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2 FINANCIAL STATEMENT DISCUSSION + ANALYSIS

INTRODUCTION

The Annual Report provides information regarding the use of financial resources entrusted to the City of Edmonton for the purpose of providing municipal services and infrastructure.

In addition to providing an overview of the City's 2021 financial performance and position, this report describes significant fiscal policies, strategies and plans related to financial control, accountability, long-term sustainability and risk management.

Included in the 2021 Annual Report are the City's consolidated financial statements and notes (financial statements), which have been prepared in accordance with Canadian Public Sector Accounting Standards (PSAS). KPMG LLP has audited the City's financial statements and provided an Independent Auditor's Report. The financial statements and auditor's report satisfy the legislative reporting requirement set out in the *Municipal Government Act* (MGA) of Alberta.

The following financial statement discussion and analysis should be read in conjunction with the financial statements. Both have been prepared by and are the responsibility of the Management of the City of Edmonton. A section for the Task Force on Climate-related Financial Disclosures has been included as well as the five-year statistical review of key information.

2021 FINANCIAL HIGHLIGHTS

The City has approved a multi-year budget policy in which operating budgets are developed and approved for a four year period.

The 2019 – 2022 Operating Budget was originally passed in December of 2018. The multi-year budget process provides for adjustments to the four-year budget on a semi-annual basis, in the spring and in the fall. Operating budget information is consistent with the amounts approved by City Council (Council) in May 2021 with the passing of Bylaw 19574 – 2021 Property Tax and Supplementary Property Tax Bylaw.

In the fall of 2020, 2021 operating budgets were adjusted to address the continuing impact of the COVID-19 pandemic. At that time, the City projected a significant decline in revenue in 2021 coupled with additional costs. Given the uncertainty in late 2020 about the availability and distribution of vaccines, the adjustments were based on the assumption that the pandemic would continue with the measures in place in early spring of 2021. Revenue budgets were adjusted downward to reflect lower expected demand in transit, parking and community recreation facilities along with lower than anticipated revenues in other areas. Expense budgets were increased in consideration of additional costs resulting from COVID, including personal protective equipment, enhanced cleaning, and personnel costs related to backfilling and isolation pay. The total estimated budget impact was $152.0 million. These impacts were offset by various funding strategies in the same amount, including use of COVID-19 funds within the appropriated Financial Stabilization Reserve (FSR), expense management strategies and additional revenue strategies. With the availability of vaccines and the lifting of restrictions in the summer of 2021, Administration reviewed the 2021 estimates and revised them downwards by $17.3 million.

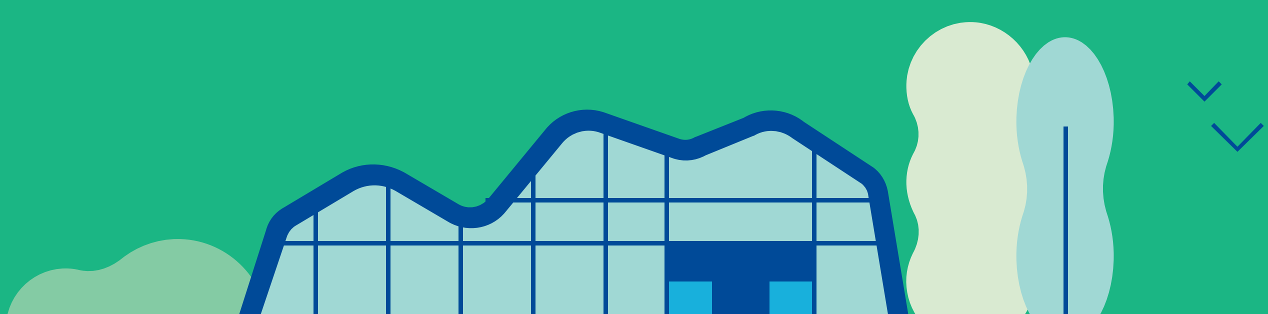
During 2021, Administration focused on responding to pandemic restrictions in a prudent manner and limited discretionary spending to maintain the fiscal flexibility required to respond to the ongoing pandemic.

The City ended the year with a $52.3 million surplus (1.7 per cent of budgeted tax-supported expenses) for general government (tax-supported) operations relative to the operating budget. A portion of the surplus went to the Financial Stabilization Reserve to help mitigate the financial risks of long-term pandemic impacts and delayed economic recovery through 2022. The surplus is primarily a result of lower personnel costs due to vacancy management, lower than expected snowfall at the beginning of 2021, and lower costs at recreation facilities due to pandemic related closures and capacity constraints. These favorable variances were offset by lower revenues in transit and recreation centers as the pandemic restrictions resulted in lower demand for these services.

In 2021, the City began the third year of the 2019-2022 multi-year operating budget. However, 2020 was a difficult year for Edmontonians, with high levels of unemployment, a declining economy, and residents and business owners being impacted by COVID. Administration and Council recognized these difficulties by approving a (0.3) per cent tax decrease for 2021, the lowest change to taxes in almost 25 years. The loss of revenue related to property tax needed to be balanced by increasing other revenues or cutting costs. Council voted to implement budget reduction strategies of $49.9 million across City departments for 2021.

This year also marked the third year of the City's four-year capital budget for 2019-2022. The 2019-2022 Capital Budget balances the infrastructure investment required to keep existing City assets in good repair while supporting ongoing growth needs. Approximately 30 per cent of 2019-2022 capital investment is earmarked for renewing roads, neighbourhoods, parks, City-owned buildings and transit vehicles, with the remaining 70 per cent to support planning and delivery of new infrastructure.

With an overall accumulated surplus of $16,562.1 million, the City's financial position is resilient. The City will continue to monitor its financial performance and will implement strategies to address growth and increased service demand through the multi-year budget process. These areas are expanded upon in the Long-Term Sustainability section of this discussion.



FINANCIAL POSITION

Consolidated Statement of Financial Position
(millions of $)

		2021		2020		2019		2018		2017
Financial Assets	$	**8,093.8**	$	7,527.5	$	7,284.0	$	7,237.7	$	6,791.5
Liabilities		**5,370.8**		5,027.5		4,796.5		4,699.5		4,334.4
Net Financial Assets	$	**2,723.0**	$	2,500.0	$	2,487.5	$	2,538.2	$	2,457.1
Non-Financial Assets		**13,839.1**		13,272.9		12,441.0		11,758.3		10,842.2
Accumulated Surplus	**$**	**16,562.1**	**$**	**15,772.9**	**$**	**14,928.5**	**$**	**14,296.5**	**$**	**13,299.3**

The City ended the year in a strong financial position with **net financial assets** of $2,723.0 million, an overall increase of $223.0 million, or 8.9 per cent, compared to 2020. The primary components of the net financial asset balance are the City's investment of $4,223.4 million in the EPCOR subsidiary, investments of $2,342.8 million, long-term debt of $3,546.6 million, and accounts payable and accrued liabilities of $1,150.7.

The City's **non-financial assets** at the end of 2021 were $13,839.1 million, an overall increase of $566.2 million, compared to 2020. Non-financial assets consist primarily of tangible capital assets such as roadways, buildings, land and light rail transit that are valued at $10,190.3 million. The City's non-financial assets have grown over the last five years due to continued investments in infrastructure; these investments include the construction of new infrastructure to meet the needs of a growing population and repairs to existing infrastructure to maintain the service standards that Edmontonians expect. The ability to build and maintain infrastructure assets ensures that Edmonton can provide services and remain an attractive and cost-effective place to live and do business.

Accumulated surplus is an indicator of the City's overall financial viability that reflects the net economic resources the City has built up over time. The City ended 2021 with a total accumulated surplus of $16,562.1 million, an increase of 5.0 per cent compared to the prior year. This surplus includes the City's equity in tangible capital assets, investments in the EPCOR subsidiary and Ed Tel Endowment Fund, and a number of reserves, including the Financial Stabilization Reserve. The City maintains a stable accumulated surplus balance due to its continued investments in Edmonton's infrastructure, its growing investment in EPCOR and robust reserve management.

Refer to the Statistical Review section of the annual financial report for additional trending and other statistical data.

The significant balances and changes in financial position are discussed in the following sections.

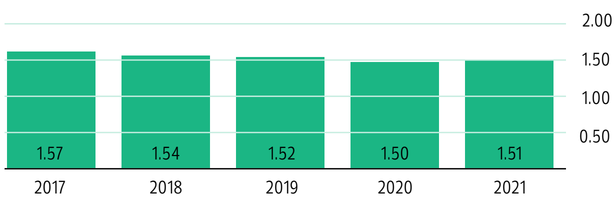
"THE CITY ENDED THE YEAR IN A STRONG FINANCIAL POSITION WITH NET FINANCIAL ASSETS OF $2,723.0 MILLION."

FINANCIAL ASSETS

The financial assets–to–liabilities ratio is used to assess the sustainability of the City's financial position. A result lower than one indicates that future revenues will be required to pay for past transactions and events.

A result higher than one indicates the City currently holds sufficient financial resources to to meet its financial obligations. The City's financial assets to liabilities ratio over the past five years has remained greater than one.

Financial Assets to Liabilities

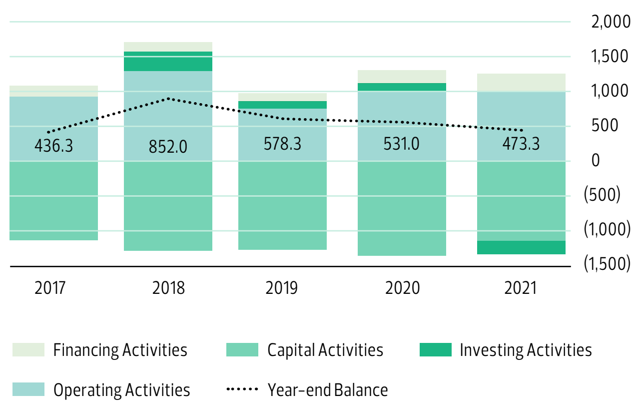


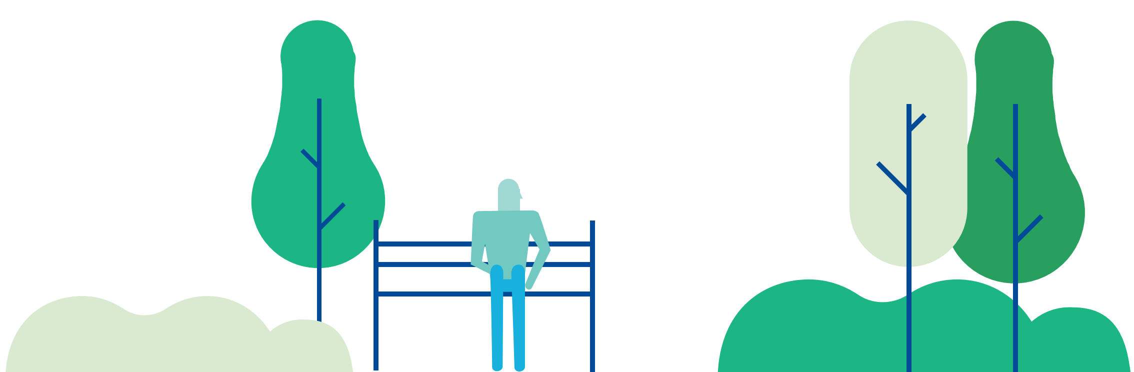
CASH

The City's cash position includes both cash and cash equivalents such as bankers' acceptances, treasury bills and commercial paper, which are used to ensure that sufficient cash and liquid assets are available to manage the timing of payments for the City's operating and capital expenditures. In 2021, the City's cash position decreased to $473.3 million from $531.0 million in 2020, an overall decrease of $57.7 million, or 10.9 per cent.

