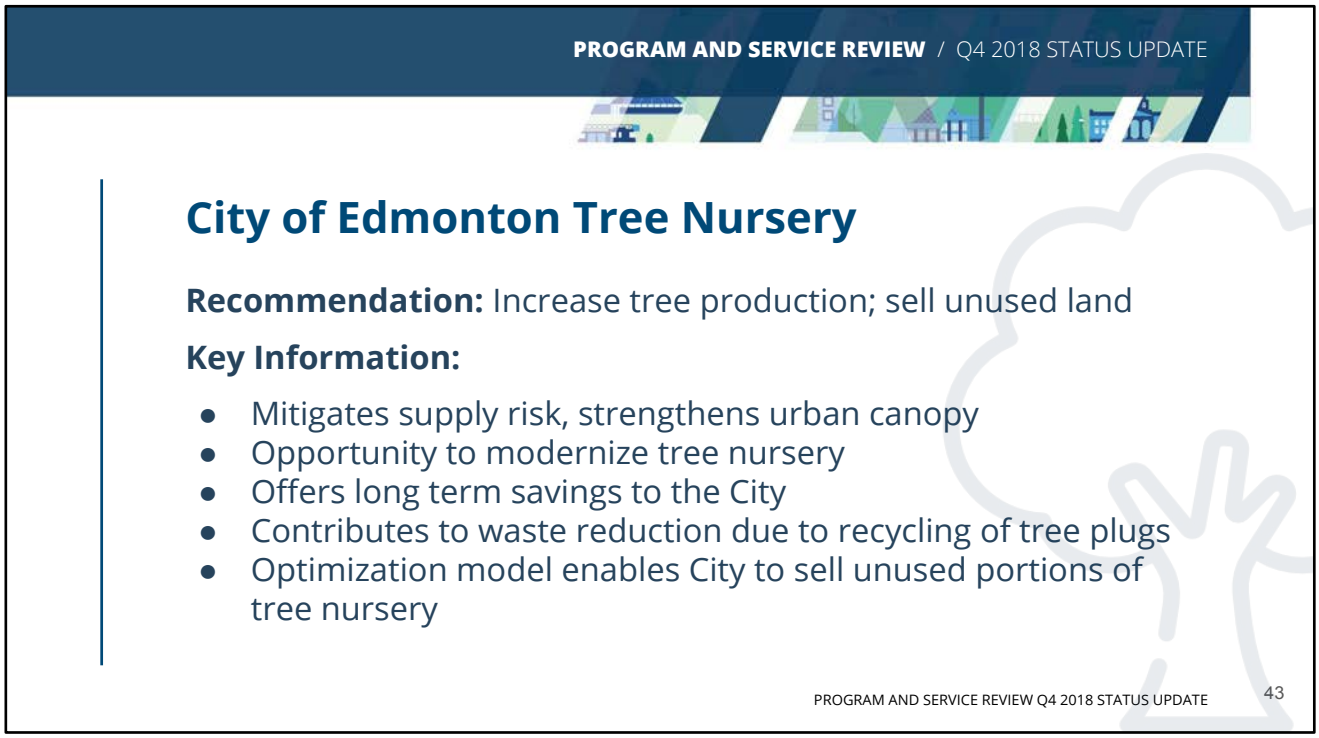
Together with diverse group of business, academic and community leaders, Administration was better able to assess current challenges and opportunities.

The Challenge Panels provided insightful advice that shaped our analysis and recommendations.

This review has been an open and transformative approach to address some of our greatest challenges we face as an organization.

Since 2016, we've held 24 challenge panels with 250 participants and over 440 hours of volunteer time.

The next slides outcome 3 case studies which illustrate some of the recommendations as they relates to relevance, effectiveness, and efficiency.



