



Legislation Details (With Text)

File #: AR-22-344 **Version:** 1 **Name:**
Type: Agenda Reports **Status:** Agenda Ready
File created: 8/9/2022 **In control:** Committee of the Whole
On agenda: 8/16/2022 **Final action:**
Title: 2023 - 2025 Municipal Operating Budget Preliminary Tax Increase
Presented by: Diane McMordie, Assistant Deputy Chief Administrative Officer

Sponsors:

Indexes:

Code sections:

Attachments:

Date	Ver.	Action By	Action	Result
------	------	-----------	--------	--------

TAMRMS#: B06

3.2

2023 - 2025 Municipal Operating Budget Preliminary Tax Increase
Presented by: Diane McMordie, Assistant Deputy Chief Administrative Officer

RECOMMENDED MOTIONS

That Committee of the Whole recommend to Council:

1. That the City of St. Albert increase the electric franchise fee by x% to x% effective January 1, 2023 and;

That notice be provided to Fortis Alberta no later than October 1, 2022 of the City’s intent to increase the electric franchise fee effective January 1, 2023 and;

That Administration complete and execute all required documentation and fulfill any advertising and other requirements to enable consideration of approval of the franchise fee increase by the Alberta Utilities Commission.

2. That Administration prepare a proposed 2023 budget for Council’s consideration targeting a property tax rate increase of x% which may include some or all of the following measures:
 - a. Application of dollars from the remaining MOST component of the Stabilization reserve
 - b. Cancellation of the public art transfer
 - c. Cancellation or reduction of grants to the community/agencies
 - d. Implementation of an increase to the electrical franchise fee.
 - e. Application of a portion of new assessment growth revenue assigned by policy to support new operating business cases.

- f. A reduction to the growth component of PAYG capital funding from the tax levy.
 - g. A reduction to the planned RMR levy
3. That Council provide input into a proposed approach for the longer-term review of services and service levels and development of a multi-year plan to action identified service/service levels reviews/adjustments and provide direction to Administration to proceed with detailed planning for the recommended approach.

PURPOSE OF REPORT

To further discussions with Committee of the Whole regarding the goals, approach and risks regarding the 2023 municipal operating budget.

ALIGNMENT TO PRIORITIES IN COUNCIL'S STRATEGIC PLAN

STRATEGIC PRIORITY FIVE: FINANCIAL SUSTAINABILITY

Ensure responsible and transparent fiscal management, decision making and long-term financial sustainability that allows the City to respond to changes to revenue sources.

ALIGNMENT TO LEVELS OF SERVICE DELIVERY

Capital and Operating Budgeting - Stewardship of development of annual Capital and Operating Budgets for Municipal and Utility operations - Municipal/Utility Operating Budget Development and Multi-Year Operating Budget Submissions.

Business and Financial Analysis - Service Prioritization and Analysis - Priority Based Planning and Budgeting - Provision of services to assist Administration in prioritizing and analyzing services for decision making.

Strategic and Business Planning - Corporate Alignment and Planning - The City plans according to the City of St. Albert Strategic Framework Policy to align the City's short, medium and long-term operational efforts to the Community Vision and Pillars of Sustainability, and the City of St. Albert Council Strategic Plan. This includes the use of the Services and Service Levels Inventory as a basis for development of proposed budget to maintain Council approved services and service levels.

Some decisions that will be debated by Council in the fall may impact services and service levels.

ALIGNMENT TO COUNCIL DIRECTION OR MANDATORY STATUTORY PROVISION

**On May 2, 2022 Council approved the following motion:
(AR-22-171)**

That Council receive the report titled 2023-2025 Municipal Operating Budget Position Overview as information.

That Council provide direction to Administration to propose a 2023 budget reflecting a tax increase range of 3 to 5 percent for the proposed budget.

That Council direct Administration to organize a Committee of the Whole with Council by the end of Q2 2022, to review services and service levels and consider potential adjustments to manage the tax increase.

On July 12, 2022 Council held an in-camera Committee of the Whole meeting for introductory discussions regarding the challenges and initial options regarding the 2023 budget.

BACKGROUND AND DISCUSSION

In reference to the 2021 Community Satisfaction Survey, 96% of St. Albert residents rate their quality of life as good or very good. While residential property taxes in St. Albert are higher than in comparable municipalities, so are the type and level of services provided and valued by our residents.