The Consolidated Statement of Cash Flows summarizes the sources and uses of cash by the City in 2021. During the year, the City raised $1,121.9 million from operations and $139.4 million from net financing activities. Conversely, cash flow decreased as a result of higher investment activity of $359.5 million, partially offset by a dividend from the EPCOR subsidiary of $171.0 million, and from capital acquisitions of $1,130.6 million (net of proceeds on disposal).

Cash Flows
(millions of $)





SINCE 1995, THE ED TEL ENDOWMENT FUND HAS CONTRIBUTED $913.4 MILLION TO THE CITY.

INVESTMENTS

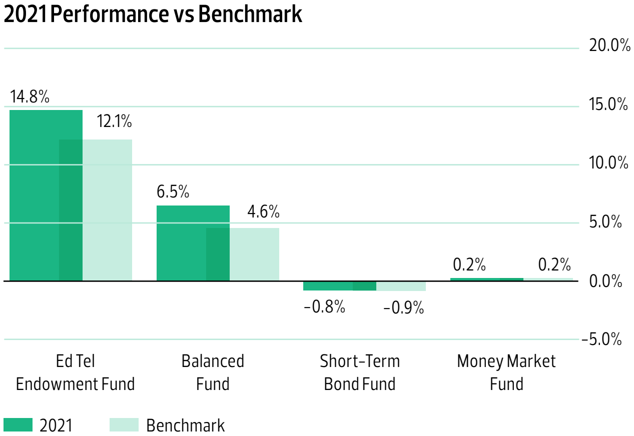
All investments held by the City must comply with the MGA, the Major Cities Investment Regulation, and the City's internal investment policy. The objective of the Council-approved investment policy, as overseen by the Investment Committee, is to preserve the principal investment amount and maximize investment returns within an acceptable and prudent level of risk. Asset mix is determined based on investment earnings objectives, investment time horizon and level of risk tolerance.

Included in investments of $2,342.8 million are amounts held as cash, amounts receivable, fixed income, common and preferred shares, pooled infrastructure funds and other investments. These investments are held within the Money Market Fund, Short-Term Bond Fund, the Balanced Fund and the Ed Tel Endowment Fund.

The Money Market Fund ensures that sufficient cash and liquid assets are available to cover the City's short-term obligations. As such, the fund is solely invested in money market securities with time horizons of one year or less, depending on the City's forecast of commitments.

The Short-Term Bond Fund is an investment vehicle for working capital that is not currently needed to fund City operations but will be needed in less than five years. Therefore, the fund holds fixed income securities with an investment horizon of less than five years.

2021 Performance vs Benchmark



The Balanced Fund is a long-term investment vehicle to fund operating and capital reserve funds, deferred revenue accounts and other similar funds. Because it has a longer-term investment horizon, the risk tolerance of this fund permits owning some equities.

The largest of the City investment funds is the Ed Tel Endowment Fund. It was established in 1995, with the sale of the City's municipally owned telephone company, Edmonton Telephones, to the TELUS Corporation for $465.0 million. Council directed Administration to establish the Ed Tel Endowment Fund to hold the financial assets generated from this sale and to ensure Edmonton's long-term financial stability. The Ed Tel Endowment fund provides a source of income in perpetuity while ensuring that the real purchasing power of the original investment is maintained. Similar to the Balanced Fund, the Ed Tel Endowment Fund has a longer-term investment horizon and a level of risk tolerance that permits owning equities. City Bylaw 11713 establishes the formula under which earnings from this fund can be applied to fund City operations.

Since 1995, the Ed Tel Endowment fund has contributed $913.4 million to the City. In 2021, the fund contributed $40.7 million in dividends to the City. The fund ended the year with an investment book value of $892.0 million compared to a market value of $996.9 million.

Performance of the City's investment funds ranged from negative 0.8 per cent (Short-Term Bond Fund) to 14.8 per cent (Ed Tel Endowment Fund), depending on each fund's asset mix.

Global equities delivered strong returns with a 24.1 per cent gain for the year. This performance is all the more impressive as it follows two years of double-digit gains. Not since 2004-2006 have global equities performed so well. Supportive fiscal and monetary policy in response to the pandemic and rebounding global growth contributed to the strength in capital markets during the year.

“OVERALL, THE MARKET VALUE OF THE CITY’S INVESTMENT PORTFOLIO AT YEAR-END WAS $2,492.0 MILLION, 6.4 PER CENT ABOVE THE INVESTMENT COST.”

U.S. equities led the way as the strongest performer, returning 28.7 per cent for the year. This followed a gain of over 18 per cent in 2020. Canadian equities were close behind as they were up 25.1 per cent in 2021 – their best year since 2009. Similarly, oil prices surged 59 per cent as economies reopened, while the Canadian dollar was essentially flat versus the U.S. dollar, rising less than 1 per cent.

Finally, Canadian fixed income securities (bonds) fell 2.5 per cent for the year. This was the worst year for bonds since 1994.

As a result, the Ed Tel Endowment Fund and Balanced Fund, both of which are invested in a mix of fixed income and equity markets in accordance with the City's investment policy, saw returns of 14.8 per cent and 6.5 per cent, respectively. Conversely, the Money Market Fund and Short-Term Bond Fund, which are invested solely in lower returning fixed income securities, had returns of 0.2 per cent and negative (0.8) per cent, respectively. Overall, the market value of the City's investment portfolio at year-end was $2,492.0 million, 6.4 per cent above the investment cost.

More detailed information about the investment performance and benchmarks is available in the 2021 Investment Committee Annual Report on the City of Edmonton's website.

Additional investments are managed for trust assets under administration's control, including City-sponsored pension plans and a long-term disability benefit plan funded by employees. Consistent with public sector accounting standards, trust assets that are not owned by the City are excluded from the reporting entity. Note 21 to the financial statements provides summary disclosures with respect to trust assets under City administration.

INVESTMENT IN EPCOR

EPCOR builds, owns and operates electrical, natural gas and water transmission and distribution networks, as well as water and wastewater treatment facilities, sanitary and stormwater systems, and related infrastructure. EPCOR also provides electricity, natural gas and water products and services to residential and commercial customers.

The City applies a modified equity method of accounting and reporting for EPCOR, a wholly owned subsidiary, as a government business enterprise. EPCOR's management has prepared their 2021 consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). EPCOR's accounting principles are not adjusted to conform to those used by the City as a local government; therefore, inter-organizational transactions and balances are not eliminated.

In 2021, the City's investment in EPCOR increased to $4,223.4 million from $3,975.0 in 2020, a net increase of $248.4 million, or 6.3 per cent. The net increase is due to EPCOR's reported net income of $387.7 million for 2021, $34.7 million of tangible capital assets contributed to EPCOR by the City, offset by $2.3 million in amortization of contributed assets, other comprehensive loss of $0.7 million and a dividend of $171.0 million paid to the City. Summary financial information for EPCOR is included in Note 19 to the financial statements.

Additional detail on EPCOR's strategies, financial performance and health, and significant events that occurred in 2021 are discussed in EPCOR's annual reporting for 2021, which is available on the company's website.

"IN 2021, THE CITY'S INVESTMENT IN EPCOR INCREASED TO $4,223.4 MILLION FROM $3,975.0 IN 2020, A NET INCREASE OF $248.4 MILLION, OR 6.3 PER CENT."

LIABILITIES

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities include the categories of trade and other, developer obligations, payroll and remittances, and accrued interest amounts owing. The balance of $1,150.7 million at year-end has increased over the prior-year balance of $1,061.0 million by $89.7 million, or 8.5 per cent.

Trade and other payables reflect a net increase of $61.8 million over prior year largely due to increased land expropriations related to further advancement of large growth infrastructure projects such as Yellowhead Trail Freeway Conversion and the Valley Line West LRT, partially offset by fluctuations in various trade and other payables.

Payroll and remittance liabilities have increased by $19.4 million over the prior year mainly due to the timing of the payroll period for 2021.

Developer obligations increased by $9.0 million over the prior year mainly due to an increase in development construction in 2021.

Information on the composition of the accounts payable and accrued liability balance is provided in Note 6 to the financial statements.

DEFERRED REVENUE

Deferred revenue is largely made up of government transfers provided to fund operating and capital expenditures. The use of these revenues is externally restricted until they are used for the purposes intended. The deferred revenue balance of $378.8 million increased by $98.6 million, or 35.2 per cent, from the prior year balance of $280.2 million. The increase is mainly due to the one-time increases received in 2021 under the Canada Community Building Fund (formerly known as the Federal Gas Tax grant) and the Municipal Sustainability Initiative (MSI) grant program. Funds were received in advance of project expenditures and as a result recognition was deferred to match future capital expenditures as required. Additional details about balances and changes in deferred revenue are included in Note 7 to the financial statements.

LONG-TERM DEBT

The City uses debt to finance capital expenditures under the principles and limits established by the City's Debt Management Fiscal Policy (DMFP), C203C. The policy supports the City's long-term capital plans and strategies while maintaining long-term financial affordability, flexibility and sustainability. The policy also provides for approval of multi-year debt guidelines with a corresponding debt repayment funding strategy and added flexibility for the application of funds used for debt servicing once debt is retired.

The City has three main types of long-term debt obligations: tax-supported debt funded by tax levy, self-supporting tax-guaranteed debt funded through dedicated non-tax levy revenues, and self-liquidating debt funded through programs that are self-sustaining, such as the Waste Services Utility, the Blatchford Redevelopment Project and local improvements. As self-supporting tax-guaranteed debt is guaranteed by the tax levy, it is classified as tax-supported debt. Tax-supported debt also includes the City's long term obligation related to its public-private partnership (P3) with TransEd for the construction of the Valley Line Southeast LRT (P3 term debt).

The City's policies and strategies with respect to debt management are documented in a Debt White Paper that is available on the City of Edmonton's website. The Debt White Paper discusses the City's use of debt financing to optimize resources dedicated to the acquisition, creation and rehabilitation of infrastructure.

From 1993 to 2019, borrowing completed by the City had generally been in the form of amortizing debentures in Canadian dollars administered through the Alberta Capital Finance Authority (ACFA), using the debt rating of the Government of Alberta and combined borrowing volumes across Alberta. On October 24, 2019, the Province released the 2019 Provincial Budget which introduced legislation to dissolve ACFA by mid-2020, and transfer responsibilities to the Government of Alberta's department of Treasury Board and Finance.

In late 2021, the province provided notice that interest rates charged on new loans will be revised to better reflect the market cost of borrowing for local authorities, using rates for large municipalities in the bond market as the proxy for municipal costs. This change will slightly increase the City's cost on future borrowings.

DURING THE YEAR, THE CITY ADDED $319.4 MILLION IN NEW DEBENTURE BORROWINGS TO ADVANCE KEY TRANSFORMATIVE PROJECTS.