The first example is where Administration recommends that the City remain in a specific line of business - growing trees. The City of Edmonton's tree nursery provides a stable source of replacement trees that support that diversity and increased urban canopy needs of Edmonton. In the past, the City's tree nursery production was not optimal due to various changes in strategic direction. The Program and Service Review process helped solidify a long-term direction for the tree nursery.

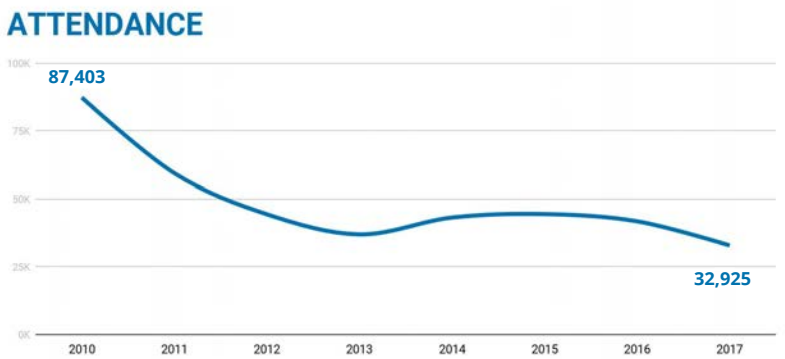
Outsourcing and securing tree from external vendors were reviewed amongst various options considered. Ultimately, the data showed that tree planting by Administration costs were lower than purchasing externally. To reduce supply chain risks and potential impacts of disease, it was recommended to increase tree production at the City of Edmonton owned nursery.

Overall, what this recommendation means is:

- The City of Edmonton is lowering the long term costs for its tree replacement requirements
- The Program and Service Review provides long-term and stable strategic direction for the Tree Nursery business area
- An optimization model was generated, showing that significant one-time financial benefit of $4.8M could be secured by selling off unused portion of the tree nursery

Recreation Facilities

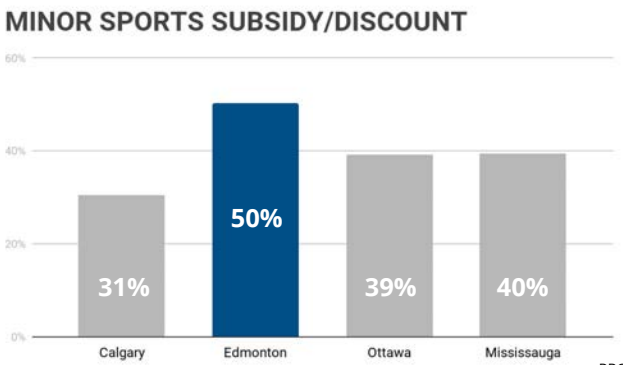
Recommendation: Replace / Repurpose / Close Scona Pool



Scona Pool, which was built in 1957 is also experiencing declining attendance figures from 2010. Paid attendance has declined approximately 62% since 2010.

Minor Sports

Recommendation: Review of all policies and subsidy limits



Through the service review process, we benchmarked with other municipalities to understand how we compare on services and subsidies.

For minor sports, a study was conducted with comparable municipalities to understand how subsidies were offered for certain types of amenities. The analysis uncovered that Edmonton has the highest minor sports subsidies among benchmarked cities that shared data.

A recommendation through the service review process is to review policies and subsidy limits for all minor sports. For example, currently, the City of Edmonton subsidizes minor ice sports at a rate of 50%. If the City were to move to a subsidy more aligned with comparable municipalities, potential revenue impact would be $1.2 M.

