OPERATING INVESTMENT OUTLOOK 2023 – 2032

Edmonton

CITY OF EDMONTON

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EXECUTIVE SUMMARY

The Operating Investment Outlook (OIO) is a 10-year forecast of incremental changes to the City's operating revenues and expenditures. This document enables a better understanding of longer-term operating budget impacts based on the best available information. By taking a longer-term look at the City's finances, Council will be positioned to:

- better identify future challenges and opportunities;
- identify growth and cost pressures;
- better understand the interrelationships between operations and capital;
- discuss various long-term financial strategies;
- understand the economic and fiscal factors constraining municipal financial growth;
- discuss tax tolerance in the context of a long-term operating budget outlook; and
- prepare for 2023 to 2026 budget deliberations.

The OIO provides information about the City's longer-term budget impacts of maintaining current service levels over the 10-year forecast term, in tandem with the impacts of previously approved growth decisions made by Council. The OIO also presents scenarios on renewal funding and service growth to advance Council's priority areas.

The OIO forecast assumes that the base service level provided in 2022 is maintained through the 10-year forecast term. As with any forecast, the OIO cannot perfectly capture what will happen in the future, and risk is always present. The City's financial and economic realities evolve constantly, and variability should be expected when interpreting the numbers for the out-years of the 10-year forecast term.

The baseline scenario reflected in Table 1 below forecasts tax increases partitioned into three components:

1. Maintain Existing Services
2. Growth and Enhancements Required to Maintain Service Levels
3. Previously Approved Growth

Each component calculates the net operating requirement between expenditures and revenues for each forecast year, then estimates the tax increase required to close this gap.

Table 1: Baseline Scenario - Forecasted Tax Increase Summary

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
TAX INCREASE (%)										
Maintain Existing Services	3.5	2.1	1.9	1.6	1.6	1.7	1.7	1.8	1.6	1.5
Growth & Enhancements Required to Maintain Service Levels	0.6	0.8	0.8	0.8	0.8	0.6	0.2	0.2	0.2	0.2
Previously Approved Growth	3.0	2.4	1.5	1.4	1.3	0.5	0.0	0.0	0.0	0.0
Tax Increase %	**7.1**	**5.2**	**4.2**	**3.8**	**3.7**	**2.9**	**1.9**	**1.9**	**1.8**	**1.7**
Forecasted Population Plus Municipal Inflation Growth Rate	3.4	3.7	3.7	3.6	3.4	3.2	3.1	3.2	3.3	3.3

Over the next four-year budget cycle, the forecasted total tax levy increase is projected to be 7.1 per cent in 2023, 5.2 per cent in 2024, 4.2 per cent in 2025 and 3.8 per cent in 2026. Beyond the next budget cycle, the tax increases are forecasted to be 3.7 per cent in 2027 and 2.9 per cent in 2028. Previously approved growth impacts begin to ease in 2029, at which point the forecasted tax increases stabilize to just under two per cent for the remainder of the forecast term, at 1.9 per cent in 2029, 1.9 per cent in 2030, 1.8 per cent in 2031 and 1.7 per cent in 2032.

1. **Maintain Existing Services** - this component projects the budget impacts of maintaining all services provided in 2022 at constant service levels for 10 years, adjusting for inflation and volumetric growth to accommodate a larger population, geographic footprint and economy.

   To maintain City services at 2022 levels, the forecasted tax increases required to close the net operating requirement between expenditures and revenues are 3.5 per cent in 2023, 2.1 per cent in 2024, 1.9 per cent in 2025 and 1.6 per cent in 2026. For the final six years of the forecast period, the annual tax increases required to maintain existing service levels are projected to be in the range of 1.5 per cent and 1.8 per cent. The large forecasted tax levy impact to maintain services in 2023 is due to Edmonton Transit Service and Automated Enforcement revenue shortfalls.

2. **Growth and Enhancements Required to Maintain Service Levels** - this component projects the operating budget impacts of significant capital growth required for Edmonton Transit Service to maintain 2022 service levels, as well as service enhancements to the Snow and Ice Control Program to achieve desired policy targets. Over the next four-year budget cycle, the tax levy impacts from Growth and Enhancements Required to Maintain Service Levels are 0.6 per cent in

2023, 0.8 per cent in 2024, 0.8 per cent in 2025 and 0.8 per cent in 2026. Beyond the next budget cycle, there are tax levy impacts of 0.8 per cent in 2027, 0.6 per cent in 2028 and 0.2 per cent annually for the remainder of the forecast term.

3. **Previously Approved Growth -** this component projects the operating budget impacts of all infrastructure growth projects and programs previously approved by Council. Over the next six years, several substantial capital projects and programs will impact the tax levy in the form of operating impacts of capital, debt servicing charges and increases in dedicated tax levy funding. These include Yellowhead Trail, Coronation Park Sports and Recreation Centre, Lewis Farms Facility and Park, Valley Line LRT West, Capital Line South LRT Phase 1, Metro Line LRT NAIT to Blatchford and the Alley Renewal Program.

   Over the next four-year budget cycle, the tax levy impacts from previously approved growth are projected to be 3.0 per cent in 2023, 2.4 per cent in 2024, 1.5 per cent in 2025, and 1.4 per cent in 2026. Beyond the next budget cycle, there are tax levy impacts of 1.3 per cent in 2027 and 0.5 per cent in 2028.

This OIO presents an analysis of three measures that can be used as benchmarks for determining an appropriate upper limit for property tax increases. One of these measures is the population plus municipal inflation growth rate, which is projected to range from 3.1 to 3.7 per cent from 2023 to 2032. Given the substantial tax increases required to maintain existing services and absorb the impacts of previously approved growth, when applying this tax-tolerance benchmark, there is no tax room available to fund growth initiatives from 2023 to 2027. In 2028, there is 0.3 per cent of available tax room, and from 2029 onward, there is 1.2 to 1.6 per cent of tax room available each year below this benchmark that can be applied towards growth initiatives to advance Council's priority areas, or towards keeping tax increases low.

To make room for growth initiatives, Council could explore strategies to reduce the net operating requirements over the 2023 to 2026 budget cycle. These strategies include:

- defer growth to the out-years of the forecast term when tax room becomes available;
- service level reductions;
- service elimination;
- reduce or eliminate the $6.8 million top-up to the Alley Renewal Program; and
- rate increases on user fees and fines.

Additional tax-smoothing strategies to ease the tax increases in the front-end of the forecast term are discussed in more detail throughout this document. However, these strategies don't reduce net operating requirements; they shift them to later years and should be contained to a single budget cycle.

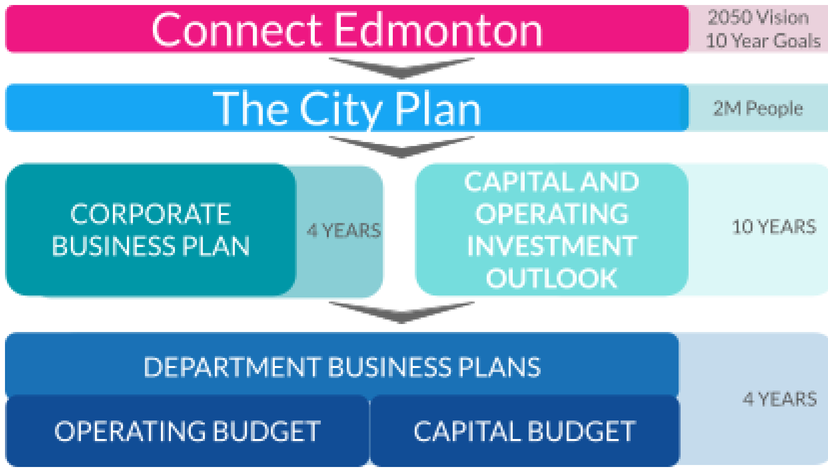
INTRODUCTION

CORPORATE STRATEGY

The City uses the Strategic Planning Framework (SPF) to manage overall corporate direction. It is the collection of plans and processes that guide how the City works to enable a better life for all Edmontonians.

The City's Strategic Planning Framework is composed of six interconnected plans and processes that direct the growth and evolution of Edmonton: ConnectEdmonton, The City Plan, the Corporate Business Plan, the Budget, Enterprise Performance Management and Enterprise Risk Management. Broadly, the framework answers three main questions: Where are we now? Where are we going? How will we get there?

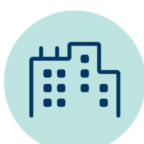
City Administration puts our vision, ConnectEdmonton, and choices, The City Plan, into action each four-year planning and budget cycle through the Corporate Business Plan which integrates the corporation's work, allocation of resources, measurement of performance and management of risk.



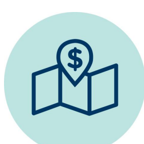
CONNECTEDMONTON

ConnectEdmonton, Edmonton's strategic plan, sets the direction for the future and identifies where changes are required. ConnectEdmonton is based on an aspirational vision for Edmonton in 2050 and focuses on four strategic goals for 2019-2028 that require transformational change.

Healthy City: Edmonton is a neighbourly city with community and personal wellness that embodies and promotes equity for all Edmontonians.



Urban Places: Edmonton neighbourhoods are more vibrant as density increases, where people and businesses thrive and where housing and mobility options are plentiful.



Regional Prosperity: Edmonton grows prosperity for our Metro Region by driving innovation, competitiveness and relevance for our businesses at the local and global level.

Climate Resilience: Edmonton is a city transitioning to a low-carbon future, has clean air and water and is adapting to a changing climate.

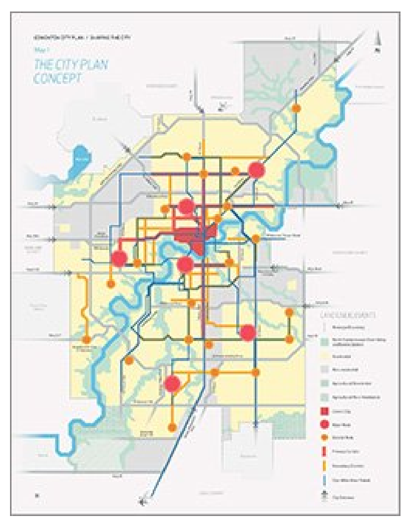
THE CITY PLAN

The City Plan combines a Municipal Development Plan and Transportation Master Plan, and includes direction in environmental planning, social planning and economic development.

The City Plan's five Big City Moves are bold, transformative priorities that advance our ConnectEdmonton goals and point the way as we deliberately build our city to welcome one million more Edmontonians on our journey towards a population of two million. They are:

- **Greener as We Grow:** A commitment to protecting and enhancing our land, air, water and biodiversity by using growth as a catalyst for good design and conscientious decisions.
- **Rebuildable City:** A way of planning for the flexibility and imagination we must demonstrate to keep our city vibrant, livable and efficient in the face of shifting local and global trends.
- **Community of Communities:** Making big city life feel less anonymous and more personal by developing housing, recreation, schools and employment in all of our districts that can be better accessed through all forms of transportation.
- **Inclusive and Compassionate:** We are rooted in concepts and efforts to improve equity, end poverty, eliminate racism and make clear progress towards Truth and Reconciliation.
- **Catalyze and Converge:** Putting Edmonton into position to continually improve its competitiveness and readiness in a changing world.

To achieve these priorities on behalf of Edmontonians, The City Plan envisions the systems and physical networks that influence the physical shape of our city and illustrate the concepts shared in policy. These are:



- Mobility
  - Active Transportation Network
  - Transit Network
  - Roadway and Goods Movement Network
- Planning and Design
  - District Network
  - Nodes and Corridors Network
  - Green and Blue Network
  - Non-Residential Opportunities Network
- Managing Growth

- Growth Management Framework
- Development Pattern Areas
- Phasing and Activation

Not everything in The City Plan is about building something new. Many priorities are about keeping things the same and providing quality services today. They include preserving the attributes most valued by Edmontonians that were handed down to us from previous generations. As a community, in return, we continue to deliver on what makes for a safe and liveable city as part of our responsibility to future generations.

ECONOMIC OUTLOOK

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic, presenting health, economic and social challenges that significantly impacted jurisdictions worldwide. Over the past decade, Edmonton's economy endured two economic shocks—the 2014 to 2015 oil price shock (which resulted in back-to-back years of economic contraction in 2015 and 2016) and the COVID-19 pandemic. The pandemic set Edmonton's economic recovery from the 2015 to 2016 recession further back, with an estimated contraction in real gross domestic product (GDP) that exceeded the combined impact of the 2015 to 2016 recession. The pandemic also impacted labour market conditions with sharp and swift job losses due to public health measures restricting economic activity. As measures evolved to become more targeted starting in May 2020, allowing for economic activity to gradually return, the regional labour market began to recover. To put things in perspective, the region's annual unemployment rate in 2020 reached 12 per cent, a level unseen since labour force data became available in 2001.

In 2021, Edmonton's economy began showing meaningful signs of a recovery, with improvements in the regional labour market and business conditions. The rest of the world was recovering, with economies gradually reopening, though at varying paces and extents. This created significant pressures on global supply chains, particularly since industrial production and businesses had adjusted their operations to accommodate a sharp decrease in demand from the pandemic. Bringing operations back to meet returning demand, especially considering the speed at which demand was returning, is challenging in non-pandemic times. During a pandemic, it became an even greater challenge due to labour shortages and challenges with logistics. Even though Edmonton's economy showed meaningful progress in its economic recovery, price pressures began to mount. Supply chain disruptions and distortions in consumption for certain commodities began to lift prices, and inflation rates began to accelerate not only for consumers but also for businesses.

Against this backdrop, there is still a great deal of potential for the future of Edmonton. Still, persistent price acceleration introduces another risk to growth in the short to medium-term, especially since the timing and pace of price pressures easing are unclear. Over the 2023 to 2032 period, the annual rate of inflation is predicted to average 2.1 per cent for consumer goods and services and 2.4 per cent for non-residential construction. This uncertainty does not take away from expectations for real GDP in Edmonton to return to its pre-pandemic level by the end of 2022; however, that still means there were almost three years without economic growth. Over the OIO's 10-year horizon, real GDP in Edmonton is expected to grow at an average annual rate of 1.9 per cent, which is considered low to moderate, especially compared to historical growth rates preceding 2015.

Table 2: Key Economic Indicators[1]

Key Indicators	Average Annual % Growth, 2019-2022	Average Annual % Growth Forecast, 2023-2026	Average Annual % Growth Forecast, 2023-2032
Real Gross Domestic Product (GDP)[2]	0.7	2.0	1.9
Population	1.8	1.6	1.4
Employment	1.4	1.8	1.5
Consumer Inflation	3.0	2.4	2.1
Non-Residential Construction Inflation	3.6	2.6	2.4

Long-term employment growth is also expected to moderate due to an aging population that will slow labour force growth. Edmonton's population is expected to continue growing over the forecast horizon, though at a more moderate pace, with net in-migration playing a significant role in population growth. Edmonton's population is forecasted to grow at an annual average rate of 1.4 per cent over the OIO's forecast period, which marks a significant reduction from an average rate of 2.2 per cent in the 10-year period ending in 2022.