Debt Schedule
(millions of $)

		Tax-Supported		Self-Liquidating		**Total Debt (net)**
Opening	$	2,950.8	$	456.3	**$**	**3,407.1**
Borrowings		167.0		93.4		**260.4**
Increase in P3 term debt		59.0				**59.0**
Principal Payments		(144.6)		(35.3)		**(179.9)**
Ending	**$**	**3,032.2**	**$**	**514.4**	**$**	**3,546.6**

Interest rates are established at the time of borrowing and remain constant throughout the term of the debenture, eliminating the risk associated with fluctuating interest rates. Repayments are made annually or semi-annually. The City continued to benefit from low interest rates for new borrowing during the year, with ranges as follows:

Borrowing Terms and Interest Rates

Term	**Interest Rates**
5 years	2.48%
10 years	1.67% to 2.85%
15 years	2.04% to 3.12%
20 years	2.30% to 3.27%
25 years	2.48% to 3.39%

The City's net long-term debt was $3,546.6 million at December 31, 2021, an increase of $139.5 million, or 4.1 per cent, compared to the 2020 balance. Long-term debt is comprised of debentures, mortgages and the P3 term debt. The gross amount of debentures, mortgages payable and P3 term debt of $4,069.9 million is offset by $523.3 million in amounts receivable from EPCOR. The amounts receivable from EPCOR are for debentures issued in the name of the City on behalf of EPCOR relating to the Gold Bar Wastewater Treatment Facility, transferred to EPCOR in 2009, and the Drainage Utility, transferred to EPCOR in 2017.

Of the total net long-term debt of $3,546.6 million, $3,032.2 million is tax-supported and $514.4 million is self-liquidating. Tax-supported debt includes $491.2 million of P3 term debt related to the portion of deferred capital costs owing to TransEd from 2022 to 2050 for the construction of the Valley Line Southeast LRT. Term debt is based on the percentage of project completion as of December 31, 2021.

During the year, the City added a total of $319.4 million through new debenture borrowings and mortgages; $226.0 million is considered tax-supported and $93.4 million is considered self-liquidating. Tax-supported debt was borrowed to finance various capital projects, including the Valley Line and Metro Line LRT construction, Yellowhead Trail Freeway Conversion and continued progression of Downtown and Quarters Community Revitalization Levy funded projects. Self-liquidating borrowings during the year include $34.1 million for the Waste Services Utility, $1.3 million for the Blatchford Utility, $25.2 million related to local improvement projects, $19.9 million in Non Profit Housing mortgages and new borrowings of $12.9 million for the Francis Winspear Centre for Music.

Debt principal repayments of $179.9 million were made during the year, comprising $144.6 million for tax-supported debt and $35.3 million for self-liquidating debt.

The City of Edmonton is subject to limits of total debt and debt servicing by the MGA Debt Limit Regulation AR 255/2000 which stipulates that the City's total debt limit is two times the revenue of the municipality, and that debt servicing costs are limited to 35 per cent of the revenue of the municipality. The revenue for the purposes of this calculation is the consolidated revenue less capital government transfers, contributed tangible capital assets and revenue from EPCOR. Debt servicing, for the purposes of calculating the MGA debt servicing limit, is the amount of principal and interest for the subsequent year relating to debt in place at the end of the year reported.

Debt and Debt Service Limits – MGA
(millions of $)

		2021		2020		2019		2018		2017
Debt limit	$	**5,978.1**	$	5,856.9	$	5,840.6	$	5,587.4	$	5,649.4
Debt limit used	$	**3,546.6**	$	3,407.1	$	3,202.8	$	3,046.2	$	2,912.1
Percentage used (%)		**59.3**		58.2		54.8		54.5		51.5
Debt service limit	$	**1,046.2**	$	1,025.0	$	1,022.1	$	977.8	$	988.6
Debt service limit used	$	**336.0**	$	313.2	$	301.1	$	284.3	$	264.6
Percentage used (%)		**32.1**		30.6		29.5		29.1		26.8

The City's level of debt is well below the legislated limit established in the MGA, but has been trending higher over the past five years. The percentage used of the debt limit increased from 51.5 per cent to 59.3 per cent. The City has strategically used debt to move priority capital projects ahead while benefiting from low interest rates. The City's debt servicing in comparison to the MGA debt servicing limit is a measure of long term fiscal sustainability and indicates the extent to which past borrowing decisions impact the City's current year expenditures and cash flow.

Debt is further restricted through the City's DMFP, which limits total debt servicing to 22 per cent of City revenues, and tax-supported debt servicing to 15 per cent of annual tax-supported revenues. In monitoring compliance with the DMFP, debt servicing is defined as debt principal and interest paid in the year. The City DMFP debt servicing limits are below the limits established in the MGA. The percentage of the debt servicing limit used for purposes of the DMFP increased in 2017 due to the repayment of $60.0 million of short-term borrowing. The City undertook this short-term borrowing to fast-track capital expenditures for projects with approved funding through Municipal Sustainability Initiative grants and the provincial fuel tax.

Debt Service Limits — DMFP
(millions of $)

		2021		2020 (restated)		2019		2018		2017
Total debt service limit	$	**657.6**	$	644.3	$	642.5	$	614.6	$	621.4
Debt service limit used	$	**289.1**	$	291.8	$	283.2	$	269.7	$	333.0
Percentage used (%)		**44.0**		45.3		44.1		43.9		53.6
Tax-supported debt service limit	$	**394.9**	$	399.6	$	397.8	$	380.0	$	361.9
Debt service limit used	$	**237.4**	$	241.2	$	232.4	$	219.0	$	264.1
Percentage used (%)		**60.1**		60.4		58.4		57.6		73.0

“THE CITY IS WELL WITHIN DEBT AND DEBT SERVICING LIMITS ESTABLISHED THROUGH THE MGA.”

NON-FINANCIAL ASSETS

TANGIBLE CAPITAL ASSETS

Tangible capital assets are managed and held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for development, construction, maintenance or repair of other tangible capital assets. The assets are not for sale in the ordinary course of operations and their economic lives extend beyond a year.

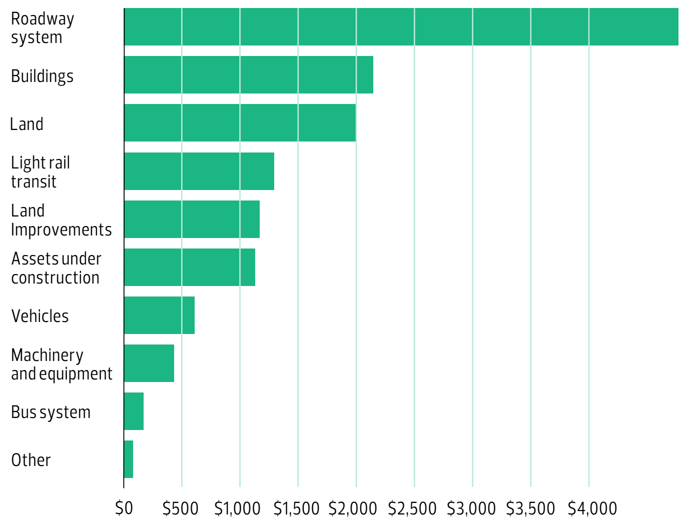
Tangible capital assets of $13,755.0 million have increased by 4.2 per cent compared to the 2020 balance of $13,195.6 million. The net increase of $559.4 million is a result of acquisitions of tangible capital assets of $1,136.5 million and contributions of tangible capital assets of $95.4 million. This increase was partially offset by annual amortization of $620.3 million, and disposals and transfers of assets with a net book value of $52.2 million.

Tangible capital assets placed in service were primarily in the asset categories of roadways, light rail transit, and land improvements. Schedule 1 – Consolidated Schedule of Tangible Capital Assets to the financial statements provides a continuity schedule for the asset cost and related accumulated amortization for each significant asset type.

City Council approved the 2019–2022 capital budget in December 2018. During 2021, the third year of the 2019–2022 capital budget, spending focused on key growth projects and infrastructure maintenance. The capital additions and contributions of $1,231.9 million in 2021, compared to $1,497.6 million in 2020, shows the City's continued commitment to investing in infrastructure to accommodate both growth and renewal. The capital additions are lower in 2021 as the Valley Line Southeast project came closer to completion and as a result of less bus fleet deliveries in 2021 compared to 2020. This was partially offset by higher spending for arterial roadway renewal work and the Yellowhead Trail Conversion project. Roadways continue to be the largest asset category with a net book value of $4,764.6 million. These are followed by buildings and land, with net book values of $2,137.0 million and $2,003.4 million, respectively.

In 2021, the City made progress on significant capital projects such as the neighbourhood renewal program, Yellowhead Trail Freeway Conversion, Fort Edmonton Park, the Valley Line Southeast and West LRT lines as well as investments in the City's park spaces.

Net Book Value of Tangible Capital Assets by Category
(millions of $)



DURING 2021, THE THIRD YEAR OF THE 2019–2022 CAPITAL BUDGET, SPENDING FOCUSED ON KEY GROWTH PROJECTS AND INFRASTRUCTURE MAINTENANCE.

“TANGIBLE CAPITAL ASSETS OF $13,755.0 MILLION HAVE INCREASED BY 4.2% PER CENT COMPARED TO THE 2020 BALANCE.”

RESERVES

The City's reserve policy, C217E, Reserve and Equity Accounts, directs the establishment of and processes related to reserves. Establishing reserves and transferring funds to and from reserves requires Council's approval.

In accordance with City Policy C217E, the City completed a review of reserves in 2021. This review is completed at minimum once every three years and ensures that City reserves continue to support the City's financial goals and serve the highest priority needs of the city and its residents. As a result of the 2021 review, City Council approved the following changes:

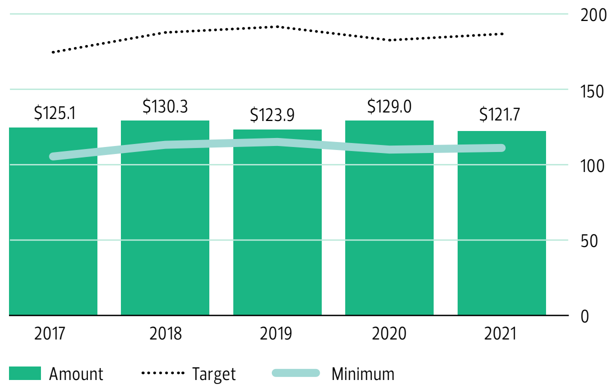
+ Creation of the Commercial Revitalization Reserve, which manages funds for three commercial revitalization programs – Development Incentive, Storefront Improvement and Corner Store programs – that provide a complementary set of tools to support commercial revitalization and main street vibrancy across targeted areas of the City
+ Closure of the Telus Field Capital Reserve and Enterprise Portfolio Reserve.
+ A new reserve policy was created to provide general governance of all City reserves. City Policy C217E Reserve and Equity Accounts provides for increased clarity around governance, accountability, administration, monitoring and reporting of all City reserves and equity accounts, in addition to specific reserve policies that already exist. The amended policy includes a reserve register, which provides a listing of all active reserves, a description of the reserve and the allowable use of reserve funds, applicable policy or guidance documents and other important information.
+ A standalone policy specific to the Financial Stabilization Reserve – City Policy C629 Financial Stabilization Reserve was created. The Financial Stabilization Reserve guidance was previously included as a part of the overall City policy for reserve and equity accounts.

The reserve policy and balances are monitored on an ongoing basis with the next formal review planned for 2024.