Non-Regulated Waste Utility

Recommendation: Construction & Demolition (C&D) Business Model Evaluation

Key Information:

- Use of Bylaw and policy levels likely more effective and cost efficient to impact C&D diversion rates
- Recommendation mitigates losses in the non-regulated program
- Informs broader non-regulated policy review
- Work to review business model with information to Utility Committee in February 2019

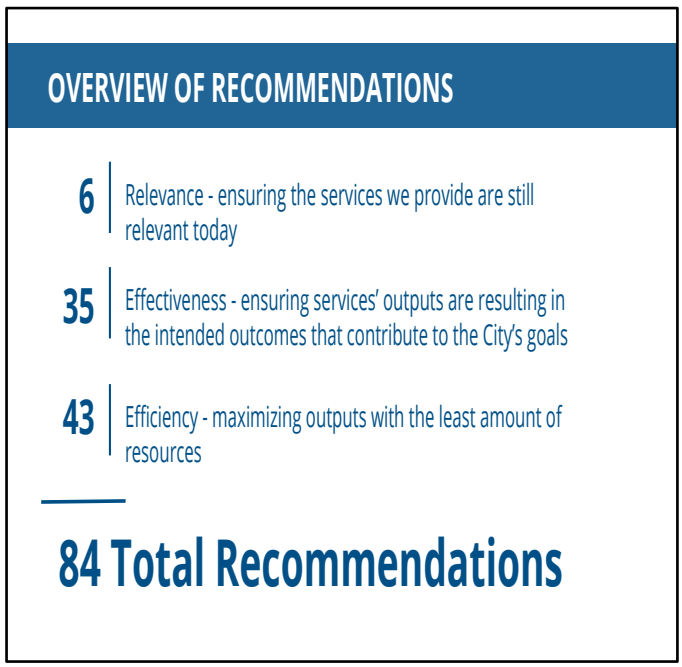
The Waste Services Branch is undergoing a full business transformation, in part initiated by questions stemming from the Program and Service Review of the non-regulated business. In particular, the process has helped Administration focus on current operations related to the non-regulated program that supports Waste diversion in the Industrial, Commercial, and Institutional sectors. A full policy review will help to refine the strategic focus of the non-regulated business lines. An extensive consultation effort is underway to help shape a new strategic direction here.

One of the focus areas from the Program and Service Review is related to the Construction and Demolition line of business. Alternate forms of service delivery may also be suggested, as was the case with the August 23, 2018, Industrial, Commercial and Institutional Sector Strategic Review Report (Utility Committee report CR 6217) which incorporated the Program and Service

Review by recommending a rethink of the business model of the Construction and Demolition Operations. This work is now underway.

A key finding from the review process is the appreciation that, in some circumstances, the City of Edmonton may not be the most suitable operator of services. This is particularly true for services already offered by existing private, non-profit, and academic sectors, or even other levels of government. In cases where there are key policies to advance, such as environmental policies that would require changes in behaviour of existing operators, the City can choose to directly participate to offer the alternative model or it can move towards development of policy instruments to change market behaviour. In addition, partnerships with the business community, non-profit sector and academic institutions represent opportunities for the City to pursue. Such changes have the potential to create economic opportunities for the region, facilitate the efficient use of limited financial resources and allow the City to focus on core service fundamentals. In other words, this shift in approach positions the City of Edmonton as a stable purchaser, rather than a competitor, of select services while also creating savings for taxpayers.

- Another example is roadside litter collection. Today, litter collection is collected by two different teams, depending on where the litter container is located. Based on the analysis conducted through the Program and Service Review, there is an opportunity to improve the integration of work and provide a more consistent roadside litter pickup experience for Edmontonians.
- This work is also being integrated into the overall waste strategy.