The factors driving the need for operating investments will remain, but the economic environment has changed. The COVID-19 pandemic has made a lasting impression on economies around the world with challenges over the short term running the risk of being more persistent, which could impact Edmonton's growth prospects over the medium term. The pandemic and its economic impacts were experienced differently across Edmonton households and businesses, with some experiencing greater hardship than others and

[1] Source: Statistics Canada and Alberta Treasury Board and Finance (actuals); City of Edmonton and Stokes Economics, May 2022 (forecasts).
[2] Basic price, chained 2012 dollars.

potentially exacerbating challenges they were already facing pre-pandemic. The pressures facing Edmonton households and businesses may translate into a lower public tolerance for tax, utility rate and user fee increases. These pressures may also result in additional demands on City programs and services by those experiencing greater hardships.

OPERATING INVESTMENT OUTLOOK: BASELINE SCENARIO

The OIO forecast is based on incremental revenue and expenditure change, measuring the change in a revenue or expenditure stream from one year to the next. The incremental change tables throughout this document do not detail the total revenues or expenditures associated with a line item, but the change in revenues or expenditures of that line item from one year to the next.

The OIO baseline scenario is based on maintaining the suite and level of services provided in 2022 throughout the 10-year forecast period. The baseline scenario is partitioned into three components:

1. **Maintain Existing Services** - this component projects the budget impacts of maintaining all services provided in 2022 at constant service levels for 10 years, adjusting for inflation and volumetric growth to accommodate a larger population, geographic footprint and economy. The baseline scenario assumes that any future capital requirements to maintain 2022 service levels are funded using unconstrained capital funds, unless the capital costs are large and assumed to be debt-financed, in which case they are included in the second component.

2. **Growth and Enhancements Required to Maintain Service Levels** - this component projects the operating budget impacts of large capital growth required to maintain 2022 service levels, and service enhancements required to achieve intended 2022 service level targets. This includes capital growth of facilities and fleet required to maintain 2022 service levels to a growing city where existing facilities are at capacity, but where the capital requirements are large and assumed to be debt-financed. It also includes enhancements to return services to their intended 2022 level, where they have fallen below policy targets.

3. **Previously Approved Growth** - this component projects the operating budget impacts of all infrastructure growth projects and programs previously approved by Council. These projects and programs were approved in the previous 2015 to 2018 and 2019 to 2022 budget cycles, but are impacting the operating budget over the

2023 to 2032 period. These impacts reflect debt servicing charges and the costs associated with bringing capital assets into operational service.

Separating incremental change into these components will encourage a better understanding of how each component and their respective subcomponents contribute to budget growth over the forecast period. Each component is presented with an incremental revenue/expenditure change table that identifies the net operating requirement between expenditures and revenues, and the forecasted tax increase that will be required to close this gap. Each component also contains a brief discussion of strategies to reduce the forecasted net operating requirement for Council's consideration.

Table 3 presents the revenue that is generated for each year of the forecast term from a 1 per cent tax increase. In 2023, a 1 per cent tax is projected to generate $17.7 million in ongoing tax revenue. This gradually escalates over the baseline scenario forecast term, and by 2032, a 1 per cent tax increase is projected to generate $27.2 million in ongoing tax revenue (Table 3).

Table 3: Revenue Generated From a 1 Per Cent Tax Increase

($ Millions)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
1 % TAX INCREASE FORECAST										
Revenue Generated From a 1% Tax Increase	17.7	19.2	20.5	21.6	22.7	23.8	24.8	25.6	26.4	27.2

MAINTAIN EXISTING SERVICES

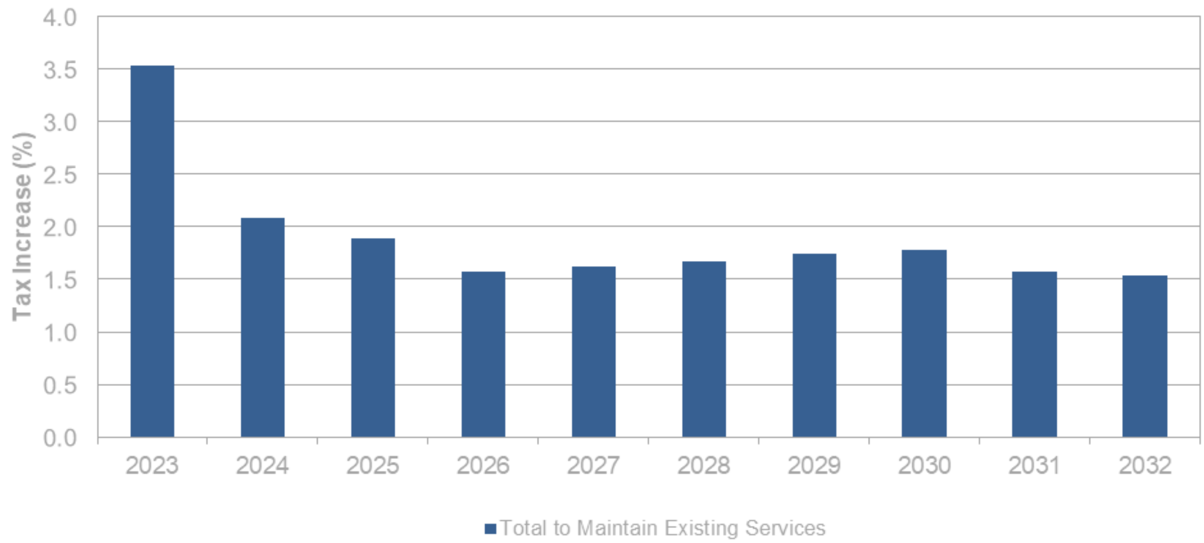
The first component presents incremental revenue and expenditure changes associated with maintaining the suite of programs and services provided by the City in 2022 throughout the forecast period. Expenditure streams are forecast to adjust for inflationary pressures, to maintain existing service levels, as well as demand pressures from population growth and a growing inventory of City infrastructure assets. This component also includes a forecast of growth-sensitive revenue streams.

To maintain existing City services at 2022 levels, the tax increases required to close the net operating requirement between expenditures and revenues are forecasted at 3.5 per cent in 2023, 2.1 per cent in 2024, 1.9 per cent in 2025 and 1.6 per cent in 2026. For the final six years of the forecast period, the annual tax increases required to maintain existing service levels are projected to be between 1.5 per cent and 1.8 per cent. Table 4, below, outlines all the forecasted revenue and expenditure changes that will impact existing service levels.

Table 4: Incremental Revenue & Expenditure Change From Maintaining Services

($ Millions)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
MAINTAIN EXISTING SERVICES										
(Increase)/Decrease in Revenue										
Assessment Growth Tax Revenue	(27.0)	(27.9)	(26.7)	(25.5)	(27.7)	(28.6)	(29.9)	(31.1)	(32.3)	(33.5)
User Fees, Fines & Permits	22.5	(8.0)	(12.0)	(16.1)	(17.1)	(13.3)	(13.6)	(11.7)	(12.3)	(15.1)
EPCOR Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Franchise Fees	(5.8)	(5.0)	(5.2)	(5.2)	(5.0)	(4.8)	(4.7)	(4.9)	(5.1)	(5.2)
Operating Grants	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Investment Earnings	(10.1)	(3.5)	(2.8)	(2.3)	(2.1)	(1.8)	(1.9)	(2.3)	(2.3)	(2.5)
General Revenue	(3.5)	(0.7)	(0.6)	(0.7)	(0.5)	(0.7)	(0.9)	(0.8)	(0.7)	(0.7)
Revenue SubTotal	**(23.9)**	**(45.2)**	**(47.3)**	**(49.8)**	**(52.5)**	**(49.2)**	**(51.1)**	**(50.9)**	**(52.9)**	**(57.2)**
Revenue Subtotal Impact on Tax Increase %	**-1.3**	**-2.4**	**-2.3**	**-2.3**	**-2.3**	**-2.1**	**-2.1**	**-2.0**	**-2.0**	**-2.1**
Increase/(Decrease) in Expenditures										
Personnel Costs	49.7	51.3	52.4	53.0	53.8	54.7	55.4	56.7	58.4	59.7
Non-Personnel Costs	23.7	23.9	24.8	25.0	24.5	23.6	24.2	25.3	26.9	27.6
Canada Pension Plan Enhancements	2.8	3.6	3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Federal Carbon Tax	2.9	3.3	3.0	3.8	4.2	4.0	3.8	3.8	0.0	0.0
PAYG Capital Funding	7.2	3.3	2.6	2.1	2.0	1.8	5.9	5.6	3.8	6.3
Neighbourhood Renewal Program Inflation	0.0	0.0	0.0	0.0	4.7	4.9	5.0	5.2	5.3	5.5
Expenditure SubTotal	**86.3**	**85.4**	**85.9**	**83.9**	**89.3**	**89.1**	**94.3**	**96.6**	**94.4**	**99.2**
Expenditure Subtotal Impact on Tax Increase %	**4.9**	**4.4**	**4.2**	**3.9**	**3.9**	**3.7**	**3.8**	**3.8**	**3.6**	**3.6**
Net Operating Requirement	**62.4**	**40.2**	**38.6**	**34.1**	**36.8**	**39.9**	**43.2**	**45.7**	**41.5**	**4.02**
Tax Increase %	**3.5**	**2.1**	**1.9**	**1.6**	**1.6**	**1.7**	**1.7**	**1.8**	**1.6**	**1.5**

Figure 1: Tax Levy Impact of Maintaining Existing Services



Revenue Growth

Assessment Growth Tax Revenue

Revenue growth can be generated from property tax in two ways: 1) from tax lifts due to real assessment growth; and 2) from tax increases. Tax lifts from real assessment growth are revenues generated from new residential and non-residential properties that are built and added to the City's assessment roll, while tax increases are revenues generated from Council-approved levy increases.

The City experiences tax lifts from real assessment growth without requiring Council-approved tax increases, so long as there are newly constructed buildings, or improvements to existing buildings, added to the City's assessment roll from one year to the next. The OIO projects that annual tax lifts from real assessment growth will be between $26 million and $34 million over the forecast period (Table 4). Tax lifts from real assessment growth are the largest annual incremental revenue generator for the City.

Because the OIO forecast assumes that economic growth will be low-to-moderate, the forecasted tax lifts from real assessment growth also assume a low-to-moderate growth scenario.

User Fees, Fines & Permits

The OIO projects a large incremental reduction of $22.5 million to this revenue stream in 2023, due to revenue shortfalls from transit user fees and automated enforcement fine revenues (Table 4). To maintain current service levels, the OIO assumes these revenue shortfalls flow to corporate net operating requirements and are filled with tax levy increases. Details on these shortfalls are outlined below. In 2024, user fees, fines and permit revenues are projected to increase by $8.0 million, followed by $12.0 million in 2025 and $16.1 million in 2026. For the duration of the forecast term, user fees, fines and permit revenues are projected to grow by $11.7 million to $17.1 million per year (Table 4).

User fees, fines and permit revenues can grow in three ways: 1) through consumption/volume increases, 2) through rate increases or 3) through a combination of both consumption/volume and rate increases. The City's largest source of user fee revenues are from transit and recreation centres. Due to COVID-19 impacts on transit ridership, the projection for transit user fees requires special consideration and is discussed in detail below. For all remaining user fees, annual consumption increases are assumed to grow at the rate of population growth. This assumes that the average rates of per capita service demand will be unchanged over the forecast term, and that overall demand will increase in proportion to population growth. The OIO also assumes that these user fee rates escalate at half the rate of consumer inflation (approximately one per cent per year) for each year of the forecast.

The City's largest source of fine revenue is automated enforcement. Automated enforcement revenues also require special consideration, as the program has been significantly impacted by provincial government policy changes and COVID impacts. Automated enforcement revenues are discussed in detail below. With respect to all remaining fine revenues, annual volume increases are also pegged at the rate of population growth. Connecting increases in fines to corollary increases in population includes the assumption that infraction rates will also be unchanged over time and that overall volume growth will be in proportion to population growth. The annual rate increases for user fees and fines, which are subject to Council's discretion, are targeted at half the rate of consumer inflation for all years of the forecast.

If Council chooses to hold rates constant at 2022 levels, or to increase rates at a lower-than-forecasted pace, then the annual growth of revenues generated from user fees and fines will be lower than projected in the OIO. Alternatively, if Council chooses to increase user fees and fines at a higher rate than forecasted, then this revenue stream will grow at a higher rate than projected in the OIO.

Edmonton Transit Service

- Preliminary Edmonton Transit Service (ETS) ridership and revenue projections conducted in spring 2022 indicate that COVID impacts to ETS are expected to linger for a few years. Ridership is projected to recover to pre-COVID levels in 2024 (Table 5).

Table 5: Annual Transit Ridership Forecast - ETS COVID Impacts Most Likely Scenario

(Millions)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
TRANSIT RIDERSHIP FORECAST - MOST LIKELY SCENARIO														
Base Ridership[3]	67.6	37.4	31.6	47.3	58.2	67.3	68.6	69.7	70.8	71.9	72.9	73.9	74.9	76.0

- However, ETS fare revenues are projected to require a longer recovery due to changes in travel behaviour and increasing demand on discounted fare products. As a result, transit revenues may not recover to pre-COVID levels until 2029 (Table 6). The OIO assumes the pricing of all ETS fare products is stable until the final year of the next budget cycle, after which fare products undergo a 2.0 per cent rate increase in 2026, 2029 and 2032. When and to what extent ETS user fees are increased are ultimately determined by Council through the budget process.

Table 6: Transit Fare Revenue Forecast - ETS COVID Impacts Most Likely Scenario

($ Millions)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
TRANSIT FARE REVENUE FORECAST - MOST LIKELY SCENARIO														
Base Service Fare Revenue[4]	116.3	50.1	48.9	73.7	91.2	105.5	107.6	111.4	113.2	114.9	118.8	120.5	122.2	126.3

- In order to continue delivering transit services at pre-COVID 2022 service levels through the forecast term, revenue shortfalls will need to be addressed: there is a requirement for ongoing funding of $17.3 million per year beginning in 2023 to bridge the shortfall, as well as one-time funding of $15.3 million in 2023 (Table 7). The OIO assumes that the one-time shortfall is addressed through reserve funds, but that the ongoing shortfall flows to corporate net operating requirements in 2023 and is filled by a tax levy increase, with a 1.0 per cent tax levy impact in 2023. Ridership recovery from COVID-impacts is a dynamic situation, and the numbers are

[3] Based on APC adjusted boardings methodology.
[4] Includes Valley Line Southeast LRT fare revenues, expected to be in operational service in summer 2022.

subject to adjustment as transit consumption patterns are observed. The figures presented in the OIO forecast may change in the coming months.