A schedule of reserves has been provided in Note 14 to the financial statements. The reserve balance of $1,006.0 million at the end of 2021 has increased by $102.5 million over the prior-year balance of $903.5 million. The net increase was mainly attributable to the additional $57.4 million transferred to the Pay-As-You-Go capital reserve, resulting from higher than expected investment earnings due to the more favourable economic growth around the world from economies reopening after the COVID-19 pandemic, vaccine rollouts and accommodative monetary and fiscal policies.

The Financial Stabilization Reserve (FSR) was established in 1997 to provide flexibility in addressing financial risks associated with revenue instability and emergent financial issues, and to ensure the orderly provision of services to residents. The appropriated balance of the reserve represents funds that have been set aside by City Council to fund future commitments. The unappropriated balance of the FSR is uncommitted and provides the City with flexibility to address significant emergent financial issues. The reserve is not intended to

Financial Stabilization Reserve
(millions of $)



be used to stabilize future tax rate increases. City policy establishes that the FSR must have a minimum balance of 5 per cent with a target balance of 8.3 per cent of current general government expenses (excluding non-cash amortization). Any annual general government surplus would be applied to the reserve in the subsequent year. Any annual tax-supported deficit would draw on the reserve.

City Policy C629, Financial Stabilization Reserve, requires that a risk-based review of the unappropriated FSR be completed every three years to ensure the sufficiency of the minimum and target percentages. Administration conducted a risk-based review of the unappropriated FSR balance in 2021 and confirmed that the respective minimum and target balances of 5 per cent and 8.3 per cent of current general government expenses (excluding non-cash amortization) were appropriate.

As of December 31, 2021, the unappropriated FSR balance is $121.7 million. During the year, the general government surplus from 2020 of $40.4 million was transferred to the reserve, of which $24.8 million was subsequently appropriated to deal with COVID-19 impacts in the 2021 budget, and the remaining $15.6 million was appropriated within the FSR to provide funding in 2021 for projects and initiatives not completed in 2020, and to offset the forgiveness of the outstanding loan balance due from the Waste Services Utility. The 2021 general government surplus of $52.3 million will be transferred to the Financial Stabilization Reserve in 2022 with $31.7 million then appropriated for funding within the 2022 operating budget. After reflecting the approved transactions, the balance of the reserve will be $142.3 million and exceeding the minimum level as set within the policy of $112.9 million but will be below the target level of $187.5 million.

As of December 31, 2021, the appropriated FSR balance is $181.0 million, which is a decrease of $32.3 million from the 2020 balance of $213.3 million. During the year, $116.4 million was transferred into the appropriated FSR and $142.2 million was used to fund approved items, a large portion of those being the COVID-19 2021 budget impacts. Amounts within the appropriated FSR of $6.5 million were released back to the unappropriated FSR as the funding was no longer required.

As of December 31, 2021, the City had six reserves that were in deficit balances. The City maintains reserves that are used to accommodate differences between expenses and related funding sources. These include the Interim Financing, Community Revitalization Levy (Capital City Downtown, Belvedere, and Quarters), Edmonton Police Service and Brownfield Redevelopment Reserves. In accordance with City Policy C217E Reserve and Equity Accounts, reserves that are expected to have deficit balances will only be established if future funding to offset the deficit balance has been identified at the time of the reserve's creation. A review of the City's deficit reserve balances was included as part of the 2021 Reserves Review and confirmed that all reserves are performing consistent with long-term plans, with existing shortfalls to be recovered through future funding sources.

A Community Revitalization Levy (CRL) is a funding source the City can use to dedicate future property tax revenue in a specific area to fund public projects designed to encourage new development and revitalize a specific area of the City. The City currently has CRLs approved for Belvedere, the Quarters and Capital City Downtown. An annual update on the progress of the CRLs was presented to City Council on February 22, 2022. The annual update noted that market conditions for land sales and development have not been favourable for the Belvedere and Quarters Downtown CRLs, leading to a reduction in the revenue projections for each CRL. Ongoing municipal tax revenues will be used to retire the remaining debt for the Belvedere CRL an additional five years after the CRL ends and for the Quarters Downtown CRL, an additional two years. On the positive side, despite a decline in office property valuation, the pace and volume of development underway in the Capital City Downtown CRL area will be sufficient to ensure that revenues will cover all debt costs by the end of the expiry of that CRL.

The Interim Financing Reserve is used to accommodate timing differences between operating expenses and receipt of future revenue intended to fund these costs including differences that arise between the timing of budgeted expenses and payment of expenses. At the end of 2021, the reserve has a deficit balance of $37.7 million, which will be replenished upon receipt of future revenues.

The Brownfield Redevelopment reserve supports phase III brownfield redevelopment, granting payments to qualified developers under the program to help finance costs related to environmental testing, remediation and/or exposure control in preparation for redevelopment. At the end of 2021, the reserve has a deficit balance of $2.9 million, which will be recovered through future municipal tax uplift relating to the developer agreements.

The Edmonton Police Service reserve was established to manage operational surpluses and deficits of the Edmonton Police Service over time. At the end of 2021, the reserve has a deficit balance of $2.9 million. In accordance with Policy C605 Edmonton Police Reserve, in the event the reserve falls into a deficit position, a strategy will be developed by EPS, to be approved by City Council, to achieve a balanced position over a period not to exceed three years, starting with the subsequent year operating budget.

"THE UNAPPROPRIATED BALANCE OF THE FSR IS UNCOMMITTED AND PROVIDES THE CITY WITH FLEXIBILITY TO ADDRESS SIGNIFICANT EMERGENT FINANCIAL ISSUES."

EQUITY IN TANGIBLE CAPITAL ASSETS

As summarized in Note 13 to the financial statements, equity in tangible capital assets represents the investment made in tangible capital assets, after deducting the portion financed by outstanding long-term debt, net of long-term debt for land redevelopment, and debt recoverable. An increase of $432.2 million for 2021, as a result of the net acquisition of tangible capital assets partially offset by net additional debt, brings the ending balance of equity in tangible capital assets for the year to $10,307.0 million.

ADVANCES FOR CONSTRUCTION/ (CAPITAL TO BE FINANCED)

At the end of 2021, $100.7 million of capital expenditures completed to the end of 2021 require future funding. This compares to $26.0 million of funding in place at the end of 2020 where expenditures had not yet proceeded and funding was received – an overall shift of $126.7 million. During the year, strategic land expropriations were made to secure land for future municipal capital projects, to ensure that the land is available when required. The expropriations will be funded through the available capital project funding when the land is applied to the project.

FINANCIAL OPERATIONS

The Consolidated Statement of Operations and Accumulated Surplus outlines revenues earned by the City and their application (expenses) to provide municipal services.

Consolidated Statement of Operations
(millions of $)

	2021 Actual	2020 Actual	2019 Actual	2018 Actual	2017 Actual
Operating Revenues	**$ 3,358.5**	$ 3,170.6	$ 3,120.0	$ 3,050.3	$ 3,023.8
Capital Revenues	**527.1**	717.4	749.8	941.8	687.0
Operating Expenses	**3,093.5**	3,023.5	3,189.7	3,029.4	2,956.1
Excess of Revenues over Expenses	**$ 792.1**	**$ 864.5**	**$ 680.1**	**$ 962.7**	**$ 754.7**

Consolidated revenues exceeded expenses for the year by $792.1 million after accounting for government transfers for capital, contributed tangible capital assets, developer and customer contributions for capital and local improvements. Operating revenues increased 5.9 per cent from the prior year, with large increases in revenue from investment earnings and the City's investment in EPCOR, partially offset by decreases in operating government transfers. Capital revenues vary from year to year based on fluctuations in development activities and timing of significant capital projects. Expenses over the past five years reflect the demand for additional services and infrastructure that comes with a growing population. Tax-supported expenses have been increasing with the growth in taxable property assessments, indicating that expenses are growing at a consistent and sustainable rate with the economy. Facility closures and reduced services dictated by public health orders related to the pandemic resulted in slower growth in expenditures over the last two years.

Significant year-over-year variances and variances from budget are discussed in the following sections. The operating budget is based on the 2021 operating budget approved by Council on December 9, 2020, including any supplementary budget adjustments approved by Council on April 19, 2021 prior to finalization of the 2021 tax rate. The capital budget line items are based on the capital budget originally approved in December 2018, as a part of the 2019-2022 capital budget, plus carry-forward of unspent capital budgets from previous years. The original budgets are adjusted to comply with the Canadian Public Sector Accounting Standards for inclusion in the Consolidated Statement of Operations and Accumulated Surplus. A reconciliation between the budget approved by Council and the budget for financial statement purposes is provided in Note 29.

OPERATING REVENUES

Operating Revenues
(millions of $)

	2021 Budget (A)	**2021 Actual (B)**	Variance (B–A)	2020 Actual (C)	Variance (B–C)
Net taxes available for municipal purposes	$ 1,738.2	**$ 1,745.8**	$ 7.6	$ 1,726.2	$ 19.6
User fees and sales of goods and services	550.4	**506.7**	(43.7)	461.7	45.0
Subsidiary operations – EPCOR	279.1	**387.7**	108.6	275.7	112.0
Franchise fees	188.0	**183.0**	(5.0)	177.1	5.9
Government transfers – operating	107.5	**144.9**	37.4	277.5	(132.6)
Fines and penalties	77.7	**67.2**	(10.5)	81.9	(14.7)
Licenses and permits	60.1	**77.6**	17.5	69.1	8.5
Investment earnings	91.1	**208.1**	117.0	78.2	129.9
Developer/ customer contributions – operating	26.4	**37.5**	11.1	23.3	14.2
Operating Revenues	**$ 3,118.5**	**$ 3,358.5**	**$ 240.0**	**$ 3,170.7**	**$ 187.8**

COMPARISON TO BUDGET

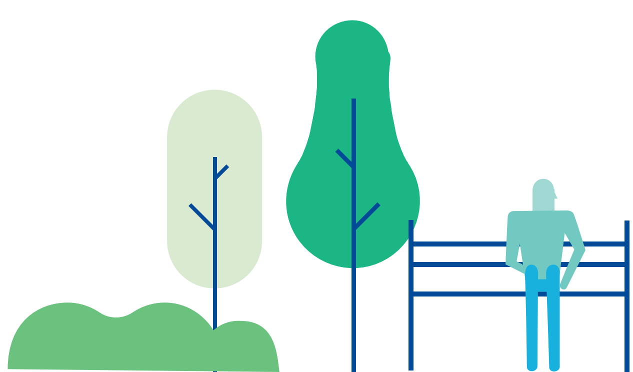
Operating revenues were higher than budget by $240.0 million, or 7.7 per cent of the revenue budget, mainly due to higher than budgeted investment earnings and income from subsidiary operations – EPCOR, and government transfers – operating. These were partially offset by lower than budgeted user fees and sale of goods and services.

Investment earnings were higher than budget due to accelerated economic growth around the world due to economies reopening after the COVID-19 pandemic, vaccines rolling out, and an accommodative monetary and fiscal policy, which has resulted in higher market returns (realized and unrealized).

Subsidiary operations – EPCOR were higher than budget by $108.6 million primarily due to higher water consumption from a dry summer, higher electrical rates and higher earnings from US operations due to extreme weather.

Government transfers – operating were higher than budgeted due to additional government transfers, including the federal Rapid Housing Initiative and the provincial Municipal Stimulus Program grants used to increase available affordable housing.

