

## **DEFICIT RESERVES**

### *Community Revitalization Reserves*

Through the 2012 Reserves Review, City Council approved the creation of a reserve for each Community Revitalization Levy (CRL) area.

The City invests in public infrastructure within a CRL area, which is intended to attract private investment, redevelopment and revitalization within the defined CRL area. The property and education property tax revenue from the new development, along with any revenue from these taxation sources attributing to the lift in the value of existing property within the area, is directed to paying the costs of the infrastructure, including financing costs, for up to twenty years. Timing differences between incurring costs and the collection of CRL tax revenues has resulted in deficit balances in the CRL reserves. Future CRL tax revenues will offset the existing shortfalls.

As of December 31, 2020, existing Community Revitalization Levy reserves are for the Belvedere, Quarters and Capital City Downtown areas and the deficit balances for each are (\$11.0) million, (\$12.2) million and (\$13.8) million, respectively.

An annual update report on how the CRLs are expected to perform long-term is presented to City Council each year. On February 22, 2021 an annual update was provided to City Council and it reported that the CRLs are performing consistent with long-term plans and also provided detailed long-term forecasts. Updated Financial forecasts for each CRL will be provided to City Council as part of the annual CRL update in Q1 2022. Administration will continue to adjust the long-term assumptions for assessment growth based on new market information on an annual basis.

### *Interim Financing Reserve*

The Interim Financing Reserve was originally approved on November 19, 2014 and later amended on November 29, 2016. The purpose of the reserve is to accommodate timing differences between operating impacts of capital projects and related external funding sources, and differences that arise between the timing of cash requirements and recognition of expenses for accounting purposes. Reserve deficit balances will be repaid through external funding sources, or will gradually eliminate over time for those deficits being driven by accounting timing differences.

The reserve ended 2020 with a cumulative deficit balance of (\$37.8) million.

The reserve currently accommodates timing differences between debt servicing costs related to construction of Downtown Arena and non-tax revenue sources (including lease, ticket surcharge and property tax revenues) intended to fund the debt servicing, as well as temporary differences resulting from the accounting treatment of operating leases relating to the Edmonton Tower lease.

The reserve reached its peak projected deficit of (\$40.6) million in 2020. The reserve is forecasted to reach a positive position in 2036 having offset prior year shortfalls accumulated in the reserve. In 2048 the reserve is projected to accumulate sufficient funds to cover the remaining debt servicing costs to the end of 2057.

A detailed cash flow forecast for the Interim Financing reserve is provided in Attachment 11.

### *Brownfield Redevelopment*

To facilitate implementation of City Policy *C571 Brownfield Remediation and Redevelopment Support*, the reserve supports Phase III Brownfield Redevelopment grant payments to qualified developers under the program to help finance developer costs related to environmental testing, remediation and/or exposure control in preparation for redevelopment. The reserve will accumulate timing differences between recognition of the City's liability (expense) to provide funds to the grant applicant for Phase III redevelopment work and receipt of future municipal tax uplift from the redevelopment. Upon approval of the Phase III Grant Funding Agreement by City Council, a liability is recognized by the City. The liability and related expense will be up to the lesser of 100 per cent of the total Phase III remediation costs or the projected net municipal tax uplift, as calculated by the City Assessor.

As of December 31, 2020, the reserve had a deficit balance of (\$2.3) million and is forecasting a deficit of (\$0.6) million for December 31, 2021. The deficit balance will be recovered through municipal tax uplift for signed agreements.

### *Traffic Safety and Automated Enforcement Reserve (TSAER)*

Established November 26, 2014 and governed by City Policy *C579B Traffic Safety and Automated Enforcement Reserve*, the purpose of the reserve is to address the revenue variability unique to automated traffic enforcement. Automated photo enforcement revenues are transferred to the reserve and

used to fund traffic safety initiatives and other programs approved by City Council through the budget process. Changes in driving behaviour has resulted in declining revenues from automated enforcement. This revenue is shared between the Edmonton Police Service and Parks and Road Services to fund traffic safety measures including technology, engineering measures, signage and signaling. The decrease in revenues must be balanced with continued work to keep motorists, cyclists, and pedestrians safe on our roadways.

The projected December 31, 2021 year-end balance of the reserve is \$1.6 million, which is below its minimum required balance of \$2.0 million. The minimum balance for this reserve is calculated as 5 per cent of budgeted annual revenue in accordance with City Policy *C579B Traffic Safety and Automated Enforcement Reserve*. In the event the reserve balance falls below the minimum level, a strategy is required to achieve the minimum level over a period not to exceed three years.

The 2019/2020 Provincial budget was released October 24, 2019 and included a reduction in the City's share of automated enforcement revenues from 73.3 per cent to 60 per cent starting in 2020 and continuing on an on-going basis. The City is still assessing the impact to annual automated enforcement revenues and the Traffic Safety and Automated Enforcement Reserve. However, due to the continued decline of revenues, the TSAER Reserve is anticipated to be in a deficit by the end of 2022. Administration will return in the first quarter of 2022 with a report exploring options to address this challenge.