Table 7: Transit Fare Shortfall Forecast - ETS Most Likely Scenario

($ Millions)	2022 (Pre-COVID Impacts Budget)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
TRANSIT SHORTFALL FORECAST - MOST LIKELY SCENARIO											
Base Service Fare Revenue[5]	121.8	91.2	105.5	107.6	111.4	113.2	114.9	118.8	120.5	122.2	126.3
Base Service Non-Fare Revenue	14.8	12.8	13.8	14.8	15.1	15.3	15.6	16.0	16.3	16.6	16.9
One-Time Funding		15.3									
Ongoing Additional Tax Support		17.3	17.3	17.3	17.3	17.3	17.3	17.3	17.3	17.3	17.3
Total	**136.6**	**136.6**	**136.6**	**139.8**	**143.8**	**145.8**	**147.8**	**152.1**	**154.1**	**156.1**	**160.5**

Automated Enforcement Revenues

- Annual automated enforcement revenues are transferred to the Traffic Safety and Automated Enforcement Reserve (TSAER). The TSAER funds three programs on an ongoing basis: the Safe Mobility Section within the Parks and Roads Services Branch, the Edmonton Police Service and capital expenditures related to Safe Mobility. Due to an increased share in revenue held by the Government of Alberta, a provincially imposed moratorium on new equipment and site locations for automated enforcement, lower traffic volumes due to COVID-impacts, and driver behaviour change, automated enforcement revenues are projected to decline sharply in the 2023 to 2026 budget cycle, to $23.3 million in 2023, $20.8 million in 2024, $18.7 million in 2025 and $16.8 million in 2026. For context, automated enforcement revenues were budgeted at $50.8 million in 2019,[6] prior to provincial government policy changes or COVID-impacts.

- The OIO scenario is based on maintaining current funding levels, so assumes that all three programs continue to be delivered at 2022 levels (Table 8). This results in shortfalls of $19.5 million in 2023, $22.5 million in 2024, $24.5 million in 2025 and $26.4 million in 2026. The OIO assumes these shortfalls flow to corporate net operating requirements, requiring a 1.1 per cent tax increase in 2023, 0.2 per cent in 2024, 0.1 per cent in 2025 and 0.1 per cent in 2026 to bridge this shortfall.

[5] Includes Valley Line Southeast LRT fare revenues, expected to be in operational service in summer 2022.

[6] 2019 Adjusted Budget.

Table 8: Projected Automated Enforcement Revenue Shortfall

($ Millions)	2023	2024	2025	2026
AUTOMATED ENFORCEMENT				
Automated Enforcement Revenues	**(23.3)**	**(20.8)**	**(18.7)**	**(16.8)**
Programs Funded From TSAER				
Edmonton Police Service	22.3	22.3	22.3	22.3
Safe Mobility Section	13.9	14.0	14.2	14.2
Capital Expenditures	6.6	7.0	6.7	6.7
Total Funding Requirements	**42.8**	**43.3**	**43.2**	**43.2**
Shortfall	**19.5**	**22.5**	**24.5**	**26.4**
Tax Increase %	**1.1**	**0.2**	**0.1**	**0.1**

Planning And Development Revenues

City Policy C610 Fiscal Policy for the Planning and Development Business formalizes the fiscal management and operating principles of the Planning and Development Business to ensure long term fiscal sustainability and service stability while enabling growth within the City of Edmonton.

- The City's planning and development revenues (i.e. review, approval and inspection of area and neighbourhood structure plans, rezoning and subdivision, servicing agreements, development and building permits) are not used to support general operations; instead, these are allocated toward the operations of the Development Services Branch. These revenues are forecast to grow through volume increases and are not expected to make an impact on the City's net operating requirements. The OIO assumes that for the duration of the forecast term, the Development Services Branch continues to operate largely funded with planning and development revenues with tax levy funding to support policy work and compliance. Levels of tax support for Development Services are held constant at 2022 levels for the entire 10-year forecast period. The OIO assumes that Development Services does not require additional levels of tax support for its operations through the forecast term.

EPCOR Dividends

In accordance with EPCOR's dividend policy, EPCOR pays an annual dividend to its sole shareholder, the City of Edmonton. It is assumed throughout the forecast period that the

EPCOR dividend will remain unchanged. To this end, EPCOR dividends are held constant at $177 million per year for all years of the OIO forecast. Because of this stability, no forecasted incremental increases have been built into this revenue stream (Table 4). In other words, this revenue stream will shrink proportionally to other revenue streams over the forecast period.

Franchise Fees

Franchise fees are what the City charges utility operators (gas, electric power distribution, water and wastewater services) for the exclusive right to provide utility services within Edmonton. Franchise fees also pay for access to City lands to allow for the construction, maintenance and operation of related assets. Franchise fee revenues are forecast to grow by $4.7 million to $5.8 million per year over the 10-year forecast period, attributed to projected growth in utility consumption throughout Edmonton (Table 4).

The method used for calculating franchise fees is set out in the agreements between the City and utility providers. The current agreements for calculating franchise fees are as follows:

- Drainage local access and wastewater franchise fees are eight per cent of qualifying revenues;
- Water franchise fee is eight per cent of all gross revenues related to the water business of EPCOR Water Services Inc. within the City of Edmonton;
- Natural gas franchise fee is 35 per cent of delivery revenue generated by providing natural gas service; and
- Electric power distribution franchise fee applies inflation and a growth factor to the prior year’s franchise fee revenue.

Each year, Council has the opportunity to re-evaluate franchise fee agreements. For the current gas franchise fee agreement, the City is allowed a franchise fee of up to 35 per cent of delivery revenue generated by providing natural gas service; any rate increase beyond this level will require approval from the Alberta Utilities Commission. The OIO assumes that current franchise fee agreements will not change over the forecast term, and that the percentage of qualifying revenues the City collects will remain constant.

Operating Grants

The OIO assumes that operating grants made available to the City of Edmonton in 2022 are maintained through the forecast period, with no new operating grant programs made available over the 10-year horizon. Total operating grant revenues are not anticipated to see much change in 2023. From 2024 onward, operating grant revenues are forecast to grow marginally by $0.1 million per year primarily as a result of incremental growth in the provincial library operating grant (Table 4); the provincial library operating grant is the only operating grant revenue stream projected to grow over the forecast term, as it is based on a per-capita allocation.

It is assumed that Social Development grants, including the Family and Community Support Services (FCSS) grant, are held flat at $22.3 million per year throughout the forecast term. Similarly, the $4.7 million provincial transit operating grant, which the City applies to the Ride Transit Program, is assumed to remain flat throughout the 10 year forecast period.

Policing Support Grant

- For the period April 1, 2021 to March 31, 2022, the Province combined the Municipal Police Assistance Grant (MPAG) and Police Officers Grant (POG) into a single Policing Support Grant (PSG) to simplify administrative and financial processes. The MPAG formula was growth sensitive, with an annual funding allocation at $16 per capita. POG was a fixed $10.5 million per year. The 2021 PSG allocation equals what Administration had budgeted for MPAG and POG.
- There was no indication in the Province's most recent budget that PSG will include population growth adjustments in the coming years. The OIO thus assumes that PSG remains in place through the 10-year forecast period at $26.1 million per year, with no population-growth-sensitivity built into the allocation formula. This assumption that PSG funding levels are held static at 2022 levels implies that, over time, the grant program addresses an increasingly smaller share of police funding needs.

Canada Community-Building Fund Grant

- Approximately $44.5 million of the City's annual Canada Community-Building Fund[7] (CCBF) grant is allocated to service the debt on the Capital Line LRT south extension to Century Park. These revenues are reported as operating grant revenues. As the debt servicing charges on the Capital Line LRT south extension project gradually ramp down and retire in 2030, the OIO assumes that CCBF funding previously used to service debt is allocated to the capital budget for use as unconstrained funding. The reallocation of this revenue stream significantly reduces operating grant

[7] Formerly called the Gas Tax Fund.

revenues, but has no impact on the tax levy as the expenditure stream for debt servicing Capital Line LRT south extension is also retiring.

Investment Earnings

Investment earnings reflect the City's annual earnings on the Ed Tel Endowment Fund,[8] the Balanced Fund, the Short-Term Bond Fund and the Money Market Fund. Investment earnings are directed to capital under the pay-as-you-go (PAYG) program. This budget strategy mitigates the impact of the volatility of investment earnings on the operating budget by shifting the funding to the capital budget.

Incremental revenue growth of investment earnings is projected to range from $1.8 million to $3.5 million per year throughout the forecast period, with an exception in 2023 where earnings are projected to grow by $10.1 million over 2022 budgeted earnings (Table 4). This is because the 2022 budgeted investment earnings faced downward pressure as economies and financial markets were still normalizing from the impact of COVID-19. The Ed Tel Endowment Fund special dividend is not forecasted in the OIO baseline scenario for 2023 or beyond.

General Revenue

This revenue category comprises multiple revenue sources, including transfers from reserves to offset related operating expenditures, the Land Enterprise dividend[9] and various corporate revenues such as tax penalties, tax certificates and supplementary tax. This revenue category is forecast to grow marginally, with the largest incremental increase of $3.5 million occurring in 2023, followed by annual incremental revenue increases ranging from $0.5 million to $0.9 million from 2024 to 2032 (Table 4).

Expenditure Growth

Personnel Costs

Each year, personnel costs are the single largest cost driver for the organization. These cost increases are driven by: 1) inflation on personnel costs; and 2) growth in the number of

[8] The Ed Tel Endowment Fund was established by City Council in 1995, with investment of the $470 million in proceeds from the sale of the municipal telephone utility. The objective of the fund is to provide a source of income in perpetuity while ensuring that the real purchasing power is maintained. Earnings from the fund are applied under a formula established by City Bylaw 11713.
[9] An annual dividend is paid to the corporation in alignment with Policy C516B, the Land Enterprise Dividend Policy, which is currently under review.

personnel as represented by full-time equivalents (FTEs). Inflation on personnel is reflected through collective agreements that set wages, salaries and benefits and, to a lesser extent, in-range merit increases. In order to maintain existing service levels throughout the 10-year forecast term, additional FTEs will be required. The OIO assumes that FTEs grow at half the rate of population growth throughout the forecast term,[10] as Administration continues implementing ongoing operational efficiencies. Personnel related expenditures are forecast to grow by $50 million to $60 million per year through the 10-year forecast period (Table 4).

The City provides a wide range of services that Edmontonians use every day. The majority of the City's programs and services are resident-focused and labour intensive, which explains why personnel costs are projected to have the largest annual expenditure increases. The City's workforce includes many diverse positions, such as firefighters, police officers, transit operators and recreation-focused roles.

There are also costs associated with new personnel that are required when new infrastructure and facilities are brought into operational service—for example, new recreation facilities and LRT lines—but these costs are captured within operating impacts of capital (below).

Non-Personnel Costs

Non-personnel costs are comprised of materials, goods, supplies, fuel, external services,[11] utilities and transfers to reserves. This expenditure category is forecast to grow by $24 million to $28 million per year in order to maintain 2022 service levels throughout the 10-year outlook (Table 4). A growing city and population, along with inflationary pressures are driving the incremental increases for non-personnel expenditures.

Canada Pension Plan Enhancements

The Federal Government began enhancing the Canada Pension Plan (CPP) as of 2019. As part of these enhancements, greater program contributions are required from employees as well as employers, with contribution rates gradually increasing over two steps. As part of

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[10] With the exception of ETS, which grows FTEs in accordance with its bus fleet growth from 2027 to 2032. See component 2 - Growth and Enhancements Required to Maintain Service Levels.

[11] External services reflect the expenses for services supplied by external contractors, including contract work, consulting & professional services, and general services. General services includes, but is not limited to, external expenses such as printing, postage, special service agreements, commissions, custodial, building maintenance, mechanical, snow removal, advertising and program expenses. The City hires external contractors to provide services, skills and knowledge that Administration cannot provide internally, or where external contractors are able to perform a task or function more efficiently than if it were undertaken internally.

step 1, the 2018 employer contribution rate of 4.95 per cent on earnings between $3,500 and the annual earnings limit will gradually increase to 5.95 per cent in 2023. As part of step 2, a second higher contribution ceiling will be introduced from 2024 to 2025, pegged at 14 per cent higher than the first earnings ceilings (existing annual earnings limit); within the first and second contribution ceilings, employers will have a contribution rate of 4 per cent.

The City's services are resident-focused and labour intensive, requiring 14,689 FTEs in 2022.[12] Consequently, the CPP program enhancements will have a significant impact on operating expenditures. Once all CPP program enhancements are in place, the corporate impacts are estimated to be $9.6 million per year in additional contributions. From 2023 to 2025, the incremental impacts are $2.8 million, $3.6 million and $3.2 million, respectively (Table 4).

Federal Carbon Tax

The Federal Government's carbon pollution pricing system, established in 2019, is slated to increase the price on carbon emissions annually at a rate of $15 per tonne from 2023 to 2030. The price of carbon was set at $50 per tonne in 2022, and will increase to $170 per tonne in 2030. There have been no program announcements to date for the price of carbon beyond 2030, so the OIO assumes the $170 per tonne is held flat for 2031 and 2032. Incremental impacts of the Federal carbon tax are estimated to be between $2.9 million and $4.2 million per year from 2023 to 2030, with no further impacts in 2031 and 2032 (Table 4). The carbon tax impacts are based on maintaining current services at 2022 levels, so any climate change adaptation service enhancements not currently in place, or previously approved, are not included in this scenario as they would constitute a service enhancement.

Pay-As-You-Go (PAYG) Capital Funding

PAYG Capital funding reflects the annual pay-as-you-go (PAYG) operating funds that are transferred to capital. Approximately 68 per cent of PAYG capital funding is forecast to be generated from investment earnings, with the remainder comprising tax-levy funding. Investment earnings reflect the City's annual earnings on the Ed Tel Endowment Fund, the Balanced Fund, the Short-Term Bond Fund and the Money Market Fund.

PAYG is expected to increase by $7.2 million in 2023, owing to investment earnings recovering on strong market gains. From 2024 to 2028, PAYG is forecast to grow by $1.8 to $3.3 million per year. From 2029 onwards, annual growth in PAYG is forecast to be in the range of $3.8 to $6.3 million per year (Table 4).