User fees and sales were lower than budgeted mainly due to a decrease in revenues as a result of the COVID-19 pandemic. Transit fare revenue was lower than budget as ridership was significantly reduced, and admission and program revenues were lower than expected at the City's recreation facilities due to decreased attendance. Additionally, lower revenue was experienced by Explore Edmonton from the cancellation of conventions and events due to COVID restrictions.



> “INVESTMENT EARINGS WERE $129.9 MILLION HIGHER IN 2021 COMPARED TO PRIOR YEAR DUE TO ACCELERATED ECONOMIC GROWTH AROUND THE WORLD AS ECONOMIES REOPENED.”

COMPARISON TO PRIOR YEAR

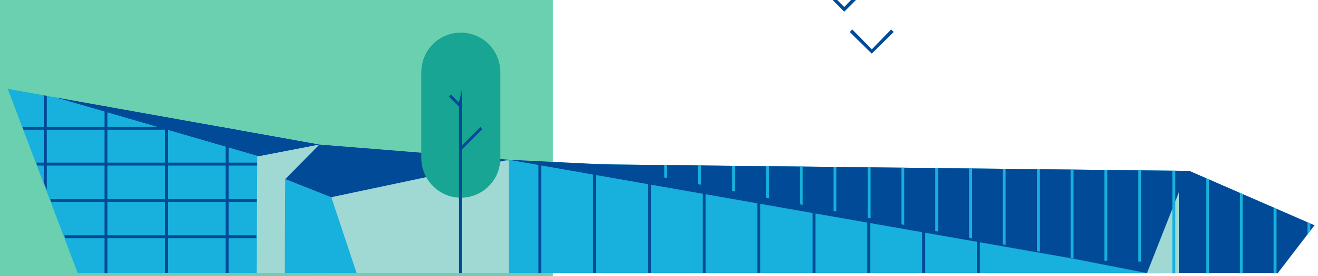
Overall, operating revenues were higher when compared to last year by $187.8 million, due to increases in investment earnings, income from subsidiary operations – EPCOR, and user fees and sale of goods and services.This is partially offset by lower than expected government transfers – operating.

Investment earnings were $129.9 million higher in 2021 compared to the prior year, this is due to accelerated economic growth around the world due to economies reopening, vaccines rolling out, and an extremely accommodative monetary and fiscal policy, which has resulted in higher market returns (realized and unrealized).

Subsidiary operations – EPCOR increased by $112.0 million from the prior year primarily due to higher water consumption from a dry summer, higher electrical rates and higher earnings from US operations due to higher gas rates and customer growth.

User fees and sales were higher than the previous year due to higher recreation facility and attractions revenue and higher land sales. As COVID restrictions eased, many facilities partially re-opened with enhanced safety measures. This was offset by lower transit and parking revenue as employees were encouraged or required to work from home throughout the year, significantly reducing transit ridership and parking in the City's downtown core.

Government transfers – operating decreased by $132.6 million mainly as a result of a one-time injection of $158.2 million provided through the Government of Canada's Safe Restart funding program in 2020, with matching funding provided by the Province of Alberta through the Municipal Operating Support Transfer (MOST) program. These funds were provided to help offset the financial impacts of the pandemic on general operations, with specific allocations for transit services. The decrease was partially offset by increased funding for affordable housing provided through the federal Rapid Housing Initiative and provincial Municipal Stimulus Program grant programs.



CAPITAL REVENUES

Capital revenues are made up of government transfers, contributed tangible capital assets, developer and customer contributions and local improvement revenues. These revenue sources are approved by City Council as funding sources for capital projects through the capital budget process.

Capital Revenues
(millions of $)

	2021 Budget (A)	**2021 Actual (B)**	Variance (B-A)	2020 Actual (C)	Variance (B-C)
Government Transfers - Capital	$ 499.7	**$ 413.4**	$ (86.3)	$ 565.6	$ (152.2)
Contributed Tangible Capital Assets	129.0	**95.4**	(33.6)	118.2	(22.8)
Developer and Customer Contributions - Capital	121.1	**6.8**	(114.3)	8.9	(2.1)
Local Improvements	17.7	**11.5**	(6.2)	24.7	(13.2)
Capital Revenues	**$ 767.5**	**$ 527.1**	**$ (240.4)**	**$ 717.4**	**$ (190.3)**

COMPARISON TO BUDGET

Capital revenues of $527.1 million were $240.4 million lower than budget with decreases in all categories. More significant decreases from budget were seen in developer and customer contributions and government transfers as explained below.

Developer and customer contributions were $114.3 million lower than budget largely due to the timing of capital expenditures that were partner or developer funded.

Government transfers – capital were lower than budget by $86.3 million due to timing of grant eligible expenditures primarily related to the Municipal Sustainability Initiative (MSI) and Building Canada Fund (BCF) grants, partially offset with more than anticipated revenue from the Municipal Stimulus Program (MSP). Some of the projects contributing to the MSI and BCF variances are Yellowhead Trail Conversion, Windermere Fire Station and renewal projects where eligible expenditures will be incurred in the coming years.

COMPARISON TO PRIOR YEAR

Capital revenues were lower than the prior year by $190.3 million. Decreases were seen in government transfers – capital, contributed tangible capital assets and local improvements as explained below.

Contributed tangible capital assets were $22.8 million lower than prior year due to fewer developer contributed infrastructure assets such as roads, sidewalks and streetlights for new neighbourhoods constructed.

Government transfers – capital were lower than the prior year by $152.2 million due to the timing of grant eligible expenditures, primarily due to the Valley Line Southeast LRT utilizing most of the project's allocated grant funding in previous years and less eligible grant expenditures for bus fleet renewal and rehabilitation in 2021.

Local improvement revenues decreased by $13.2 million compared to the prior year as the construction on the large local improvement Aurum Industrial project was completed in 2020. Local improvement revenues are recognized in the period that the project expenditures are completed and reflect the property owners' share of the improvement to be paid to the City.

OPERATING EXPENSES

Operating Expenses by Function
(millions of $)

	2021 Budget (A)	**2021 Actual (B)**	Variance (A-B)	2020 Actual (C)	Variance (B-C)
Transportation services	$ 974.6	**$ 908.3**	$ 66.3	$ 910.5	$ (2.2)
Protective services	807.4	**789.6**	17.8	776.0	13.6
Community services	692.2	**623.9**	68.3	592.1	31.8
Waste Services Utility	210.5	**202.8**	7.7	206.2	(3.4)
Land Enterprise	37.0	**23.4**	13.6	15.5	7.9
Blatchford Renewable Energy Utility	2.4	**1.6**	0.8	1.4	0.2
Fleet services	48.5	**38.8**	9.7	45.8	(7.0)
Corporate administration, general municipal and other	528.9	**505.1**	23.8	476.0	29.1
Operating Expenses	**$ 3,301.5**	**$ 3,093.5**	**$ 208.0**	**$ 3,023.5**	**$ 70.0**

COMPARISON TO BUDGET

Operating expenses of $3,093.5 million were lower than budget by $208.0 million, or 6.3 per cent of the consolidated expenses budget.

Transportation services operational expenses were lower than budgeted due to less than anticipated ridership as a result of the ongoing COVID-19 pandemic and continued work from home requirements implemented by the province. Additionally, transportation services saw lower operating and interest costs due to the delayed opening of the Valley Line Southeast, and less than budgeted snow and ice control costs due to the lower than anticipated snowfall in the beginning of the year.

Protective services costs were lower than budget due to reduced extra duty costs as the pandemic resulted in the cancellation of numerous events, lower tow lot contract expenses due to fewer vehicle impounds, and less than budgeted rent and renovation costs as renovations were delayed to 2022.

Community services expenses were lower than budget due to lower costs for Explore Edmonton as COVID restrictions lead to canceled conferences and events, fewer rebates provided through the Revolving Industrial Servicing fund program due to slower than expected progress on certain developments, and lower than expected Sanitary Servicing Strategy Fund (SSSF) payments to EPCOR due to less than expected spending on related projects. These savings were partially offset by increased funding for affordable housing provided through the federal Rapid Housing Initiative and provincial Municipal Stimulus Program grant programs.

Corporate administration, general municipal and other expenses were lower than budget due to the settlement of the Annuity Fund pension plan, lower financing costs and tax-supported debt costs as a result of the delayed opening of the Valley Line Southeast, and lower tax appeals costs due to fewer property tax appeals in 2021. Additional savings were realized due to lower expenses for corporate-wide items including fuel and utility costs.

COMPARISON TO PRIOR YEAR

In 2021, operating expenses increased by $70.0 million over the prior year mainly due to increases in Community Services of $31.8 million, $29.1 million in Corporate administration, general municipal and other, and $13.6 million in Protective services.

Protective services expenses increased from the prior year due to higher wages aligned with overall increase in staff, increased sick pay and increased costs realized for minimum staffing required due to pandemic isolation requirements and higher information technology costs.

Community services had increased expenses in 2021 mainly due to higher grant payments of $20 million related to support provided through the City's Affordable Housing Investment Plan for increased investment in housing, as well as COVID recovery support initiatives to various organizations. Additionally, Community services experienced increases in salary, material and utilities costs as recreation facilities and attractions were allowed to partially re-open during the year with enhanced COVID safety measures after being closed or opened with restricted service levels due to COVID restrictions in 2020.

Corporate administration, general municipal and other costs increased over the prior year mainly due to increased debt servicing costs and increased amortization as a result of higher than expected land improvements.

Operating Expenses by Object
(millions of $)

		2021 Actual (A)		2020 Actual (B)		Variance (A-B)
Salaries, wages and benefits	$	**1,590.9**	$	1,577.6	$	13.3
Materials, goods and utilities		**292.6**		284.2		8.4
Contracted and general services		**302.6**		275.9		26.7
Interest and bank charges		**116.7**		143.9		(27.2)
Grants and other		**158.8**		125.5		33.3
Amortization of tangible capital assets		**620.3**		591.1		29.2
Loss on disposal, impairment and transfer of tangible capital assets		**11.6**		25.3		(13.7)
Operating Expenses	**$**	**3,093.5**	**$**	**3,023.5**	**$**	**(70.0)**

Operating expense increases of $70.0 million compared to prior year were mainly in the expense categories of grants, amortization and salaries and wages, partially offset by interest and bank charges and loss on disposal, impairment and transfer of tangible capital assets.

Salaries, wages and benefits increased due to an increase in protective services personnel, and higher sick pay due to COVID isolation requirements. Community services saw increased wages due to recreation facilities reopening during the year with enhanced safety measures. Recreation facilities were mostly closed, or had significantly reduced operations, in 2020 due to COVID restrictions. Increased costs are partly offset by personnel savings as a result of continued vacancy management in order to manage corporate-wide expenditures.

Contracted and general services were higher than the previous year due to the introduction of on-demand transit and associated costs, and higher security costs for Edmonton Transit Service. There were also increased costs related to the demolition of the Edmonton Compost Facility.

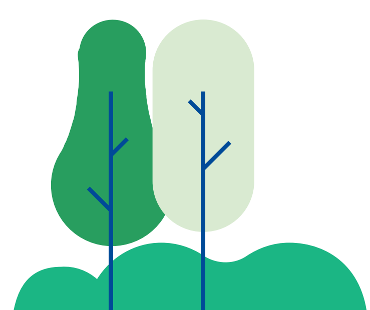
Interest and bank charges decreased due to less financing costs on the Valley Line Southeast project as less work was completed on the project in 2021 compared to the prior year as the project nears completion; interest is accrued on the project based on the percentage of project completion. Additional interest savings were realized due to gains on the City's fuel hedges.