Over the last 10 years, St. Albert tax increases have been below the level of inflation. If we were providing the exact same levels of service as we were 10 years ago, this alone would be problematic, however the financial challenge has been further exacerbated by the following:

1. The City's population and geographical footprint has grown, and we have continued to add to and enhance services to our residents without adding the proper operating dollars to compensate.
2. The provincial government has impacted municipal governments through policy changes that have reduced our revenue sources and downloaded costs for some services/programs.
3. Given growth, commodity volumes (gas, diesel, electricity etc.) have increased over and above inflationary impacts
4. Cost of debt is increasing
5. City revenue streams are still recovering post Covid-19
6. Past use of reserve dollars to offset tax impacts

On May 2, 2022 Council was presented with an initial 3-year budget forecast. In order to maintain current service levels, we were, at that time, forecasting a 7.2% tax increase for 2023. Since that time, we continued to assess and build our detailed budgets and now have an updated base increase of 8.2%. This forecast contemplates only maintaining services that we provide and does not include any new things that Council may add in relation to the recently released strategic priorities. It is understood that residents and businesses are facing high levels of inflation in their everyday lives and Council wants to lessen the burden of tax increases.

With the state of inflation, a typical household is having to make difficult choices around where to spend their limited resources and are critically assessing wants vs. need. With the price of groceries escalating, people may have to make the decision to cancel their monthly movie night. With gas prices at all time highs, families may have to give up their summer family road trip. While there is always the option to utilize their savings in the short term, eventually these decisions need to be made. Putting these decisions off until the bank account is empty presents great risk for the future.

Our City is in the exact same position as the average family. If we do not have the ability to generate an additional 8.2% in property tax revenues, then we need to spend less.

In order to spend less, we need to do less.

Over the last several years we have benefitted from the strategic use of the provincial MOST funding which we have been able to stagger and utilize to offset tax increases without impacting services. Going back to the previous example of the household, we are effectively using our savings account to pay for ongoing services that we have no future strategy to fund.

In addition, the City has taken proactive measures to reduce operating budget wherever possible and act on “low-hanging fruit”. As part of the Operational and Fiscal review, EY acknowledged these efforts and the lack of “quick wins”, which resulted in the opportunities that are more complex and transformative, with focus on mid to long-term timeframe for implementation before the benefits can be realized. Administration continues to take action to further examine these opportunities and action them as appropriate.

The Tax Reduction Motion

On May 2, 2022, Council directed Administration to develop a proposed budget for 2023 in the range of 3-5%. The amounts shown below are the levels we need to reduce our expense budget to achieve. These amounts are not insignificant.



To put it in perspective

- \$6.3m represents ~48% of our RCMP budget
- \$6.3m would eliminate our Information Technology Department
- Elimination of the entire finance department would only achieve less than 45% of the \$6.3m target
- Closure of Fountain Park Pool would achieve only 30% of target

It is not being implied that any of the above is desirable or even possible but is being presented to illustrate the potential scale of adjustments that would be required to achieve a 3% tax increase for 2023.

Outside of service reductions there may be financial levers Council can choose to pull in the short term such as reserves, RMR & assessment growth, however these are either one-time diminishing benefits (if we are talking reserves), or short term mitigation strategies (when talking RMR and assessment growth) and each of these can have negative effects on the future. The only way to permanently impact the tax increases is to eliminate/suspend services, significantly reduce service levels, and/or full pass on delivery of services to outside provider with no or low fee.

Given the numbers above, Council will be looking at significant and impactful service level reductions/suspension of services for the community. Small tweaks to service levels (such as we did to changing the mowing cycle from 10 to 12 days) will not be adequate to achieve these kinds of results. We will likely be looking at eliminating entire services, entire events, and entire facilities to achieve these kinds of numbers.

The Community Satisfaction Survey asked respondents questions around both tax strategy and service reductions. Included in Chapter 7: Value for Tax Dollars section (pg 20) the following statistical information was garnered:



Preferred Municipal Tax Strategy

When asked about their preference for the next five years, just over half (51%) of homeowners say they would prefer to keep their tax bill at the current level even if it results in some services being reduced. Close to a third would prefer to maintain service levels and pay more taxes (29%). Only 1 percent of homeowners prefer enhancing service levels resulting in a significant tax increase.