[12] 2022 Approved Operating Budget FTE amount was 14,689.4

There are two revenue streams contributing to the growth in PAYG. The first is investment earnings—from 2024 to 2032, annual investment earnings growth is projected to increase PAYG capital funding by $1.6 to $3.3 million per year. The second is the reallocation of debt-service funding—as debt retires, the OIO allocates released tax-supported debt-service funding from 2028 and beyond to PAYG.[13] By the end of the 10-year forecast term, a total of $13.4 million annually in released debt service funding is reallocated to PAYG funding to be used as an unconstrained capital funding source (Table 9).

Table 9: Released Debt Service Funding Reallocated to PAYG

($ Millions)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
REALLOCATION OF RELEASED DEBT-SERVICE FUNDING TO PAYG										
Incremental PAYG Capital Funding Growth						0.2	4.1	3.5	1.6	4.0
Cumulative PAYG Capital Funding Growth						0.2	4.3	7.7	9.4	13.4

Neighbourhood Renewal Program Inflation

The Neighborhood Renewal Program (NRP) provides a cost-effective, long-term strategic approach to renewing and rebuilding roads, sidewalks and streetlights in existing neighbourhoods and on collector roadways. To provide the NRP with predictable, reliable and stable funding, Council initiated a long-term financial strategy in 2009 to fund the program with a dedicated tax levy. From 2009 to 2018, tax levy funding for NRP was gradually ramped-up until the program became fully funded in 2018 at $158.1 million annually.[14]

In order to accommodate budgetary constraints, the OIO assumes that no inflationary increases to the NRP will occur throughout the 2023 to 2026 budget cycle. The OIO thus assumes that the NRP will manage work and expenditures out of the $158.1 million annual funding base during this four-year cycle. However, it is likely that the program will face inflationary cost pressures during that time, so the purchasing power of the $158.1 million in base funding is expected to erode over the next budget cycle. From 2027 onward, the OIO assumes that annual inflationary increases of between $4.7 million to $5.5 million are built into the NRP to support the program against price escalation pressures—these increases are forecast to maintain the purchasing power of the program at 2026 levels (Table 4).

[13] As per 2.08.3 of City Procedures for Debt Management Fiscal Policy C203C.

[14] Of the $158.1 million NRP levy, $151.1 million is designated for capital, and $7 million is designated for the Parks and Roads Services Branch operating budget for preventative-maintenance microsurfacing.

The Capital Investment Outlook (CIO) presents a significant infrastructure renewal funding shortfall over the 2023 to 2032 period. To help spread the reduced funding levels across the City's overall Renewal program, the CIO presents an option of directing a percentage of NRP funding to other renewal priorities. It is important to note that this strategy would not create any new funding—it would only be a means to help spread the renewal shortfall across the organization, and not have some renewal programs fully funded while others are significantly underfunded. This strategy would require an exception to City Policy C595A and requires a non-statutory public hearing to be held prior to the policy being amended, exempted or revoked by City Council.

Strategies To Reduce Net Operating Requirement: Maintain Existing Services

Through several years of constrained operating budgets where tax increases were limited, including the 2021 tax levy reduction of 0.3 per cent, Administration made numerous budget reductions. These budget reductions were made by finding efficiencies, harvesting savings, and increasing the ongoing value for dollar in how the City delivers its programs and services. Since 2015, in connection with the annual budget process, Administration has undertaken various exercises to identify efficiencies in order to reallocate resources. Administration applies a continuous improvement methodology for finding efficiencies, which has been built into the supplementary budget process. As a result going forward, over the 2023 to 2026 budget cycle, any further budget reductions will need to be made from service level reductions or the elimination of services.

1. Rate increases on user fees and fines
2. Service level reductions
3. Elimination of services

Tax Smoothing Strategies: Maintain Existing Services

1. Smooth the 2023 tax increase required to bridge the automated enforcement shortfall over several years. This will reduce the impact on the 2023 tax levy, but will increase the impact in 2024 and beyond. Use Financial Stabilization Reserve (FSR) to bridge any program funding shortfalls in the interim year(s).
2. Smooth the 2023 tax increase required to bridge the ETS revenue shortfall over several years. This will reduce the impact on the 2023 tax levy, but will increase the impact in 2024 and beyond. Use COVID-19 funds appropriated in the FSR to bridge any program funding shortfalls in the interim year(s).

GROWTH & ENHANCEMENTS REQUIRED TO MAINTAIN SERVICE LEVELS

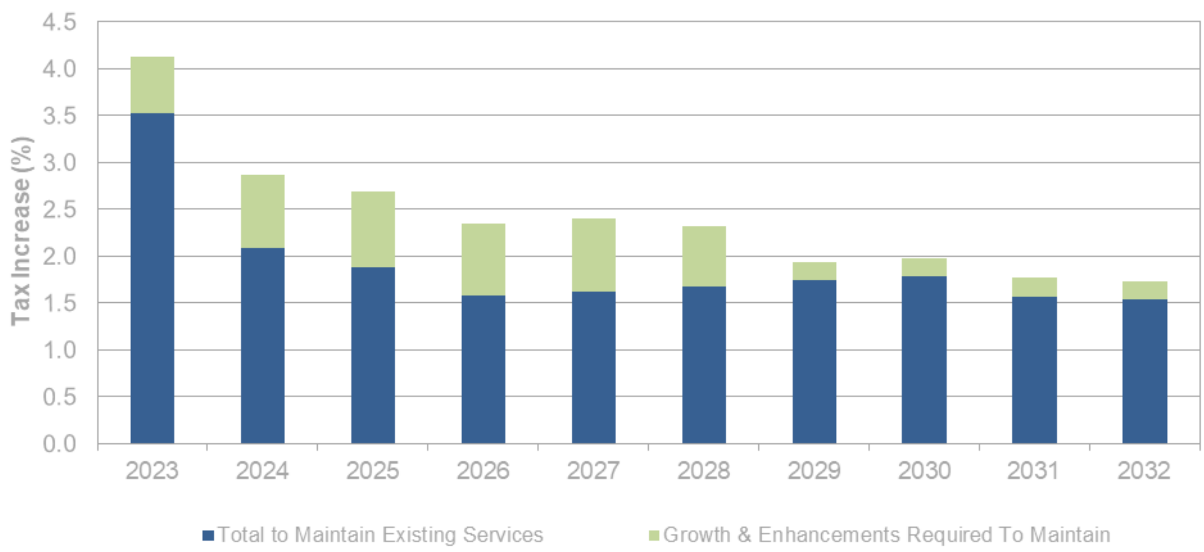
The second component, Growth and Enhancements Required to Maintain Service Levels, presents forecasted incremental operating impacts of new growth capital and service spending that are strictly associated with: 1) maintaining 2022 service levels over the 10-year forecast period, or 2) enhancing services to achieve their intended 2022 service levels over the 10-year forecast period. Any future capital or service growth unrelated to these objectives is not included in this component; Scenario 2 discusses strategies for capital and service growth to advance Council's priority areas.

This second component builds on the incremental operating impacts identified in the Maintain Existing Services component. Over the next four year budget cycle, the tax levy impacts from Growth and Enhancements Required to Maintain Service Levels are 0.6 per cent in 2023, 0.8 per cent in 2024, 0.8 per cent in 2025 and 0.8 per cent in 2026. Beyond the next budget cycle, there are tax levy impacts of 0.8 per cent in 2027, 0.6 per cent in 2028 and 0.2 per cent annually for the remainder of the forecast term.

Table 10: Incremental Expenditure Change From Growth & Enhancements Required to Maintain Service Levels

($ Millions)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
GROWTH & ENHANCEMENTS REQUIRED TO MAINTAIN SERVICE LEVELS										
Capital Growth										
Transit Garage Debt Charges	0.0	4.4	5.9	6.1	1.5	0.0	0.0	0.0	0.0	0.0
Net Operating Impact of Capital - Bus Fleet Growth	0.0	0.0	0.0	0.0	16.2	15.3	4.7	4.9	5.1	5.2
Service Enhancements										
Snow & Ice Control Program Service Enhancements	10.6	10.6	10.6	10.6	0.0	0.0	0.0	0.0	0.0	0.0
Net Operating Requirements	**10.6**	**14.9**	**16.5**	**16.7**	**17.7**	**15.3**	**4.7**	**4.9**	**5.1**	**5.2**
Tax Increase %	**0.6**	**0.8**	**0.8**	**0.8**	**0.8**	**0.6**	**0.2**	**0.2**	**0.2**	**0.2**

Figure 2: Tax Levy Impact of Growth & Enhancements Required to Maintain Service Levels



Capital Growth Required To Maintain Service Levels

As the city grows both in population and geographic footprint, the existing fleet of transit buses will be unable to maintain current service levels over the 10-year forecast period. ETS currently has 1,027 buses in its fleet.[15] Existing transit garages are at capacity, and are unable to accommodate any growth to the bus fleet. The OIO forecast is based on the assumption that current service levels are maintained. To this end, it assumes that a new transit garage is constructed and put into operational service in 2027. The garage is assumed to be a similar facility to the Kathleen Andrews Transit Garage.[16] The OIO assumes this project is debt-financed, with incremental debt servicing impacts of $4.4 million in 2024, $5.9 million in 2025, $6.1 million in 2026 and $1.5 million in 2027 (Table 10).

The OIO also assumes growth to the existing transit bus fleet, with 158 forty-foot diesel buses purchased using pay-as-you-go capital funding and put into operational service between 2027 and 2032. These additions to the bus fleet will enable ETS to maintain current transit service levels in future years (Figure 3). The operating impacts of capital, net of newly generated transit fare revenues, are estimated to be $16.2 million in 2027, $15.3 million in 2028, $4.7 million in 2029, $4.9 million in 2030, $5.1 million in 2031 and $5.2 million in 2032 (Table 10).

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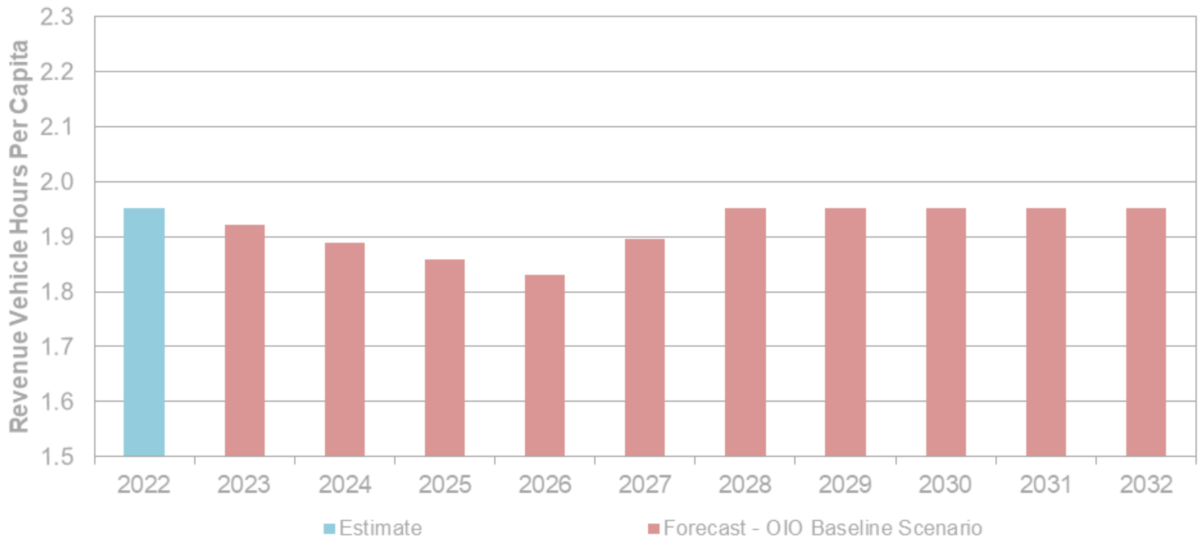
[15] This includes 55 sixty-foot diesel buses, 780 forty-foot diesel buses, 49 thirty-foot diesel buses, 40 forty-foot electric buses and 103 DATS gasoline buses.
[16] Kathleen Andrews transit garage entered operational service in 2020.

Figure 3: Revenue Vehicle Hours Per Capita



On February 22, 2022, City Council approved the ETS Fleet Storage, Operations and Maintenance Facility Strategy. This strategy is designed to guide the renewal and development of existing and future ETS fleet storage and maintenance facilities to address growth, capacity and electrification needs of the fleet through to 2040.

Administration is pursuing funding support for a new transit garage with electric charging stations through the Federal Government's Zero Emission Transit Fund, though, at present, no funding commitments have been announced. The OIO baseline scenario forecasts the budget impacts of maintaining service levels; bus fleet electrification constitutes an enhancement to the existing service level. To this end, the OIO does not include bus fleet electrification in the baseline scenario forecast.

The capital costs associated with bus fleet and garage electrification is approximately double the cost of growing the system using conventional diesel buses and a conventional bus garage;[17] however, the OICs for electric buses are estimated to be lower than for diesel buses. Should Council advance the ETS Fleet Storage, Operations and Maintenance Facility Strategy, the future debt servicing impacts may be higher than what is presented in this scenario, subject to how much funding can be secured from higher-order governments.

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[17] A 40-foot diesel bus costs approximately $620,000 (2022 dollars); a 40-foot battery electric bus costs approximately $1,300,000 (2022 dollars). A high-level cost estimate for a transit garage that can hold 430 forty-foot-equivalent (FFE) diesel buses is approximately $270 to $300 million (2022 dollars); a transit garage that can hold 430 FFE battery electric buses is estimated to cost $575 million, -30 per cent to +50 per cent (2022 dollars).

Service Enhancements Required To Achieve Policy Targets

Policy C409K - Snow and Ice Control Policy, and its corresponding Administrative Procedure, built on ConnectEdmonton and the Safe Mobility Strategy with the outcome of ensuring a safe and livable mobility network in winter. The human and equipment resources of the City's snow and ice control (SNIC) program have not kept pace with the intentions of Policy C409K. Equipment has been replaced at a one-to-one ratio, and the approved budget and total number of staff within the SNIC program have both decreased (15.4 per cent and 13.5 per cent, respectively). Administration's climate modelling shows that, over time, Edmonton will likely have warmer, wetter winters with more rain on snow, continued extreme cold events, and unpredictable winter seasons. Administration has determined that there are insufficient resources and equipment to meet the service levels outlined in the SNIC Policy or Administrative Procedure.

Administration presented options to bring SNIC program service levels to their desired policy targets to City Council on May 9, 2022 (CO00778). The OIO assumes that option R1 ($27.1 million) and AP1 ($15.1 million) are advanced. However, so that the entire $42.2 million is not absorbed in 2023, the OIO assumes the program enhancements are gradually phased, with a $10.6 million tax impact in 2023, $10.6 million in 2024, $10.6 million in 2025, and $10.6 million in 2026 (Table 10).