Grants and other expenses increased due to higher grant payments of $20 million related to support provided through the City's Affordable Housing Investment Plan for increased investment inhousing, as well as COVID recovery support initiatives to various organizations.

Amortization of tangible capital assets increased as a result of higher than expected assets put into service in 2021 including Groat Road improvements, completed sections of the Valley Line Southeast, Fort Edmonton Park utilities and neighborhood renewal. Additional amortization was realized on higher than expected developer contributed assets.

Loss on disposal, impairment and transfer of tangible capital assets decreased over the prior year due to fleet services selling more equipment in 2021, which had been fully amortized resulting in a gain on sale.

Schedule 2 – Consolidated Schedule of Segment Disclosures, provides an analysis of revenues and expenses (by object) for each of the significant business groupings within the reporting entity. A description of each of the segments is provided in Note 27 to the financial statements.



“THE CITY’S FINANCIAL GOVERNANCE POLICIES AND PRACTICES ENSURE EDMONTON’S CONTINUED SOUND FISCAL MANAGEMENT AND LONG-TERM FINANCIAL SUSTAINABILITY.”

FINANCIAL CONTROL AND ACCOUNTABILITY

The City maintains the following processes to ensure that appropriate financial control and accountability are maintained and a proactive approach is taken to identify and address financial challenges.

> THE CITY HAS POLICIES IN PLACE FOR VARIOUS RESERVES, INCLUDING THE FINANCIAL STABILIZATION RESERVE, THAT ENSURE SUFFICIENT FUNDS ARE IN PLACE TO SATISFY THE FINANCIAL NEEDS OF THE OPERATIONS BEING SUPPORTED BY THE RESERVE.

FISCAL POLICIES

The City's financial governance policies and practices ensure Edmonton's continued sound fiscal management and long-term financial sustainability. These policies and practices are continuously assessed using leading practice and research on several policy and strategy topics. The City has drafted white papers to provide a foundation for discussing the key financial issues and questions related to debt, franchise fees, investments, user fees and property assessment and taxation. Some of the more significant policies are discussed below.

The City has policies in place for various reserves, including the Financial Stabilization Reserve, that ensure sufficient funds are in place to satisfy the financial needs of the operations being supported by the reserve.

City Policy, C624, Fiscal Policy For Revenue Generation. The City of Edmonton provides various services and infrastructure for the community. Some provide broad benefits to the community at large. Others provide greater or more direct benefits to consumers of a service, or to certain stakeholders or properties. The City recognizes that service and infrastructure costs must be shared in some way amongst the tax base and benefiting parties, and equitably distributes these costs according to the accrual of benefits throughout the community. The purpose of this policy is to provide a clear and consistent governing framework for allocating service and infrastructure costs throughout the community, and to guide fiscal decisions on the fundamental question of "who pays for what, in what amount, and why?"

City Policy, C451H, Edmonton Transit Service Fare Policy. This policy gives direction for setting public transit fares based on considerations of equity, fairness and affordability and encouraging mode shift to public transit. The City will balance the individual or private benefits derived from the use of public transit with the public benefits of an effective public transportation system; this will be accomplished by means of fares recovered from customers.

City Policy, C212E, Investment. This policy establishes a set of investment objectives and beliefs giving consideration to the type of fund, its characteristics, investment return considerations, financial obligations, the objective of preservation of capital, liquidity, a prudent level of risk given the investment time horizon, while ensuring that the City of Edmonton's investments comply with statutory requirements.

City Policy, C579B, Traffic Safety and Automated Enforcement Reserve. This policy was established to address the revenue variability associated with automated traffic enforcement. This reserve also accumulates annual traffic safety program surpluses and funds an annual traffic safety program deficit when necessary. Annual automated enforcement revenue funds ongoing traffic safety initiatives and other programs approved by City Council through the budget process. The reserve helps manage this process and supports transparency related to the use of automated enforcement revenues to fund City operations.

City Policy, C604, Edmonton Police Services (EPS) Funding Formula. The funding formula was established to provide guidelines and the approach for the planning and approval of the multi-year funding formula for the EPS. This funding formula provided funding certainty to allow for long-term budgeting and workforce planning for EPS and other tax-supported operations. It allowed the City to sustainably allocate budget funds based on predictable indicators that reflect police cost inflation and changes in demand. To this end, an EPS Reserve fund was established to allow for the management of police operational surpluses and deficits over the long term through City Policy C605, Edmonton Police Services Reserve. At the July 6, 2020 City Council meeting, Council requested that Administration prepare adjustments to suspend the Edmonton Police Service Funding Formula Policy C604 pending review and reframing as an Edmonton Community Safety and Well-being Funding Policy. Administration will introduce a revised funding strategy for EPS as a part of the 2023-2026 budget development process.

City Policy, C610, Fiscal Policy for the Planning and Development Business. This policy formalized the fiscal management and operating principles of the City's planning and development operations to ensure long term fiscal sustainability and service stability while enabling growth within the City of Edmonton. The policy clarified the purpose of the Planning and Development Reserve, which is to be used to stabilize the planning and development business across extended periods of time.

The City's Land Governance Model helps ensure land management decisions are made from an integrated perspective that includes input from across the corporation. This model also provides for on going monitoring of City land holdings to ensure they are used appropriately to meet the City's needs. The model defines the process and funding related to strategic land acquisitions for future municipal purposes, specifically restricting the use of land enterprise retained earnings to fund strategic land acquisitions for municipal purposes on an interim basis.

City Policy, C203C,The City's Debt Management Fiscal Policy. This policy provides guidelines for prudent debt management and ensures that debt is used responsibly to advance key infrastructure projects.

City Policy, C558A, Council's Waste Management Utility Fiscal Policy. This policy governs the financial relationship between the City and the municipally owned and operated utility. This policy requires the utility to operate in a manner that balances the best service at the lowest cost while employing private sector approaches to rate setting. The utility is required to charge rates that are sufficient to meet expenditures and cash flow requirements, repay capital debt and ensure financial sustainability.

THE CITY'S LAND GOVERNANCE MODEL HELPS ENSURE LAND MANAGEMENT DECISIONS ARE MADE FROM AN INTEGRATED PERSPECTIVE THAT INCLUDES INPUT FROM ACROSS THE CORPORATION.

ENTERPRISE PERFORMANCE MANAGEMENT IS AN APPROACH THAT HELPS THE CITY MANAGE ITS WORK AND CONTINUOUSLY IMPROVE PERFORMANCE TO ACHIEVE THE RESULTS THAT EDMONTONIANS CARE ABOUT.

City Policy, C597A, Blatchford District Energy Utility Fiscal Policy. This policy is for the Blatchford Renewable Energy Utility provides the overarching framework that outlines the financial parameters that will guide the long term financial sustainability of the utility. Bylaw 17943, which established the Blatchford Renewable Energy Utility, outlines requirements for properties receiving energy service through the utility and the relevant rates, fees and charges.

REGULATORY

EPCOR water and wastewater treatment rates were approved by City Council in 2016 through the related Performance Based Regulation (PBR) Plans which set these rates for the period April 1, 2017 to March 31, 2022. The Drainage Utility was transferred to EPCOR in 2017 at which time the utility's rates for the period January 1, 2018 to March 31, 2022 were approved through the related PBR Plan. In 2021, City Council approved PBR plans to set rates for drainage services and wastewater treatment for the three year period April 1, 2022 to March 31, 2025, and rates for water services for the five year period April 1, 2022 to March 31, 2027. The PBR framework and annual PBR progress reports allow City Council to have oversight and governance over water, wastewater treatment and drainage rates over a longer term and provides incentives to ensure that EPCOR operates more efficiently while providing appropriate service levels.

STRATEGIC PLANNING

The City follows a strategic planning framework that enables a consistent and integrated approach to strategy development, planning and performance evaluation. The framework has six components that work together to support the organization in making transformational impacts in Edmonton, delivering excellent services and managing thecorporation for the community.

Council approved ConnectEdmonton, Edmonton's strategic plan. The plan provides community direction, aspiration and inspiration. This is the City's highest level plan and it is about making transformational change. It is intended to provide direction towards Edmonton's 2050 vision for the next ten years.

The City Plan, approved in 2020, articulates the choices the City will make to become a healthy, urban and climate resilient city of two million people that supports a prosperous region. A plan for people, places and prosperity, The City Plan policies will be reviewed and refined and larger growth management strategies associated with phasing and staging the plan will be updated at key population growth thresholds (1.25, 1.5 and 1.75 million people).

The Corporate Business Plan outlines the actions the City will take during a four year planning and budgeting cycle. It presents an integrated overview of the City's improvement initiatives and capital infrastructure projects across three corporate objectives that focus on transforming the community for the future, serving Edmontonians and managing the corporation.

Enterprise Performance Management is an approach that helps the City manage its work and continuously improve performance to achieve the results that Edmontonians care about. When Council approved the Enterprise Performance Policy on May 8, 2018, it set the foundation for managing performance for the City.

Enterprise Risk Management (ERM) is about the City's assurance and plan to achieve its objectives by preparing for uncertainty and obstacles by seizing emerging opportunities. ERM helps the City understand uncertainty and envision new ways to view the world. It focuses on the shift to opportunities, helping the City stay ahead based on insights about uncertainty and how to manage it to the City's advantage.

The capital and operating budgets are essential tools in allocating resources to achieve the City's goals and objectives and are approved by City Council. The budgets are prepared by Administration every four years and updated twice annually.

PROGRAM AND SERVICE REVIEW (PSR)

The PSR project was formally completed in the summer of 2021. Between 2017 and 2021 the projects identified approximately $30 million of net savings (cost avoidance and reduction) from over 180 recommendations. The realized savings were reallocated or identified as harvestable and incorporated into the supplemental operating budget deliberations. In addition to financial benefits, the PSR helped align performance management to optimize service levels, and emphasized the importance of benchmarking the City's service levels and performance against other municipalities and providers. The PSR also created a culture of self-assessment and continuous improvement which the City will leverage in the new approach to service review and improvement that will evolve to incorporate the added lenses of innovation and community and customer centricity for the next budget cycle.