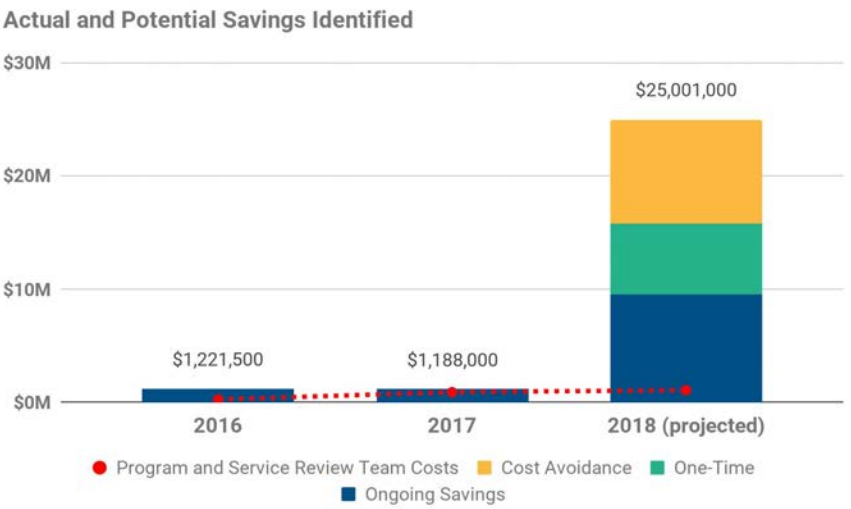


The Program and Service Review is not simply about reducing costs; rather, the initiative is intended to ensure the City is delivering services in a way that responds to the changing world. The Program and Service Review is related to the Budget but not driven by the Budget.

This is demonstrated by the fact that there are a balance of relevance, efficiency and effectiveness recommendations.

The review process is offering significant value by fostering a culture of continuous improvement in the organization. Other benefits include connecting teams, gathering new ideas, benchmarking, developing performance measures and allowing

team members to be deployed to higher value work.



And here is how it ties to budget:

$2.4M of savings realized in 2016-2017

$650K of recommendations incorporated in the 2019-2022 budget to date

Additional **$25M** in savings and cost avoidance identified in 2018

Program and Service Review: City Council

Savings and cost avoidance identified for City Council's consideration - **$10M**

Example:

- Replace/repurpose/close select recreation facilities

$10 M savings and cost avoidance for City Council's Considerieration

Such as replacement/ repurpose or closure of select recreation facilities

Program and Service Review: Administration

$15M in proposed savings and cost avoidance

Examples:

- Consolidation of roadside litter collection
- Sale of unused tree nursery land

$14.8 Million in proposed savings and cost avoidance for Administration to implement

Such as consolidation of roadside litter collection
And sale of unused land at our tree nursery

Next Steps

- Savings inform the 2019-2022 Capital and Operating Budgets
- Time is required to **fully implement** all recommendations
- Implementation is **closely monitored** to ensure investment value of the Program and Service Review is realized
- Continue fostering a **culture of continuous improvement**

Administration has implemented some of the recommendations, others are in progress and some require Council approval. Recommendations that require Council approval are outlined in this report and will be presented to Council and Committee as appropriate. It is understood that, as with all business improvements in both the public and private sectors, realizing all potential savings from some service reviews takes time.

The next steps of the initiative will be to continue identifying improvement opportunities through the Program and Service Review. There are completed reviews for 20 of 73 services, with reviews of an additional 25 services currently in progress.

We will continue to work with the unions through the process and implementation.

The Program and Service Review is just one of many initiatives across the corporation reviewing service lines for continuous improvement opportunities. The Program and Service Review continues to foster a culture of continuous improvement to ensure assessing our services through the lenses of relevance, effectiveness, and efficiency.

Closing Remarks [Linda Cochrane]:

This concludes our presentation on the proposed 2019-2022 Operating Budget, the starting point for you, as City Council, to begin your deliberations.

This proposed Budget is grounded in your vision for our city.

A vision of a healthy city that promotes connection and equality for all Edmontonians.

A city of urban places where housing and mobility options are plentiful.

A city at the heart of regional prosperity driven by innovation and creativity so business can compete at local and global levels.

And a city of climate resilience where we are adapting to build a low carbon future.

This is what builds a great city.

We want to close today with a short video that tells our city-building story, which is at the heart of everything we do to imagine … build … operate … animate … plan … finance … serve .. enlighten … and protect.

Thank you.

[cue video]

THANK YOU
Edmonton