Strategies To Reduce Net Operating Requirement: Growth & Enhancements Required To Maintain Service Levels

1. Scale back or do not approve the growth and enhancements required to maintain service levels and achieve current service level targets. This will result in reductions to ETS and SNIC service levels over the forecast term.

Tax Smoothing Strategies: Growth & Enhancements Required To Maintain Service Levels

1. The OIO forecast phases in SNIC program enhancements over 4 years, from 2023 to 2026. By further extending that phase-in period, strain on the tax levy will be reduced in the interim years. However, this strategy will mean that achieving the SNIC policy targets will be further delayed.

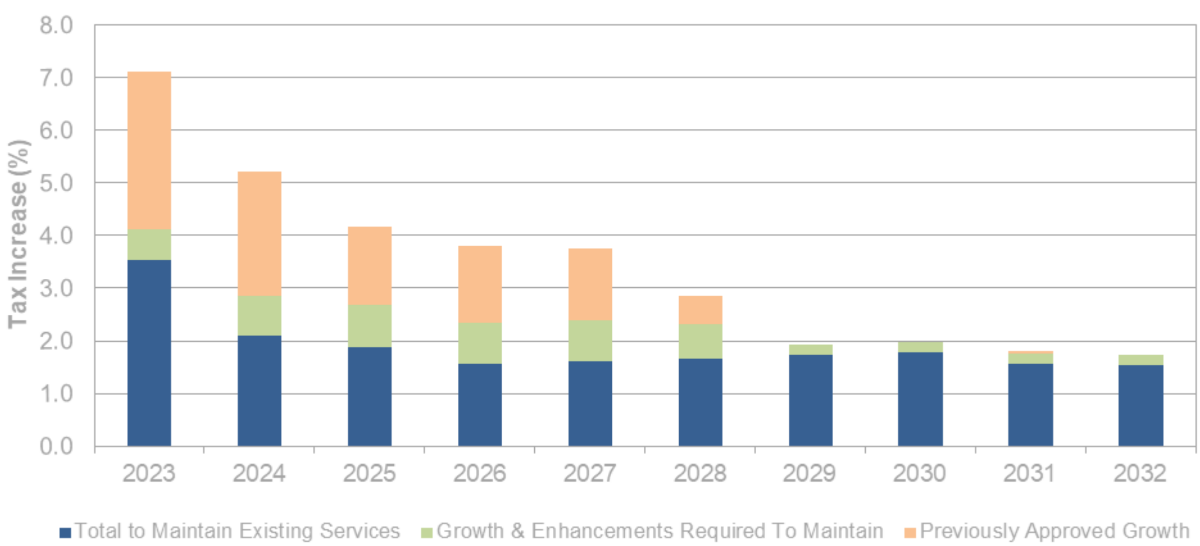
PREVIOUSLY APPROVED GROWTH

The third component, Previously Approved Growth, presents forecasted incremental operating impacts of new growth capital and new program spending that have been previously approved by Council. The OIO assumes that all previously approved growth is undertaken as planned, where Council follows through on its prior commitments. The Previously Approved Growth component builds on the incremental operating impacts identified in the second component. Over the next four-year budget cycle, the tax levy impacts from previously approved growth are projected to be 3.0 per cent in 2023, 2.4 per cent in 2024, 1.5 per cent in 2025, and 1.4 per cent in 2026. Beyond the next budget cycle, there are tax levy impacts of 1.3 per cent in 2027 and 0.5 per cent in 2028 (Table 11).

Table 11: Incremental Expenditure Change From Previously Approved Growth

($ Millions)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
APPROVED GROWTH										
Increase/(Decrease) in Expenditures										
Operating Impact of Capital	13.5	10.1	10.9	17.0	22.1	10.6	0.0	0.0	0.0	0.0
Debt Charges	30.5	33.1	17.4	12.4	5.8	(0.2)	(4.1)	(3.5)	(1.6)	(4.0)
Contributed Assets	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Alley Renewal Program	6.8	0.0	0.0	0.0	0.7	0.7	0.7	0.7	0.8	0.8
Net Operating Requirements	**52.8**	**45.3**	**30.2**	**31.3**	**30.6**	**13.1**	**(1.4)**	**(0.7)**	**1.1**	**(1.2)**
Tax Increase %	**3.0**	**2.4**	**1.5**	**1.4**	**1.3**	**0.5**	**-0.1**	**0.0**	**0.0**	**0.0**

Figure 4: Tax Levy Impact of Previously Approved Growth



Operating Impact Of Capital

Operating impacts of capital (OIC) are the costs associated with bringing new capital facilities into operational service. Bringing new capital online presents numerous operating impacts. Using a fire hall as an example, a newly constructed facility that is ready for service must also be powered, programmed and staffed with new personnel; all of these costs are considered to be operational. The incremental operating impacts of approved capital projects are estimated to be $13.5 million in 2023, $10.1 million in 2024, $10.9 million in 2025, $17.0 million in 2026, $22.1 million in 2027, and $10.6 million in 2028 (Table 11).

Table 12 highlights the approved capital projects that are projected to have large OICs. When brought into operational service in 2028, Valley Line West LRT and Capital Line South LRT Phase 1 will have large OICs of $26 million and $11.7 million, respectively. So that the entire $37.7 million OIC of these two LRT lines is not absorbed in one year, the OIO puts forth a scenario where the tax levy is gradually ramped up by $6.3 million per year from 2023 to 2028. This strategy is highlighted in bold in Table 12, and discussed in more detail below.

It should be noted that as part of the 2023 to 2026 budget development process, all estimated OICs for previously approved capital projects will be refined in the summer of 2022. Additional OICs may be added through this process, with the potential to increase the forecasted OIC totals over the 2023 to 2032 period.

Table 12: Incremental Operating Impacts of Capital

($ Millions)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
OPERATING IMPACT OF CAPITAL										
Increase/(Decrease) in Expenditures										
Yellowhead Trail	0.0	1.8	0.0	0.0	0.0	4.2	0.0	0.0	0.0	0.0
Coronation Park Sports & Rec Centre	0.0	0.0	0.0	6.0	0.0	0.0	0.0	0.0	0.0	0.0
LRT - Valley Line West	**4.3**	**4.3**	**4.3**	**4.3**	**4.3**	**4.3**	0.0	0.0	0.0	0.0
LRT - Capital Line South Phase 1	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	0.0	0.0	0.0	0.0
LRT - Metro Line NAIT to Blatchford	0.0	0.0	4.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ambleside Integrated Site	0.0	0.0	0.0	2.1	0.0	0.0	0.0	0.0	0.0	0.0
Lewis Farms Facility & Park	0.0	0.0	0.0	0.0	14.0	0.0	0.0	0.0	0.0	0.0
All Other Projects	7.3	2.1	0.2	2.5	1.9	0.1	0.0	0.0	0.0	0.0
Total Operating Impact of Capital	**13.5**	**10.1**	**10.9**	**17.0**	**22.1**	**10.6**	**0.0**	**0.0**	**0.0**	**0.0**

OIC Tax Smoothing Strategy

Tax smoothing is when the City phases in a tax levy increase required in a future year slowly over the years leading up to it. This approach has two advantages: it avoids significant one-time tax levy increases in a single year, and creates one-time funding in the years the levy is introduced but not yet required for its intended purpose.

This OIC tax smoothing strategy generates $6.3 million of excess tax levy in 2023, $12.6 million in 2024, $18.8 million in 2025, $25.1 million in 2026 and $31.4 million in 2027, for a total of $94.1 million in excess tax levy between 2023 to 2027. This will provide Council with a one-time pool of funds to be applied toward pay-as-you-go unconstrained capital funding (Table 13).

Table 13: OIC Tax Smoothing Strategy

($ Millions)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
OIC TAX SMOOTHING STRATEGY										
Incremental Annual OIC Tax Smoothing Strategy										
LRT - Valley Line West	4.3	4.3	4.3	4.3	4.3	4.3	0.0	0.0	0.0	0.0
LRT - Capital Line South Phase 1	2.0	2.0	2.0	2.0	2.0	2.0	0.0	0.0	0.0	0.0
Total	6.3	6.3	6.3	6.3	6.3	6.3	0.0	0.0	0.0	0.0
Cumulative Annual OIC Tax Smoothing Strategy										
LRT - Valley Line West	4.3	8.7	13.0	17.3	21.6	26.0	26.0	26.0	26.0	26.0
LRT - Capital Line South Phase 1	2.0	3.9	5.9	7.8	9.8	11.7	11.7	11.7	11.7	11.7
Total	6.3	12.6	18.8	25.1	31.4	37.7	37.7	37.7	37.7	37.7
Total Cumulative Excess Tax Levy	**6.3**	**18.8**	**37.7**	**62.8**	**94.1**					

Debt Charges

Unlike higher orders of government, the City only borrows to pay for infrastructure and does not borrow for operating expenditures. Borrowing by the City is done in a reasonable, fiscally conservative manner by, first, identifying funding sources that will pay off the principal and interest on the borrowing, and then by determining what is considered a reasonable amount to spend on debt payments. While interest rates are an influential factor when making borrowing decisions, they are not the prime consideration; the prime consideration on whether the City should borrow is determined by how much is reasonable to spend on debt payments. Once this amount is identified, the cost of borrowing, reflected by interest rates, determines how much value can be leveraged for any given dollar of debt. Furthermore, the City is able to lock in interest rates for the entire borrowing term, whether that is for five years or 35 years. Decisions on the use of debt are made during the capital planning process, and any use of debt will be subject to Council's discretion.

The City has leveraged tax-supported debt as a financing tool for capital projects approved in the 2019-2022 Capital Budget. As incremental servicing for debt comes online, operating impacts are presented as increases in incremental expenditures. Incremental debt servicing charges are incurred in the first five years of the forecast period, resulting from approved capital projects in the 2019-2022 Capital Budget. The OIO projects annual incremental debt servicing charges of $30.5 million in 2023, $33.1 million in 2024, $17.4 million in 2025, $12.4 million in 2026, and $5.8 million in 2028 (Table 11). Reductions in debt servicing charges from 2028 and beyond are expected as pre-existing debt from previously-approved projects is retired. These incremental reductions to debt servicing are reflected as negative debt charges; however, the OIO allocates this released debt service funding towards PAYG capital funding for use towards unconstrained capital funding (see PAYG Capital Funding section). Table 14 shows the projects with the largest incremental debt charges over the 2023 to 2032 period.

Table 14: Incremental Tax Supported Debt Charges

($ Millions)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
DEBT CHARGES										
Increase/(Decrease) in Expenditures										
Yellowhead Trail	9.2	9.5	4.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Coronation Park Sports & Rec Centre	1.0	2.1	2.4	2.6	1.2	0.2	0.0	0.0	0.0	0.0
Lewis Farms Facility & Park	1.2	2.7	5.0	5.3	3.4	0.6	0.0	0.0	0.0	0.0
Valley Line LRT West	14.6	8.1	2.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Capital Line South LRT Phase 1	3.1	6.1	5.8	4.2	1.4	0.1	0.0	0.0	0.0	0.0
Metro Line LRT NAIT to Blatchford	1.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Other Projects	0.4	4.5	(2.3)	(0.2)	(0.2)	(1.1)	(4.1)	(3.5)	(1.6)	(4.0)
Total Debt Charges	**30.5**	**33.1**	**17.4**	**12.4**	**5.8**	**(0.2)**	**(4.1)**	**(3.5)**	**(1.6)**	**(4.0)**

Contributed Assets

Contributed assets are assets that have been transferred or donated to the City by another entity. The operating impacts of these assets come in numerous forms—for example, responsibility for snow removal, roadway maintenance and ice control on new subdivision roadways that are transferred to the City from private developers. The OIO forecasts an annual incremental $2 million operating costs to operate, maintain and service these contributed assets (Table 11).[18]

Alley Renewal Program

The Alley Renewal Program (ARP) was initiated in 2019 to provide predictable and stable tax support for alleyway maintenance. Dedicated ARP funding from tax levy has been incrementally ramped up since 2019. There is a previously approved $6.8 million incremental increase in tax support in 2023, at which point the ARP will be fully funded at $22.3 million annually using tax levy funding (Table 11).

The OIO assumes that no inflationary increases to the ARP will occur from 2024 to 2026, under the assumption that the program will manage work and expenditures out of the $22.3 million in annual funding during these years. From 2027 onward, the OIO assumes that annual inflationary increases of between $0.7 million to $0.8 million are built into the ARP to cushion the program against price escalation pressures, enabling the program to maintain the purchasing power of the program at 2026 levels (Table 11).

Strategies To Reduce Net Operating Requirement: Previously Approved Growth

1. Reduce or eliminate the $6.8 million top-up to the Alley Renewal Program. This will reduce net operating requirements in 2023 by up to $6.8 million, or 0.4 per cent, but will result in the program being underfunded, with negative impacts to alley reconstruction timelines and the asset condition of alleyways.

Tax Smoothing Strategies: Previously Approved Growth

1. Defer the final Alley Renewal Program incremental increase to a later year. This will ease the strain on the tax levy in 2023 by $6.8 million, or 0.4 per cent, and defer that increase to a later year.
2. Defer $6.3 million 2023 OIC tax levy phase-in for Valley Line West and Capital Line South Phase to 2028.

SUMMARY OF ALL IMPACTS

Table 15 consolidates all the incremental impacts of the three components in the baseline scenario. Over the next four-year budget cycle, the forecasted total tax levy increase from all three components is projected to be 7.1 per cent in 2023, 5.2 per cent in 2024, 4.2 per cent in 2025 and 3.8 per cent in 2026. Beyond the next budget cycle, the tax increases are forecasted to be 3.7 per cent in 2027 and 2.9 per cent in 2028. Previously approved growth

[18] Annual operating cost estimates based on historical budget figures.

impacts begin to ease in 2029, at which point the forecasted tax increases stabilize to just under 2 per cent for the remainder of the forecast term, at 1.9 per cent in 2029, 1.9 per cent in 2030, 1.8 per cent in 2031 and 1.7 per cent in 2032.