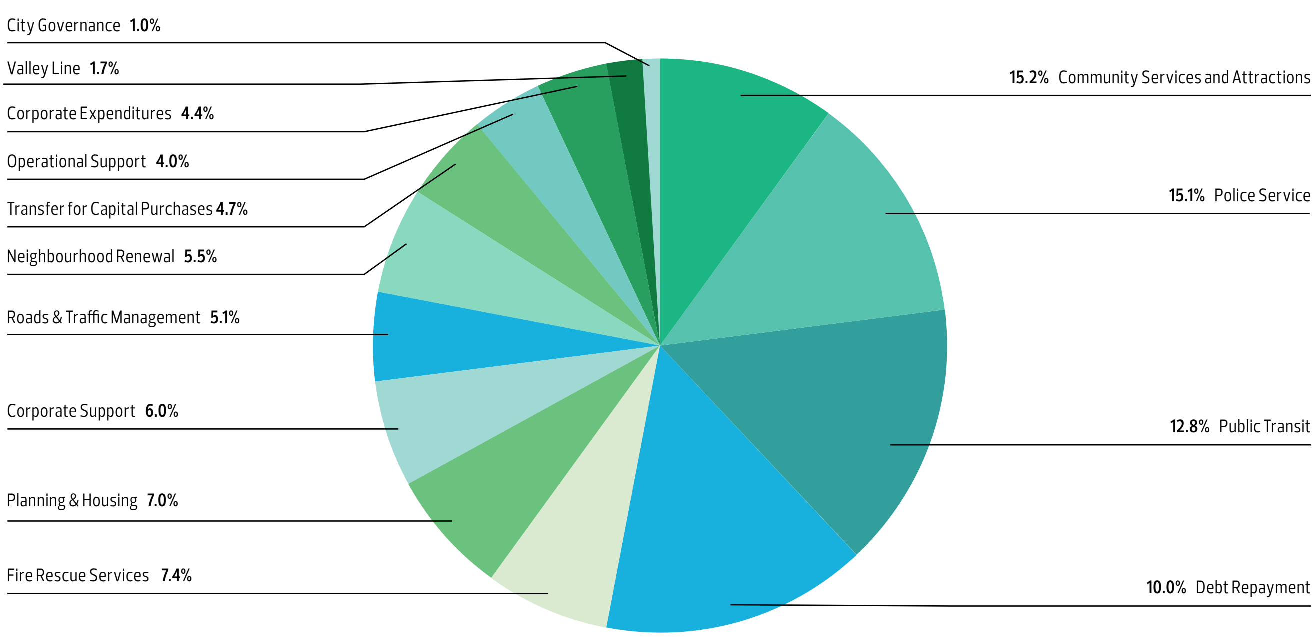
BUDGETING

Guided by Edmonton's strategic plan, the 2019-2022 Operating and Capital Budgets assist Council in making strategic decisions about how to allocate City resources. This multi-year approach allows the City to align strategic plans, business plans, and operating and capital budgets, to ensure the dollars are spent to achieve City Council's vision. It also allows for better alignment with Council's election terms, providing the foundation for more informed and strategic financial decision making. Funding can be reallocated across different years of the budget and needs can be assessed over a longer term to allow for more prudent and informed financial decision making, while building stable program and service delivery and infrastructure development.

The multi-year process includes opportunities to adjust the budget twice a year through the supplemental budget adjustment process approved by City Council. During the supplemental budget adjustment process, Council can adjust the capital and operating budgets in response to changing project needs, new funding opportunities, changes in federal and provincial budgets, changes imposed by legislation, Council directed changes in priorities, operating impacts of capital projects, unforeseen impacts to economic forecasts and emerging issues. On December 14, 2018, City Council approved the original 2019-2022 Operating and Capital budgets. In December 2020, City Council made amendments to the approved 2021 operating budget.

The operating budget identifies how resources for the day-to-day costs required to run the city are allocated for services such as maintaining roads and public transit, police, bylaws and fire rescue services, as well as parks and waste services.The approved budget resulted in a (0.3) per cent general property tax decrease in 2021. The (0.3) per cent decrease includes a (1.8) per cent decrease for all civic operations, a 0.6 per cent increase for Valley Line LRT, a 0.3 per cent increase for Alley Renewal and a 0.6 per cent increase for the Edmonton Police Service. The chart below shows the City's total tax supported expenditure budget that is spent on each major expense category:

2021 Budget by Major Expense Category

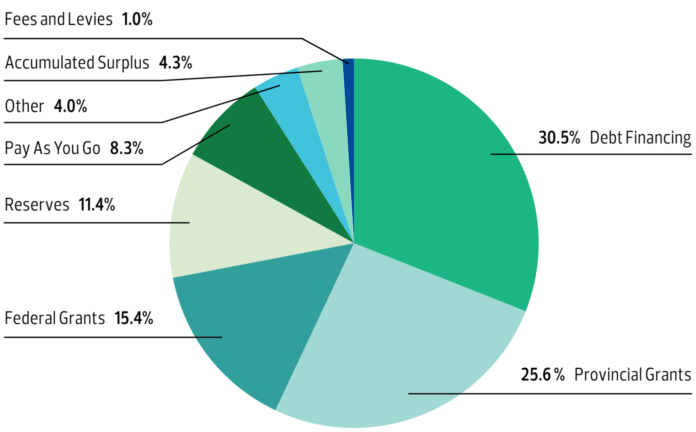


The Bylaw to establish the 2022 municipal tax for all property types will be set by City Council in May 2022. Changes to the operating budget that will impact the tax levy may be completed prior to the taxation bylaw approval.

The capital budget strikes a balance between investments in infrastructure growth and the requirement to maintain and renew existing City assets. It determines the investment in Edmonton's hard infrastructure, including the construction of buildings such as recreation centers and libraries, and transportation assets including LRT lines and bridges. The foundation of the 2019-2022 Capital Budget is the 2019-2028 Capital Investment Outlook, a high level overview of the City's capital investment requirements over the next ten years that supports the strategic direction of Council.

The four-year capital budget will see investments of $7.4 billion on infrastructure based on the approved capital budget. Capital requirements directly related to EPCOR are not included in the capital budget. The funding and financing sources are as follows:

2019–2022 Capital Budget – Funding Sources



“AWARD PROGRAMS IN THE FINANCIAL SECTOR AREA CONTINUE TO RECOGNIZE THE CITY OF EDMONTON FOR A HIGH STANDARD OF ACHIEVEMENT.”

ACCOUNTING AND FINANCIAL REPORTING

The City of Edmonton is organized into various business areas that are responsible for managing the delivery of program services in accordance with the resources allocated to those programs. The City currently uses a shared services model for financial services; all business areas reporting to the City Manager share a common accounting and reporting system, and financial and accounting services are administered within financial services and delivered to each business area based on their needs. Accounting and financial reporting functions are centralized to improve the quality and timeliness of financial reporting and increase accounting oversight and transactional consistency to support better financial decision-making.

The City of Edmonton Library Board, the Edmonton Police Service and Edmonton Combative Sports Commission use the same accounting system as the City but report through their own boards or commissions. EPCOR, Explore Edmonton Corporation, Non-Profit Housing Corporation, Innovate Edmonton and Fort Edmonton Management Company each have independent accounting systems and report through their respective boards.

Administration reviews operating financial update reports on a monthly basis for areas that report to the City Manager. This process includes comparing year-to-date and year-end projected results relative to corresponding budgets and reporting on significant City reserves. City Council reviews operating and capital reporting for second, third and fourth quarters. Capital reporting includes reporting on major projects in comparison to originally approved budgets and timelines, as well as forecast updates on debt for capital project funding. Both operating and capital performance reports include an economic update and are reviewed by Administration and provided to City Council along with recommendations to address opportunities and challenges, as necessary. The financial reports are key in guiding budget strategies.

The operating budget is also presented in a format consistent with audited annual financial statements that are amended for adjustments required to adhere to PSAS. The objective is to provide City Council and other users of the financial statements and budget documents with an improved understanding of the budget approved by City Council compared to the actual results reported in the audited financial statements.

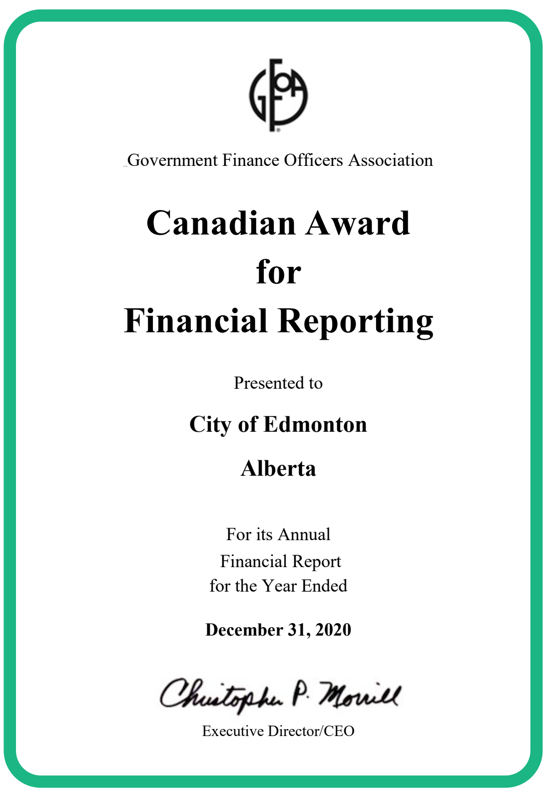
The City continues its commitment to compliance with public sector accounting standards as established by the PSAS board. Details of future accounting standards and pronouncements are included in Note 1 to the financial statements.

RECOGNITION FOR ACHIEVEMENT

Award programs in the financial sector continue to recognize the City of Edmonton for a high standard of achievement.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Canadian Award for Financial Reporting to the City of Edmonton for its annual financial report for the fiscal year-ended December 31, 2020. The Canadian Award for Financial Reporting program was established to encourage Canadian municipal governments to publish high quality financial reports and to provide peer recognition and technical guidance for officials preparing these reports. To receive a Canadian Award for Financial Reporting, a government unit must publish an easily readable and efficiently organized annual financial report that conforms to program standards. Such reports should go beyond the minimum requirements of public sector accounting standards and demonstrate an effort to clearly communicate the municipal government's financial picture, enhance an understanding of financial reporting by municipal governments and address user needs. A Canadian Award for Financial Reporting is valid for a period of one year and, in 2020, Edmonton received this award for the 28th consecutive year.

The GFOA established the Popular Annual Financial Reporting Awards Program to recognize local governments that produce high quality summarized annual financial reports. The reports must be readily accessible and easily understandable to the general public and other interested parties without a background in public finance. The City received the Popular Annual Financial Reporting Award for the 2019 Financial Report to Citizens for the sixth consecutive year and expect results on the 2020 Financial Report to Citizens later in 2022.


Government Finance Officers Association

Canadian Award for Financial Reporting

Presented to

City of Edmonton

Alberta

For its Annual Financial Report for the Year Ended

December 31, 2020

Christopher P. Morrill

Executive Director/CEO

The City also received the GFOA award for Distinguished Budget Presentation for the 2019-2022 fiscal years beginning January 1, 2019 and ending December 31, 2022. To be eligible for this award, a governmental unit must publish a budget document of the highest quality that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communications device.

AUDITING PROCESS

The MGA requires municipal councils to appoint an independent auditor. In 2020, a tender for audit services was completed and City Council appointed the firm of KPMG LLP, Chartered Professional Accountants, as External Auditor for a five-year term. The auditor must report to City Council on the annual consolidated financial statements. KPMG also audits the City's Municipal Financial Information Return and each pension and benefit plan administered by the City. Certain government transfer programs also require external audit.

The City's Audit Committee serves as a Committee of Council to assist in fulfilling its oversight responsibilities. Audit Committee provides oversight and consideration of audit matters brought forward by the City Auditor and the External Auditor. The Committee includes the Mayor, four Councillors and two public members as outlined under Bylaw 16097, Audit Committee Bylaw. Audit Committee reviews the consolidated financial statements and makes a recommendation to City Council for the approval of the City's financial statements.