Prefer to keep tax bill at current level



Service Reductions

Those who opt for a tax freeze strategy for the next five years are willing to accept a reduction in the following services:

- Cultural services (56%)
- Indigenous Truth & Reconciliation (50%)
- Library services (39%)



Of tax freeze advocates are willing to accept reductions in cultural services



Tax Increase Strategy

For those who opt for a tax increase strategy for the next five years, a little more than a quarter (27%) would prefer a 5 percent increase.



Of tax increase advocates are willing to accept a 5% tax increase



Services Protected from Reduced Levels of Service

Close to half (47%) of respondents believe that police services should be protected from any reduced levels of service. This is followed closely by maintenance of parks, trails, and natural areas; tree planting; pest control; and horticulture services (46%) and emergency response services (46%).



Believe police services should be protected from reduced service levels

The other challenge and learning that Administration has gained the last couple of years is that it takes a significant amount of time and resources to fully understand the unintended consequences and inter-connected activities of services. Consider the resources, both time and money, that it took to resolve the Fire dispatch opportunity which yielded us \$340K in annual savings which is only 5% of what it would take us to get to the \$6.3M reduction above.

Although the initial recommendation during the May 2, 2022 meeting was to identify service/service levels reductions, with Council, and incorporate those into proposed 2023, given the complexity of analyzing the impacts of a significant service level reduction that are required, it will be difficult if not impossible to invoke a meaningful service change for the 2023 budget. The only options for 2023 would be to eliminate a completely a self-contained service or event. Council would need to identify commitment to this sooner rather than later.

Options for 2023 Budget

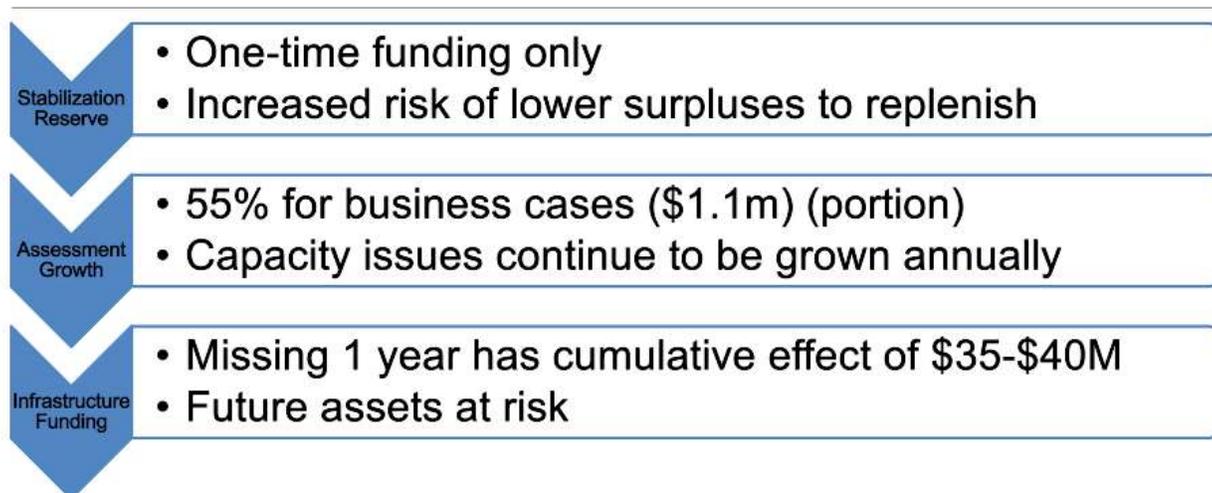
Given the complexities of executing service/service level reductions for 2023, Council has the

following options:

1. Endorse the proposed tax and maintain services/service levels
2. Use the short term-levers to the extent possible alongside limited service level reductions to mitigate the 2023 increase. Use of these strategies defers the issue at best and could exacerbate the issue in future years.
3. Use short term levers in 2023 alongside limited service level reductions with a commitment to identifying and analyzing service reductions for future years. Additional one-time budget may be required to execute the analysis and recommendations.

Short Term Financial Levers

The Path Forward – Short Term Levers/Risks



There are 3 financial levers available to Council that can reduce the 2023 budget however each of them comes with risks and longer-term consequences that Council must be aware of.