Table 15: Baseline Scenario - Consolidated Incremental Change Forecast

2023 - 2032 OPERATING BUDGET INCREMENTAL CHANGES										
($ Millions)	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**
MAINTAIN EXISTING SERVICES & APPROVED GROWTH										
(Increase)/Decrease in Revenue										
Assessment Growth Tax Revenue	(27.0)	(27.9)	(26.7)	(25.5)	(27.7)	(28.6)	(29.9)	(31.1)	(32.3)	(33.5)
User Fees, Fines & Permits	22.5	(8.0)	(12.0)	(16.1)	(17.1)	(13.3)	(13.6)	(11.7)	(12.3)	(15.1)
EPCOR Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Franchise Fees	(5.8)	(5.0)	(5.2)	(5.2)	(5.0)	(4.8)	(4.7)	(4.9)	(5.1)	(5.2)
Operating Grants	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Investment Earnings	(10.1)	(3.5)	(2.8)	(2.3)	(2.1)	(1.8)	(1.9)	(2.3)	(2.3)	(2.5)
General Revenue	(3.5)	(0.7)	(0.6)	(0.7)	(0.5)	(0.7)	(0.9)	(0.8)	(0.7)	(0.7)
SubTotal	**(23.9)**	**(45.2)**	**(47.3)**	**(49.8)**	**(52.5)**	**(49.2)**	**(51.1)**	**(50.9)**	**(52.9)**	**(57.2)**
Tax Increase %	**-1.3**	**-2.4**	**-2.3**	**-2.3**	**-2.3**	**-2.1**	**-2.1**	**-2.0**	**-2.0**	**-2.1**
Increase/(Decrease) in Expenditures										
Personnel Costs	49.7	51.3	52.4	53.0	53.8	54.7	55.4	56.7	58.4	59.7
Non-Personnel Costs	23.7	23.9	24.8	25.0	24.5	23.6	24.2	25.3	26.9	27.6
Canada Pension Plan Enhancements	2.8	3.6	3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Federal Carbon Tax	2.9	3.3	3.0	3.8	4.2	4.0	3.8	3.8	0.0	0.0
PAYG Capital Funding	7.2	3.3	2.6	2.1	2.0	1.8	5.9	5.6	3.8	6.3
Neighbourhood Renewal Program Inflation	0.0	0.0	0.0	0.0	4.7	4.9	5.0	5.2	5.3	5.5
SubTotal	**86.3**	**85.4**	**85.9**	**83.9**	**89.3**	**89.1**	**94.3**	**96.6**	**94.4**	**99.2**
Tax Increase %	**4.9**	**4.4**	**4.2**	**3.9**	**3.9**	**3.7**	**3.8**	**3.8**	**3.6**	**3.6**
Approved Growth										
Operating Impact of Capital	13.5	10.1	10.9	17.0	22.1	10.6	0.0	0.0	0.0	0.0
Debt Charges	30.5	33.1	17.4	12.4	5.8	(0.2)	(4.1)	(3.5)	(1.6)	(4.0)
Contributed Assets	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Alley Renewal Program	6.8	0.0	0.0	0.0	0.7	0.7	0.7	0.7	0.8	0.8
SubTotal	**52.8**	**45.3**	**30.2**	**31.3**	**30.6**	**13.1**	**(1.4)**	**(0.7)**	**1.1**	**(1.2)**
Tax Increase %	**3.0**	**2.4**	**1.5**	**1.4**	**1.3**	**0.5**	**-0.1**	**0.0**	**0.0**	**0.0**
TOTAL TO MAINTAIN EXISTING SERVICES & APPROVED GROWTH	**115.2**	**85.5**	**68.9**	**65.4**	**67.4**	**52.9**	**41.8**	**45.0**	**42.6**	**40.8**
Tax Increase %	**6.5**	**4.4**	**3.4**	**3.0**	**3.0**	**2.2**	**1.7**	**1.8**	**1.6**	**1.5**
GROWTH & ENHANCEMENTS REQUIRED TO MAINTAIN SERVICE LEVELS										
Capital Growth										
Transit Garage Debt Charges	0.0	4.4	5.9	6.1	1.5	0.0	0.0	0.0	0.0	0.0

Net Operating Impact of Capital - Bus Fleet Growth	0.0	0.0	0.0	0.0	16.2	15.3	4.7	4.9	5.1	5.2
SubTotal	**0.0**	**4.4**	**5.9**	**6.1**	**17.7**	**15.3**	**4.7**	**4.9**	**5.1**	**5.2**
Tax Increase %	**0.0**	**0.2**	**0.3**	**0.3**	**0.8**	**0.6**	**0.2**	**0.2**	**0.2**	**0.2**
Service Enhancements										
Snow & Ice Control Program Service Enhancements	10.6	10.6	10.6	10.6	0.0	0.0	0.0	0.0	0.0	0.0
SubTotal	**10.6**	**10.6**	**10.6**	**10.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Tax Increase %	**0.6**	**0.5**	**0.5**	**0.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
TOTAL GROWTH & ENHANCEMENTS REQUIRED TO MAINTAIN SERVICE LEVELS	**10.6**	**14.9**	**16.5**	**16.7**	**17.7**	**15.3**	**4.7**	**4.9**	**5.1**	**5.2**
Tax Increase %	**0.6**	**0.8**	**0.8**	**0.8**	**0.8**	**0.6**	**0.2**	**0.2**	**0.2**	**0.2**
TOTAL FORECASTED NET OPERATING REQUIREMENT	**125.8**	**100.4**	**85.4**	**82.0**	**85.1**	**68.2**	**46.5**	**49.8**	**47.7**	**46.0**
Tax Increase %	**7.1**	**5.2**	**4.2**	**3.8**	**3.7**	**2.9**	**1.9**	**1.9**	**1.8**	**1.7**

CARBON EMISSIONS AND TARGETS

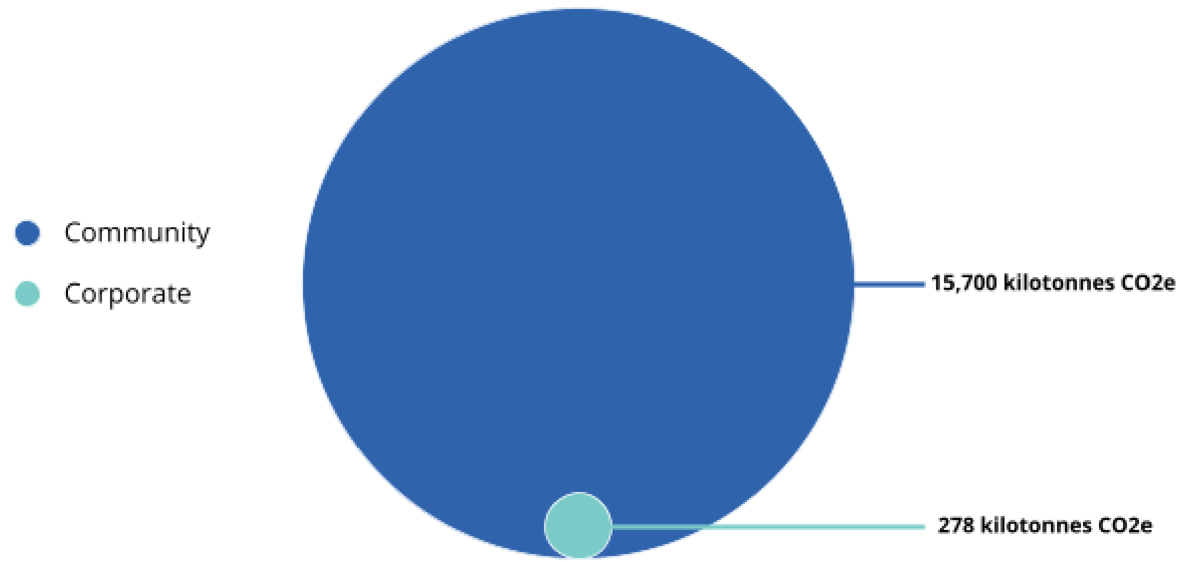
Greenhouse gas (GHG) emissions come from different activities such as burning fossil fuels to make energy to use for transportation, electricity, heat for buildings, and for industrial purposes. GHG emissions cause climate change. The City of Edmonton monitors GHG emission trends in two ways: 1) emissions from the community; and 2) emissions from the City of Edmonton corporation. The City's corporate emissions make up about two per cent of the total emissions within the community. Corporate emissions measure the amount of GHG emissions from the services we provide and infrastructure we maintain.

CORPORATE CARBON EMISSIONS FORECAST

The City's Energy Transition Strategy has targets to reduce community emissions 35 per cent by 2025, 50 per cent by 2030 and reach carbon neutrality by 2050. Edmonton measures community progress against a 2005 baseline year of 18.2 million tonnes of carbon dioxide equivalent (tCO2e). The strategy has targets for the City (corporation) to be carbon neutral by 2040.

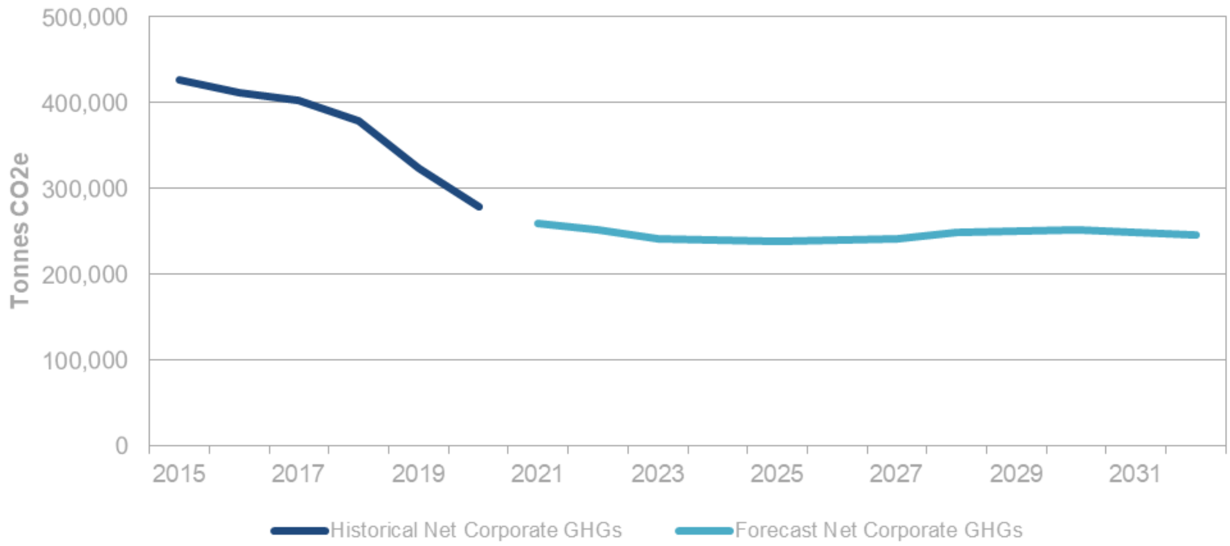
In 2020, the City's total corporate GHG emissions were 408 thousand tonnes of carbon dioxide equivalent (tCO2e), and net GHG emissions were 278 thousand tCO2e (Figure 5). Net GHG emissions is the overall balance of emissions produced and emissions removed from the atmosphere (through carbon storage from the urban forest), and emissions avoided by purchasing renewable energy certificates.

Figure 5: City of Edmonton Corporate and Community Emissions



The OIO forecast is based on the assumption that current service levels are maintained through the 10-year forecast term, including any previously approved growth. Any growth or enhancements above the current service level is not factored into the OIO forecast—this includes any currently unapproved service growth or enhancement related to reducing corporate GHG emissions. The projection of corporate GHG emissions relating to the OIO forecast suggests that GHG emissions will stabilize between between 200,000 and 250,000 tonnes annually over the 2023 to 2032 period (Figure 6).

Figure 6: Corporate GHG Forecast



INVESTING IN A LOW CARBON FUTURE

Meeting the carbon reduction targets set in the Energy Transition Strategy will require significant levels of private and public investment. In total, the strategy requires approximately $42 billion of public and private investment over the next 30 years, averaging $1.4 billion annually. The level of public investment required to catalyze private investment and for local infrastructure is estimated to be approximately $300 million annually. Shared with federal and provincial governments, a targeted City funding share is one-third or $100 million annually. The City's funding share can be aggregated into two categories:

- $75 million annually for capital infrastructure including, but not limited to:
  - Electrification of bus fleet, deep facility retrofits, district energy systems and expansion of active transportation network
- $25 million annually for catalyst investment to encourage community uptake

Prioritization of financial resources will be critically important to achieve the ambitious targets set for GHG emissions while managing the pressure placed on property tax rates. The City's Community Energy Transition Strategy and Action Plan outlines strategies and financial investments required to achieve the four pathways of:

- Renewable and Resilient Energy Transition
- Low Carbon City and Transportation

- Emissions Neutral Buildings
- Nature Based Solutions and Carbon Capture

The implementation of the Carbon Accounting Framework within City financial and decision making processes will be an important tool to allow Council and Administration to evaluate our work against our goals and understand what financial pathways we have to get there.

FISCALLY SUSTAINABLE GROWTH

MUNICIPAL FINANCIAL SUSTAINABILITY

Financial sustainability at the municipal government level is highly complex; despite being the subject of growing attention around the world, municipal financial sustainability does not have a widely accepted definition. Administration has reviewed the literature on financial sustainability, and has developed the following working definition as applied to the municipal context:

A financially sustainable municipality is one that has the ability to meet its current and future financial obligations without resorting to:

- **Unexpected tax, utility rate or user fee increases:** Financially sustainable municipalities approve and implement tax, utility rate and user fee increases in a planned and transparent manner. Proposed increases are fully justified and appropriately communicated to residents, businesses and ratepayers.
- **Unplanned cutbacks in program or service levels:** While financially sustainable municipalities avoid unplanned reductions in programs and service levels, they pay ongoing, formal attention to ensuring that program and service levels are appropriate.
- **Unjustified reductions in infrastructure investment:** Financially sustainable municipalities ensure that they are investing appropriately in the construction, expansion and rehabilitation of municipal infrastructure. Financially sustainable municipalities have leading practice infrastructure and asset management systems in place.
- **Compromising its capacity to continue doing the same in the future:** The elected councils of financially sustainable municipalities ensure that the impacts of their decisions do not weaken the financial capacity of successive councils.
- **Intolerable or unsustainable tax increases:** Financially sustainable municipalities increase taxes in a fiscally sustainable manner, within the tolerance thresholds of the tax-paying public.