The City has an internal audit function independent of the City Administration. The Office of the City Auditor reports directly to City Council through Audit Committee, empowered by Bylaw 12424, City Auditor. This bylaw establishes the position of City Auditor and delegates powers, duties, and functions to this position. The City Auditor has two roles:

Agent of Change – to conduct proactive and forward looking projects based on the provision of strategic, risk and control-related consulting services to better serve the changing needs of the corporation and bring about improvement in program performance; and

Guardian – to conduct projects directed primarily towards providing assurance through review of existing operations, typically focusing on compliance, efficiency, effectiveness, economy and controls.

LONG-TERM SUSTAINABILITY

The City is committed to an integrated approach to risk management and establishing effective relationships with other orders of governments, which are a critical component of the City's long term sustainability.

City Council approved an Enterprise Risk Management Policy in March 2016 to ensure that enterprise risks and opportunities are proactively identified, evaluated, communicated and managed on an ongoing basis. Guided by this policy, the Enterprise Risk Management process continues to evolve as the City progresses toward becoming a risk-mature organization.

In November 2018, Audit Committee was presented with the 2018-2019 Corporate Strategic Risk Register. Consistent with the Policy requirements, risks are updated annually. A refreshed and improved Enterprise Risk Management Framework was launched in 2021 to advance the organization's understanding and reporting of risks in a rapidly changing environment. The City's top risks to achieving the City's strategic goals currently are economic uncertainty, funding from other orders of government, community health and safety, climate impacts and employee wellbeing.

The City continually monitors global, national, and local political, economic, social, and technological developments and trends to plan for future risks and opportunities. These risks are considered and factored into the risk register, business plans and operating and capital budgets to ensure the City is able to provide services and infrastructure to its growing population in a sustainable manner.

ECONOMIC RISKS

Edmonton's economy made meaningful progress in its recovery from the impacts of the COVID-19 pandemic in 2021, with available data indicating a much stronger rebound in conditions than initially expected. Real gross domestic product is expected to recover to 2019 levels by the end of 2022 at an aggregate level, though the pace of recovery is expected to be uneven across sectors. Pandemic-related factors like supply chain disruptions and energy market imbalances have been impacting prices for consumer goods and services, and adding to financial pressures for businesses, with some sectors feeling more pressure than others. This represents a downside risk to the City of Edmonton's economic outlook for 2022 and into 2023 should households and businesses be forced to make additional trade-offs in response to being in a persistently higher cost environment. As well, geopolitical risks have introduced additional volatility to the macro environment, adding to near-term risks to growth expectations.

Despite risks on the horizon, the progress made in 2021 put Edmonton's economic recovery on more solid footing for 2022. Edmonton's population is expected to continue growing, which will add support to consumer demand, including for housing and City-provided services. The City of Edmonton will continue to monitor economic developments in order to balance Edmonton's economic realities with the City's need to provide quality services and infrastructure to all Edmontonians.

“DESPITE RISKS ON THE HORIZON, THE PROGRESS MADE IN 2021 PUT EDMONTON’S ECONOMIC RECOVERY ON MORE SOLID FOOTING FOR 2022.”

“INVESTING IN RENEWAL AT KEY POINTS THROUGHOUT THE LIFE OF AN ASSET MAINTAINS ITS CONDITION AT A HIGHER LEVEL WHILE EXTENDING THE LIFE OF THE ASSET.”

The City faces challenges in funding new demand for services and infrastructure in light of challenging economic conditions that will require government support and an inelastic primary revenue source in the form of property taxes. Property taxes fund close to 57 per cent of the City's annual operating costs, including portions dedicated to capital projects. However, they lag in reacting to increased service and infrastructure demand. This inelasticity emphasizes the need for long-term planning, risk management and diversification of City revenues. The City is addressing the infrastructure and service funding gap using various strategies and revenue stream diversification, including securing more stable and predictable provincial government funding, which is discussed further below.

The 2019-2022 Operating and Capital Budgets, and 2019-2028 Operating and Capital Investment Outlooks outline the City's operating and capital spending taking into consideration these economic challenges. The long-term sustainability of City infrastructure is impacted by the City's capital renewal plan. The concept of 'renewal', refers to investment in existing infrastructure to restore it to an efficient operational condition and extend its service life. Investing in renewal at key points throughout the life of an asset maintains its condition at a higher level while extending the life of the asset. Investment in renewal reduces the long-term requirement for capital funding while maintaining a suitable level of service for residents.

The City manages a broad range of infrastructure assets. For the 2021 reporting period, 52.2 per cent of City assets are in very good/good condition, 38.7 per cent are in fair condition, and 9.1 per cent are in poor or very poor condition. The City of Edmonton measures performance on asset condition by the percentage of assets in poor and very poor condition. The current value of 8.6 per cent represents a 51.4 per cent reduction of assets in poor and very poor condition since 2011 when this value was at a high of 17.7 per cent. The City uses a customized prioritization methodology — the Risk-based Infrastructure Management System (RIMS) — which was developed by the City in 2011. Over the last decade, RIMS has evolved into a dynamic analytical tool designed to predict the optimal funding for the renewal of existing infrastructure.

MANAGING OTHER RISKS

The City also manages risk to help ensure its long-term sustainability and achievement of Council's strategic goals and outcomes through various other strategies, including but not limited to the following.

+ Environmental risks are monitored through internal City practices and policies, which aid in the effective management of environmental risks and responsibilities. City Council approved Edmonton's Environmental Management System Policy C505 as well as an Environmental Policy C512. The policies ensure commitment to sound environmental management practices, and stewardship in all aspects of its corporate activities. Standard environmental management system practices across the City will address environmental regulatory compliance, pollution prevention and continual improvement.
+ The corporate Property and Casualty Risk Management area provides risk management advice, claims adjusting, purchase of insurance and risk control inspections.
+ Ongoing proactive analysis of the physical, contractual and insurance risks associated with capital projects or major initiatives and establishment of appropriate measures to identify and control project risk. The intention of City Policy C591, Capital Project Governance Policy, is to ensure that an appropriate level of development is completed on projects prior to them moving onto the delivery phase. This rigorous risk management process helps to ensure that key projects are completed safely, on time, on budget, on quality and in scope.
+ Forward purchase contracts are entered for future fuel purchases in order to stabilize operating budgets in the face of fuel price fluctuations. Similarly, forward currency contracts are used to mitigate foreign exchange risk within the City's capital purchases.
+ In the past borrowing was completed through the Alberta Capital Finance Authority, which allowed Alberta municipalities to borrow at interest rates that would not be available to municipalities acting independently. The interest rates are set for the term of the borrowing, therefore reducing risk associated with interest rate fluctuations. In mid-2020 the responsibilities of ACFA were transferred to the Government of Alberta's department of Treasury Board and Finance and ACFA was dissolved. In late 2021, the province provided notice that interest rates charged on new loans will be revised to better reflect the market cost of borrowing for local authorities,using rates for large municipalities in the bond market as the proxy for municipal costs.
+ The City has a Financial Stabilization Reserve that may be used to address emergent needs without impacting the City's financial position in the long-term. A financial risk based review was completed for the City in 2021, identifying potential risks faced by the City and the probable financial cost of each risk. The review substantiated the minimum and target balances of the reserve established through City policy. The next review will take place in 2024.
+ The City's Debt Management Fiscal Policy, C203C provides for prudent management of debt and ensures debt is used responsibly without burdening the financial health and long-term sustainability of the City. Administration continues to monitor the use of debt and provide debt forecasts as part of ongoing reporting to City Council.
+ The City continues to leverage data analytics in order to discover and communicate meaningful patterns in data, which help to predict and improve business and financial performance, recommend strategies, and guide financial decision-making.

"THE CITY CONTINUES TO LEVERAGE DATA ANALYTICS IN ORDER TO DISCOVER AND COMMUNICATE MEANINGFUL PATTERNS IN DATA."

INTERGOVERNMENTAL

The pandemic has highlighted the importance of collaborating and coordinating actions among all orders of government. Edmonton has focused on partnerships with the federal and provincial governments to address shared priorities of economic recovery and strong communities.

Edmonton has greatly appreciated the support that the federal and provincial governments provided to municipalities, individuals and businesses over the course of the pandemic to enable all to emerge "with our economic muscle intact" *(Government of Canada 2021 Economic and Fiscal Update)*. Throughout the pandemic Edmonton has experienced a decline in transit and other operating revenues which is expected to persist well into 2023-24. Further federal and provincial funding support will be critical in positioning the City of Edmonton to play a key role in Canada's and Alberta's economic recovery.

The significant federal and provincial recovery investments along with stimulus spending that began in 2020, continued through 2021 as successive pandemic waves continued. This means that all governments will face continued challenges in prioritizing future funding for programs and services, including how municipalities are funded.

The City of Edmonton's reliance on funding from other orders of government — and the growing scarcity of such funding in the future relative to need — will profoundly impact the City's future fiscal reality. There is an ongoing need and opportunity to modernize municipal finances and authorities over the long term. City governments across the country are continuing to advocate for changes to reflect the 21st century role of local governments in Canadians' daily lives and the economy.

COVID-19 PANDEMIC

The long-term effects of the pandemic on residents' needs and preferences, including how they use City services, are unclear. For 2020 and 2021 the City has managed the impact on revenues and treated the additional costs due to the pandemic as temporary adjustments offset with one-time budget strategies. This approach helped limit the impact to residents and businesses by utilizing all available one-time funding strategies before considering more permanent options. Administration is currently assessing the long-term impacts of COVID-19 on City services and will address these with ongoing sustainable funding strategies through the 2023-2026 budget presented to City Council in the fall of 2022.

> **"THE CITY HAS MANAGED THE FINANCIAL IMPACTS OF THE PANDEMIC IN 2020 AND 2021 WITH ONE-TIME FUNDING STRATEGIES."**

CONCLUSION

Throughout 2021, the City of Edmonton has maintained its financial health and the City's economic performance remains one of the best in the province.

In 2021, Standard and Poor held the City to a credit rating of AA with a stable outlook. The stable outlook reflects their opinion that the impacts from COVID-19 will be largely temporary, expecting the economy to return to moderate growth within the outlook horizon.

The number of significant capital projects being constructed within the 2019-2022 period (including the overlapping of the Valley Line Southeast and West projects) are expected to lead to larger after-capital deficits from 2019 to 2022, and the associated borrowing for these projects means that Edmonton's tax-supported debt burden is more in line with 'AA' rated peers. The current AA rating includes a stable outlook with the expectation that the City's funding strategy for capital projects will not further stress its budgetary performance. Weaker economic activity or unexpected major spending decisions at the same time the City is undertaking its capital plan could impact the rating negatively in the future. The rating could be positively impacted in the future if the City became less reliant on the energy sector and robust economic growth supported strong revenue generation.

Recent economic uncertainty has reinforced the need to maintain flexibility and to monitor both the economy and the City's financial condition in order to be able to react and adapt to economic impacts. The City will continue to be challenged to manage emerging competing financial needs as the major centre for the region, and to maintain existing services while addressing service and infrastructure needs associated with the growth. The 2019-2022 Operating and Capital budgets and business plans have helped the City position itself well for the future.

The City also continues to closely monitor the financial impacts of the COVID-19 pandemic to ensure it can quickly and effectively respond to this evolving situation.

Robust financial policies, strategies, guiding principles and a healthy financial position ensure the continued sound fiscal management and long-term financial sustainability for the City of Edmonton.

Stacey Padbury, CPA, CA
Deputy City Manager and Chief Financial Officer
Financial and Corporate Services