The current uncommitted balance in the Stabilization reserve is \$8.3 million including \$3.9M remaining from the MOST (Municipal Operating Support Transfer) funding received from the province (In response to Covid impacts). Administration would recommend using the remaining MOST funding over the next 2-3 years to offset the tax rate while we are actively assessing service level changes. This is, using one-time money, to fund ongoing services, and it cannot be relied upon in the future. If we were to use ½ of this funding in each of 2023 & 2024, then come 2025 we will face a 1.6% tax increase before we have even started to add inflation, RMR, Debt and Growth or we will need to achieve \$2 million in service reductions just to backfill just this piece.

That being said, it can buy us some time to properly assess options for services/service levels to ensure that we are making the best-informed decisions. It is not recommended that the non-MOST component remaining balance of the stabilization fund be used to offset taxes. This is a well used fund by Council, additional funds may be required to assess services/service levels, it provides protection against unanticipated events and there is a greater risk that annual surpluses that Council has relied on to replenish the fund will not come to fruition.

Assessment growth by policy supports 55% of the estimated growth to go towards operating business cases. Based on estimated assessment growth for 2023, this would equate to \$1.1 or 0.9% tax decrease. Over the last several years, Administration has moved forward with very few business cases, especially those that address some significant capacity issues. While this is another lever for Council to pull it cannot be considered a long-term solution and will continue to place significant stress on the organization to be able to meet service level expectations with a growing geographical and population base. Not addressing our capacity gaps in some areas will continue to impact well being of our existing employees and start to impact our ability to attract and retain high quality employees. It would likely be impossible for Administration to offer up the entire \$1.1M this year but a portion of it could be considered.

Several years ago, Council made a bold decision to implement a tax strategy to address our forecasted RMR infrastructure deficit by increasing the tax requirement by the equivalent of 1.5% each year for 20 years. While it's easy to say "we'll just skip it this year" eliminating this contribution in 2023 only, has a minimum cumulative impact of \$35-\$40M over the 20-year plan.

During the meeting, Council will be presented with an interactive tool that will show the estimated tax rates achievable by actioning a variety of levers and service adjustments.

The proposed budget will be presented publicly in the fall and will be up for debate and approval by Council at that time.

Next Steps

As noted above, many of the decisions that Council will make this year regarding the 2023 budget will be utilizing one-time temporary measures to offset the tax increase. Adjusting services and service levels permanently is necessary to lower the tax increases long-term.

As we are looking at more complex and challenging adjustments/reductions/suspension of services, time is required to properly analyze each service and opportunity to ensure that we are making informed and evidence-based decision making. Also, time is required to properly implement changes identified to realized expected benefits. As a result, taking proactive approach to identify services for a review and creating a multi-year plan, can prove to be the most efficient and effective way to approach addressing the financial challenges that the City is experiencing.

As per the MGA and the Budget and Taxation Guiding Principles Policy, Council approves services delivered to the community and associated service levels. In addition, through Council governance and decision-making, Council impacts future tax rates. As a result, it is necessary to engage with Council and facilitate informed decision-making to enable and support Council in providing a long-term direction for services delivered to the community.

The following is some initial thoughts as to how Administration and Council can work together to develop strategies and solutions including an objective statement and principles under which we will work. This is proposed approach based on discussions with Council to date. During the August 16th meeting, Administration hopes to obtain general comments from the Committee on the proposed approach before we proceed with more detailed planning and actioning this approach.

Objective of the Review

Review a list of existing services and associated service levels and identify services for a further review and analysis over the next 3 years to permanently reduce the impact on tax increases, starting with the 2024 budget. The goal is to identify approximately 6-7 million in permanent reductions.

Principles

The following principles will guide us as we taken on this review:

Planned and structured approach: facilitated sessions with Council to provide information, and receive input and direction related to services provided to the community. Prepare multi-year, prioritized plan for service reviews based on complexity and expected return.

Collaboration: engage with Council and involve Leadership Team to provide information and insights.

Informed decision-making: use of PBB information to discuss services and identify services/service levels that can be permanently adjusted. Use financial information to provide relevant information about services and their impact on the budget. Also, decision-making should include considerations related to social and environmental risks and opportunities, and a balance between maintaining services, enhancing services and advancing Council's strategic priorities. Input received from the community engagement efforts will also be used to inform decisions related to service adjustments.

Transparency: provide ongoing communication to Leadership Team, Managers, and employees so that everybody understands what is being done, why, how they may be involved and what the City's approach will be to any service adjustments and the ultimate outcomes of those adjustments. Also, as appropriate, opportunities for input will be provided to help inform service planning and decision-making.