TAX TOLERANCE

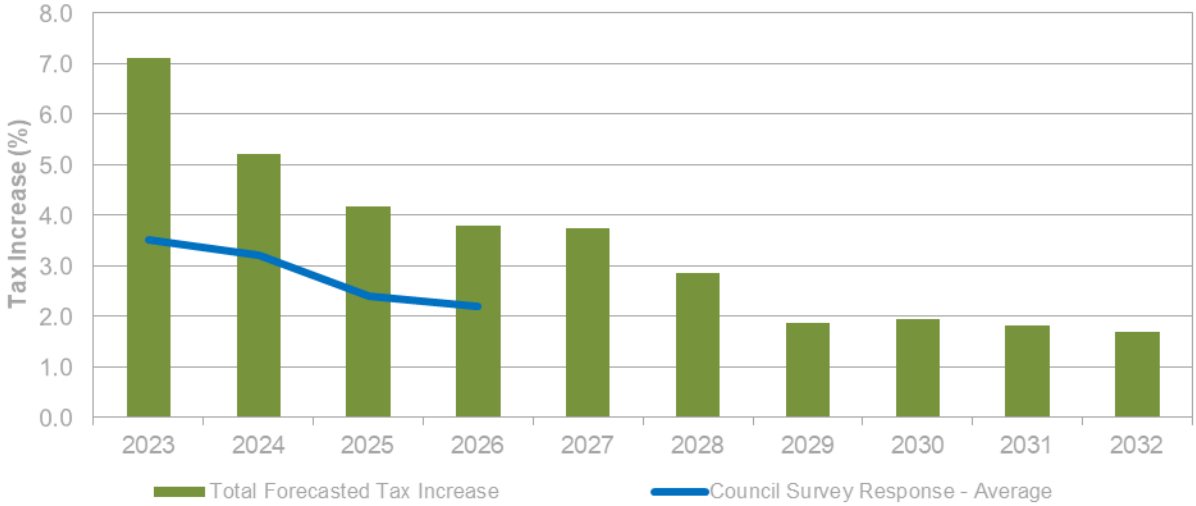
Unlike the provincial and federal governments' income and consumption tax revenue streams, which have broad exposure to economic movement and can thus grow and shrink without a corresponding tax rate change, municipal property taxation in Canada follows a budget-based approach. When property market values fluctuate under the budget-based approach, tax revenues remain stable and unchanged.

An advantage of this budget-based approach is that property tax revenues remain stable during periods of economic contraction and falling assessment values. A drawback, however, is that real tax base growth is typically observed below the rate of economic growth; real tax base growth results from adding newly constructed taxable properties to the City's assessment role each year. A consequence of the budget -based approach is that the total tax levy does not automatically adjust to changes in property assessment value, nor does real tax growth typically keep pace with broader economic growth. This means that when Council sets the tax levy each year, it must account for incremental budget growth through a tax levy increase.[19] This feature of budget-based taxes raises questions about ***what level of tax increase, if any, is appropriate?***[20]

In the spring of 2022, Council received a survey from Administration on tax tolerance. A total of 10 responses were received, with an average tax tolerance of 3.5 per cent in 2023, 3.2 per cent in 2024, 2.4 per cent in 2025, and 2.2 per cent in 2026. The survey average fell well below the forecasted tax increases for the 2023 to 2026 budget cycle (Figure 7).

[19] There are historical instances where the tax levy has been held constant or reduced.
[20] Council also has the authority to reduce the tax levy if desired.

Figure 7: Tax Tolerance Benchmark - Council Survey Response

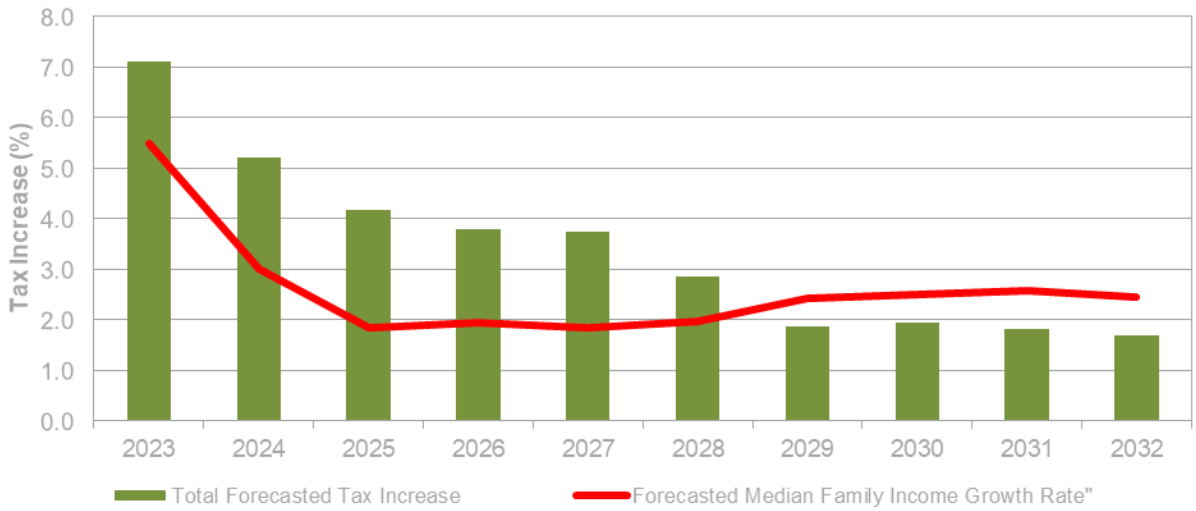


There is no universally-accepted method for determining the optimal level of municipal property tax increase. This section presents an analysis of three measures that can be used as benchmarks for determining the appropriate upper-limit for property tax increases:

1. **Median Household Income Growth Rate:** Under this approach, the benchmark for tax tolerance is set at the rate of forecasted nominal median household income growth. While property tax is an indirect tax that is not directly based on income, for most households it is typically *paid* out of income. This approach would therefore ensure that the growth in property tax burden for a typical household will not crowd out other household spending, savings or investments.

   Figure 8 shows the baseline scenario forecasted tax increases against this tax tolerance benchmark. Median family income is forecasted to grow by 5.5 per cent in 2023, 3 per cent in 2024, and in the range of 1.8 to 2.6 per cent from 2025 to 2032. The forecasted tax increases from 2023 to 2028 fall above this benchmark. For the median household, this will mean that their property taxes grow at a higher rate than their incomes. From 2029 onward, the forecasted tax increase falls below this benchmark, providing approximately 0.5 to 0.8 per cent of available tax room per year that can be applied towards growth initiatives to advance Council's priority areas, or towards keeping tax increases low (Figure 8).

Figure 8: Tax Tolerance Benchmark - Forecasted Median Family Income Growth



2. **Inflation Plus Population Growth Rate:** Under this approach, the benchmark for tax tolerance is set at the rate of forecasted municipal price inflation plus population growth. The rationale behind this benchmark rate is to provide room for inflationary adjustments as well as room to expand service delivery for a growing population. A limitation of this approach is that it may not allow for City taxation and spending to keep pace with economic growth.

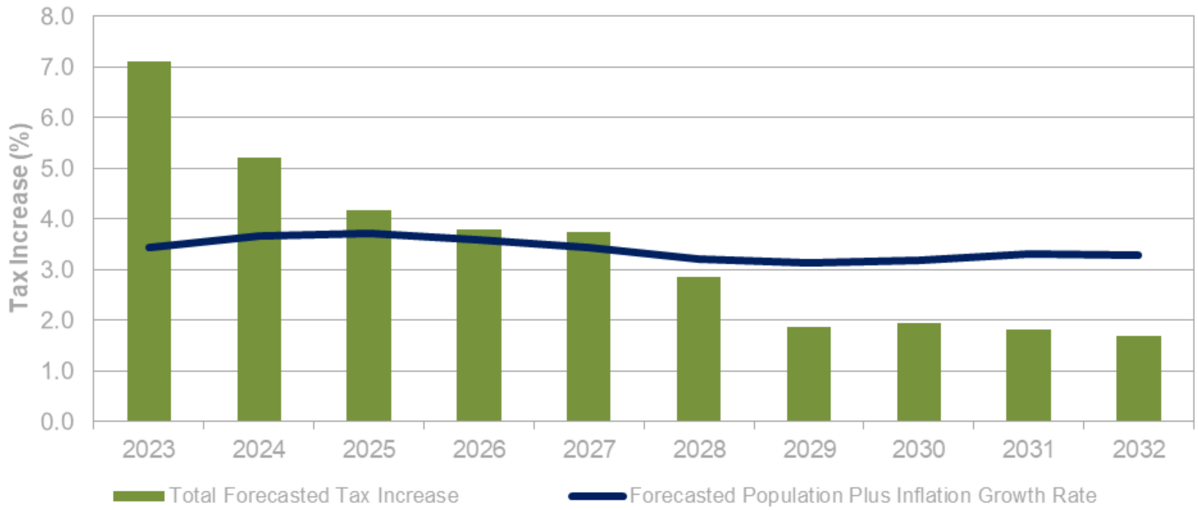
   It should also be noted that while property tax is the largest revenue source for the City, comprising 58 per cent of operating revenues,[21] it is not the only revenue source; the rate of non-tax revenue growth also contributes to overall expenditure budget growth. If the benchmark is applied only to tax revenues, but non-tax revenue growth is higher than the benchmark, overall budget growth will exceed the benchmark; if non-tax revenue growth is below the benchmark, overall budget growth will not keep pace with inflation plus population growth.

   The population plus inflation growth rate is projected to range from 3.1 per cent to 3.7 per cent from 2023 to 2032. The forecasted tax increases fall well above this benchmark in 2023 and 2024, fall in line with this benchmark from 2025 to 2027, leaving no tax room for additional growth, and fall below this benchmark from 2028 to 2032. From 2029 onward, there is 1.2 to 1.6 per cent of tax room available each

[21] 2022 approved Operating Budget

year below this benchmark that can be applied towards growth initiatives to advance Council's priority areas, or towards keeping tax increases low (Figure 9).

Figure 9: Tax Tolerance Benchmark - Forecasted Population Plus Inflation Growth

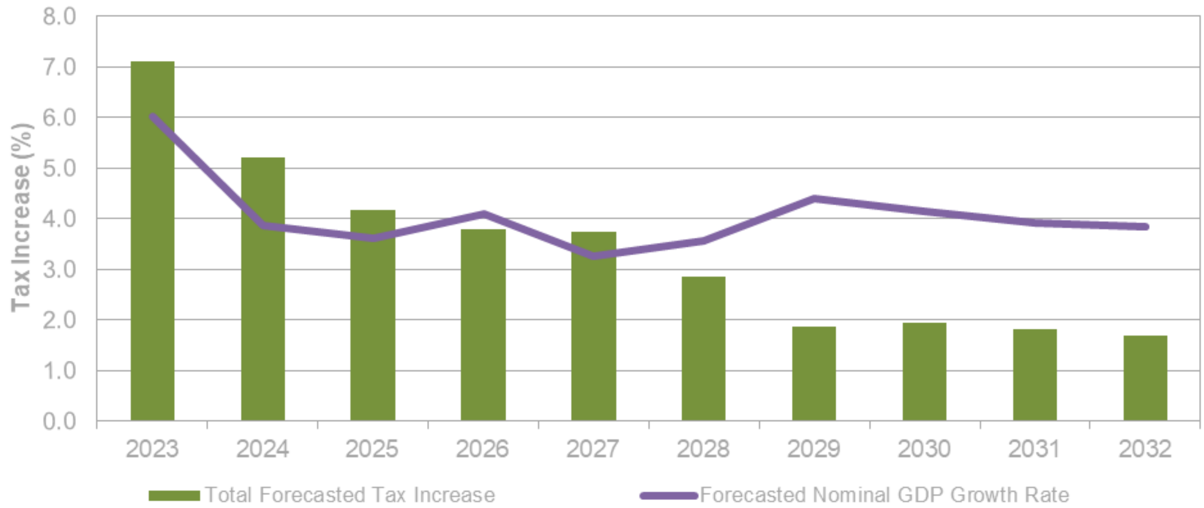


3. **Nominal GDP Growth Rate:** Under this approach, the benchmark for tax tolerance is set at the forecasted rate of nominal gross domestic product (GDP) growth. Nominal GDP growth reflects the growth in the size of the economy from one year to the next without adjusting for inflation; in contrast, real GDP growth adjusts for inflation. Because the forecasted tax increases include inflation, to ensure consistency, nominal GDP growth is used under this approach.

   Tax increases at the rate of nominal GDP growth would enable the municipal government sector to maintain its share of local economy GDP over the forecast period. This would ensure that the City's capacity for taxation and expenditure growth is able to keep pace with economic growth. A limitation of this approach, however, is that it may outpace the growth in incomes for many households, crowding out other household spending, savings or investments.

   Nominal GDP is forecast to grow by 6 per cent in 2023, and in the range of 3.3 to 4.4 per cent from 2024 to 2032 (Figure 10). The forecasted tax increases for 2023 and 2024 are 1.1 and 1.4 per cent higher than this benchmark, respectively. From 2025 to 2027 the forecasted tax increases are in line with this benchmark. From 2028 onwards, the forecasted tax increases fall below this benchmark, providing 0.7 to 2.5 per cent of available tax room in each of those years that can be applied towards growth initiatives to advance Council's priority areas, or towards keeping tax increases low (Figure 10).

Figure 10: Tax Tolerance Benchmark - Forecasted Nominal GDP Growth[22]



It is ultimately the authority of Council to determine how much the tax levy should increase or decrease. The benchmarks presented here are to provide guideposts for determining what taxpayers may be able to tolerate for tax increases in the years ahead. They are not intended to be prescriptive, nor act as formulas for City budget growth.

SCENARIO 1: DEDICATED TAX LEVY FOR INFRASTRUCTURE RENEWAL

The City's Risk-based Infrastructure Management System (RIMS) was applied to City infrastructure assets and modelled over a 30-year period to predict the optimal funding to maintain City assets in a good state of repair. The model was set to determine the annual investment required to bring all City assets to their target physical performance levels by 2031 (a 20-year period that began with the 2012-2014 capital cycle).

Over the 2023 to 2032 period, the RIMS model recommended a renewal investment of $9.1 billion. When including the estimated amount for growth investments made on renewal

[22] Applying a GDP deflator is the best method for converting real GDP to nominal GDP. A proxy for inflation was applied to the City's real GDP forecast to estimate nominal GDP, as GDP deflators for the Edmonton census metropolitan area do not exist.

projects, the total 10 year investment is $10.3 billion.[23] Of the total investment required, $2.4 billion has dedicated constrained funding sources, and $136 million has already been approved by previous Council decisions, leaving $7.8 billion in funding that would be required to reach the ideal investment level.

Over the 10-year 2023 to 2032 period, there is $3.1 billion of total unconstrained funding available for allocation to additional growth and renewal needs. The renewal shortfall thus ranges from $4.7 billion ($470 million per year on average) to $7.8 billion ($780 million per year on average), subject to how much of the $3.1 billion in unconstrained funds are allocated to renewal needs.

To address part of this infrastructure renewal funding shortfall, Council could gradually build up a dedicated tax levy that is transferred to capital for use as infrastructure renewal funding, similar to how the Neighbourhood Renewal Program functions. Table 16 presents three scenarios where an annual tax increase is applied for each year of the 10-year forecast: a 1.0 per cent tax increase per year would build up a dedicated renewal levy of $229.7 million annually in ongoing funding by 2032; a 0.5 per cent tax increase per year would build up $114.9 million annually in ongoing funding by 2032; and a 0.25 per cent tax increase per year would build up $57.4 million annually in ongoing funding by 2032 (Table 16).