Minimized impact on employees: where possible, the City will attempt to re-allocate resources to higher priority services and initiatives thus minimizing the future need for additional resources across the organization and/or impact on current permanent employees' employment. In addition, vacant positions will be examined to validate the need and to explore different ways to address that need, including deploying existing resources to different areas to address the need.

Proactive, multi-year service planning will enable Directors to make informed decisions for resource allocation during their business planning so that the potential impact of those decisions on employees can be managed proactively and in some cases through attrition. These conversations need to take place before the development of a proposed budget.

Approach

Facilitated sessions with Council to review and identify services that can be adjusted and to develop a multi-year Plan for detailed review, analysis and to act on identified service adjustments.

It is recommended that the PBB program data is used to inform decisions. It is the best tool at our disposal that can help inform decisions related to services.

The PBB approach is to score each program (service) against the established Basic Program Attributes (demand, mandate, population served, recovery cost, reliance on City to deliver a service) and against the community results endorsed by Council. This information will be available in late November/early December 2022. In addition, costing information related to each service delivered will be available by mid 2023 to further inform decision making.

While we are still working through the details, we are hoping to start some of the initial conversations in December 2022 with the aim of completing a 2-3-year action plan by March/April 2023. The finalized meeting structure, length and number of meetings, and participants is still to be confirmed and may be influenced by capacity but due to the nature of this review and time commitment, the recommended approach is to organize several sessions with Council including:

1. Collaborative Planning and Setting the Context (1-1.5hrs)- overview of current financial and service information, present and obtain input into detailed process, and obtain “top of mind” suggestions from Council for services to examine. This session would help ensure mutual understanding of the problem that we are addressing, objective, and the process for the review, development of a multi-year plan and prioritization.
2. Overview of Services (1.5-2hrs) - Provide an overview of the current services and service levels and information about those services using PBB summary related to:
 - a. Basic Program Attributes and Quartile information
 - b. Council endorsed Community Results
 - c. Overall service score
3. Council review of services and associated service levels (Two 3 hours sessions) - review of the services and service levels currently approved by Council to identify areas of focus for services/service levels adjustments.
4. Summary of discussion and prioritization (1.5-2hrs session) - review outcome of the session and prioritize multi-year plan using an established prioritization criteria.
5. Presentation of the Plan to Council for approval/endorsement before Administration starts actioning the plan.

Our Leadership Team will be engaged to review the services and service levels using the same approach as Council so that we are proactively providing internal insights for consideration to help inform Council’s decision for planned reviews.

In addition, should Council choose, public engagement opportunities can be organized to obtain input once the Plan is drafted and before Council’s formal approval of the multi-year Plan.

To have more longer-term, strategic conversations, Administration is recommending discussion with Council in mid-2023 that will focus on identifying directional areas that can be adjusted now to result

in a long-term cost reduction (slow down/reduce impact on budget).

STAKEHOLDER COMMUNICATIONS OR ENGAGEMENT

No Public engagement related to the 2023 budget will take place in November 2022 after the proposed budget has been presented. Prior to this Council Members should consider insights gleaned from the 2021 Community Satisfaction Survey and 2022 budget engagement.

IMPLICATIONS OF RECOMMENDATION(S)

Financial:

No specific financial implications to the recommendations contained in this report. All decisions made by Council related to the 2023 budget will occur in the fall of 2022 during public council meetings.

Legal / Risk:

Risks related to utilizing specific financial tool have been identified within the body of the report.

Program or Service:

No immediate impact to services and/or service levels at this time. Any modifications to services/service levels for 2023 budget will be tabled and debated at a public budget meeting in the fall.

Organizational:

Not this time. Should Council further direct Administration to pursue further/more complex service changes in the future there may be both resourcing and financial support required for any required analysis/recommendations. In addition, re-prioritization of the currently planned activities and/or initiatives may be required to accommodate the service review work.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

None

Report Date: August 16, 2022

Author: Diane McMordie, Assistant Deputy Chief Administrative Officer, Darija Slokar, Manager, Strategic Services

Department: Office of the DCAO

Assistant Deputy Chief Administrative Officer: Diane McMordie

Deputy Chief Administrative Officer: Kerry Hilts

Chief Administrative Officer: William Fletcher