Table 16: Scenario - Dedicated Tax Levy for Infrastructure Renewal

($ Millions)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
DEDICATED ANNUAL RENEWAL TAX LEVY										
Incremental Annual Funding										
Scenario 1A - 1.00% Tax Increase	17.7	19.2	20.5	21.6	22.7	23.8	24.8	25.6	26.4	27.2
Scenario 1B - 0.50% Tax Increase	8.8	9.6	10.3	10.8	11.4	11.9	12.4	12.8	13.2	13.6
Scenario 1C - 0.25% Tax Increase	4.4	4.8	5.1	5.4	5.7	6.0	6.2	6.4	6.6	6.8
Cumulative Annual Funding										
Scenario 1A - 1.00% Tax Increase	17.7	36.9	57.4	79.0	101.7	125.5	150.3	175.9	202.3	229.5
Scenario 1B - 0.50% Tax Increase	8.8	18.4	28.7	39.5	50.9	62.8	75.2	88.0	101.2	114.8
Scenario 1C - 0.25% Tax Increase	4.4	9.2	14.3	19.7	25.4	31.4	37.6	44.0	50.6	57.4
Cumulative Total Investment Applied Towards Renewal										
Scenario 1A - 1.00% Tax Increase	17.7	54.6	112.0	191.0	292.7	418.2	568.5	744.4	946.7	1176.2
Scenario 1B - 0.50% Tax Increase	8.8	27.2	55.9	95.4	146.3	209.1	284.3	372.3	473.5	588.3

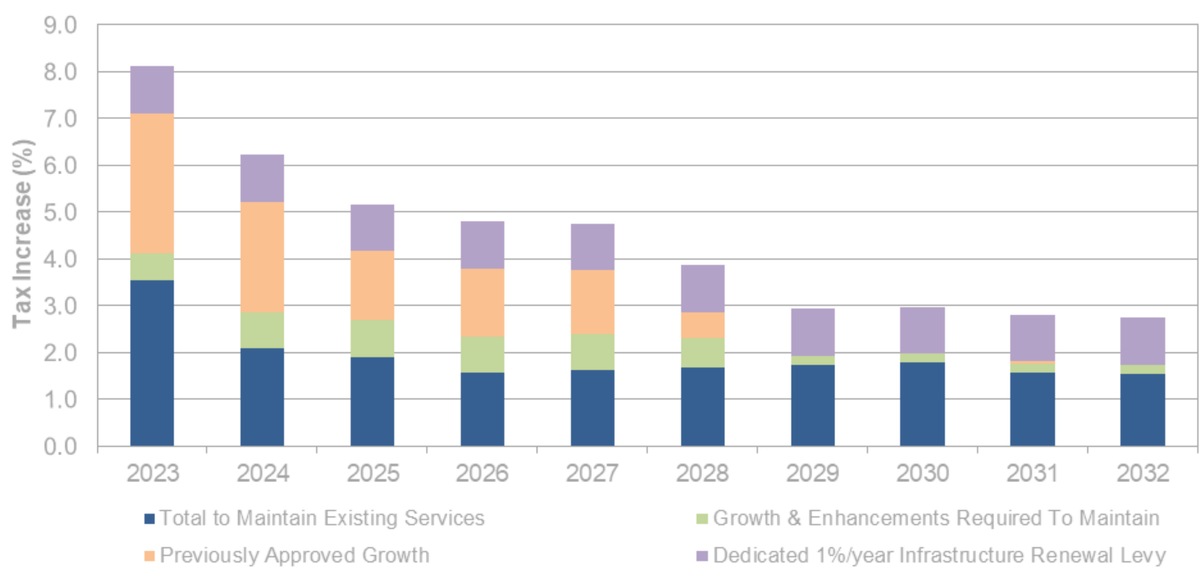
[23] Growth components are added to renewal projects in order to improve the type of service and functionality of the asset, and ensure that the City is meeting the criteria of new policies and public expectations since the original asset was first built. Adding growth components during renewal work creates cost efficiencies compared to doing renewal and growth at separate times.

($ Millions)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Scenario 1C - 0.25% Tax Increase	4.4	13.6	27.9	47.6	73.0	104.4	142.0	186.0	236.6	294.0

Scenario 1A, which presents a one per cent tax increase per year for 10 years, would close approximately half of the average annual renewal funding gap by 2032. This would provide the City with more stable and predictable funds to meet its long-term renewal needs beyond 2032.

Scenario 1A would also provide a total of $1.176 billion in renewal funding over the 2023 to 2032 period (Table 16). This would close approximately 15 to 25 per cent of the 2023 to 2032 renewal funding shortfall, subject to how much unconstrained funding is allocated towards renewal.

Figure 11: Tax Levy Impact of an Annual 1% Dedicated Infrastructure Renewal Levy



SCENARIO 2: SERVICE GROWTH TO ADVANCE COUNCIL'S PRIORITY AREAS

A recent survey asked Councillors how they would allocate $100 towards the six areas they identified as priorities for the next budget cycle. A total of 10 responses were received (77 per cent response rate), with the following average allocation:

- Climate action and energy transition ($21.70),
- Mobility network ($21.30),
- Community safety and well-being ($20.10),

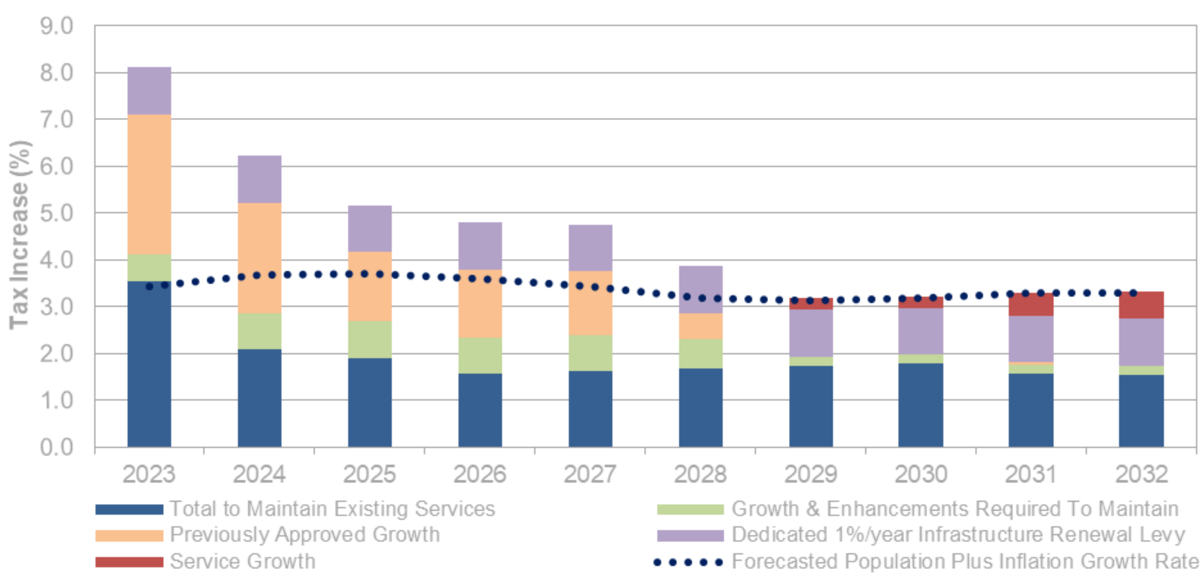
- Economic growth ($17.60),
- 15-minute districts and district planning ($12.10), and
- Arts and culture ($7.20)

Many initiatives in these priority areas will require capital growth, service growth and service enhancements.

This scenario builds on the tax tolerance benchmarks in the previous section, and provides two alternative forecasts for advancing Council's priority areas. The population plus inflation tax tolerance benchmark is the middle of the three tax tolerance benchmarks discussed in the previous section, and is used in this scenario to establish a conceptual ceiling on tax increases.

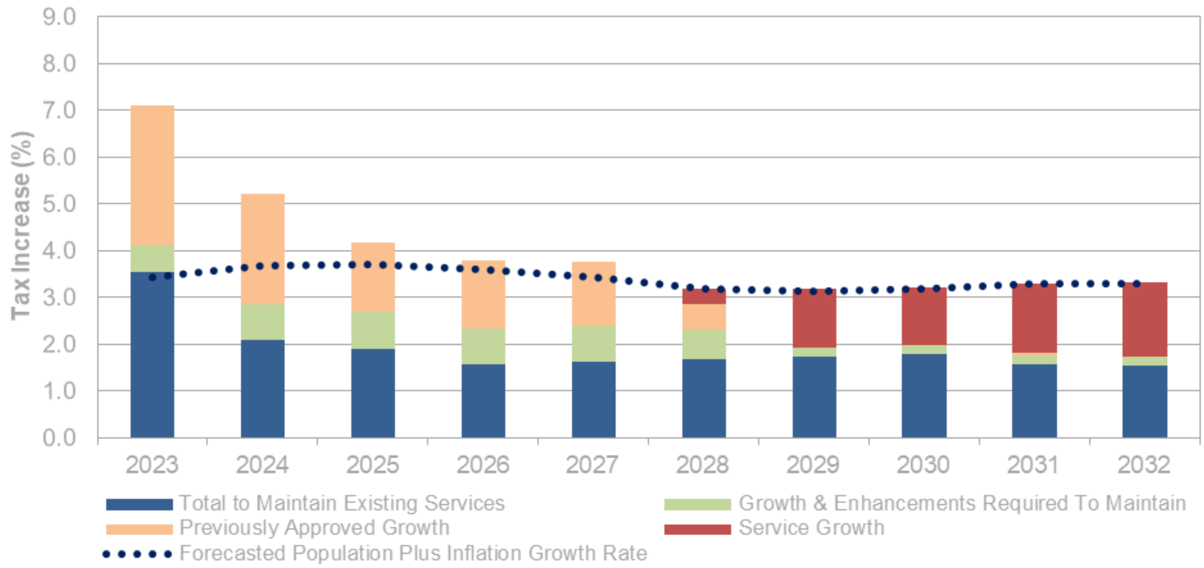
Building on Scenario 1A, which projects a one per cent per year dedicated tax levy increase for infrastructure renewal funding, Scenario 2A absorbs all available tax room below the population plus inflation benchmark and allocates it to service growth (Figure 12).

Figure 12: Scenario 2A - Service Growth In Addition To 1 Per Cent Dedicated Renewal Levy



Scenario 2B removes the one per cent per year dedicated infrastructure renewal levy, and absorbs all future tax room below the population plus inflation benchmark, allocating it to service growth (Figure 13).

Figure 13: Scenario 2B - Service Growth In Place of 1 Per Cent Dedicated Renewal Levy



In Scenario 2A, the majority of available tax room in the forecast's out-years are absorbed by the dedicated renewal levy, leaving little room for service growth. Scenario 2A allocates all remaining tax room to service growth, with $6.5 million of incremental tax levy funding allocated to service growth in 2029, $6.1 million in 2030, $13.1 million in 2031 and $16.2 million in 2032. By 2032, Scenario 2A provides $41.9 million in ongoing annual tax levy funding available for service growth (Table 17).

Scenario 2B removes the dedicated infrastructure renewal levy, allowing for more tax room to be allocated toward service growth. Scenario 2B absorbs $5.9 million of incremental tax room and allocates it to service growth in 2028, $24.3 million in 2029, $25.4 million in 2030, $32.3 million in 2031 and $36.2 million in 2032. By 2032, Scenario 2B provides $124.1 million in ongoing annual tax levy funding available for service growth (Table 17).

Table 17: Scenario 2 - Available Tax Room Allocated to Service Growth

($ Millions)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
SERVICE GROWTH TO ADVANCE COUNCIL'S PRIORITY AREAS										
Incremental Annual Funding										
Scenario 2A	0.0	0.0	0.0	0.0	0.0	0.0	6.5	6.1	13.1	16.2
Scenario 2B	0.0	0.0	0.0	0.0	0.0	5.9	24.3	25.4	32.3	36.2
Cumulative Annual Funding										
Scenario 2A	0.0	0.0	0.0	0.0	0.0	0.0	6.5	12.6	25.7	41.9
Scenario 2B	0.0	0.0	0.0	0.0	0.0	5.9	30.2	55.6	87.9	124.1

When applying the population plus inflation benchmark as a conceptual ceiling on tax increases, Scenarios 2A and 2B do not provide any available tax room for service growth until 2029 and 2028, respectively. Under both scenarios, all tax room for capital growth, service growth and service enhancements in the 2023 to 2026 budget cycle is already absorbed by previously approved growth decisions.

To keep tax increases at or below the population plus inflation benchmark, Council could defer growth to the out-years of the forecast term when tax room becomes available. Alternatively, Council could explore some of the strategies discussed in previous sections to reduce the net operating requirements to make tax room available for growth initiatives. Those strategies include service level reductions, service elimination, and rate increases on user fees and fines.

RISK SUMMARY

This risk summary highlights potential uncertainties where operating budget impacts may vary from the OIO baseline scenario forecast, or where risks are present:

- **Ride Transit Program** - The City received a $4.7 million operating grant in 2022 from the Province to support the Ride Transit Program. This City program provides subsidized transit passes to eligible adults and youths. The OIO assumes this grant remains in place for all 10 years. Should the Province reduce or eliminate this grant, the City will be required to reduce services or increase tax support.
- **Inflation** - If the high inflation of 2022 lingers for longer than forecasted, non-personnel related expenditures are likely to be higher than what is projected in the baseline scenario. Furthermore, high inflation environments tend to place upward pressure on collective agreements, as cost-of-living-adjustments seek to counter the effects of high consumer inflation. This may place upward pressures on personnel inflation through collective agreements.
- **FIFA** - If the City of Edmonton is successful in its bid to host the 2026 FIFA World Cup, there are likely to be additional debt servicing impacts to the baseline scenario.
- **Debt limits** - Even though the City continues to operate within its legislated debt limits, the increased use of debt in recent capital budget cycles has been significant. If the City continues at the same pace in future capital budget cycles it will significantly encroach on the City's internal debt limits and negatively impact the City's credit score. As explained in the CIO, under the most restrictive internal debt limit the City has the capacity to borrow $621 million of new tax-supported debt in

the 2023 to 2026 cycle, and $2.0 billion total over the 2023 to 2032 period. If the City overextends the use of debt for projects that do not have additional constrained funding sources, there is risk that debt room will be unavailable to match the funds needed to access future grant programs.

- **Impacts of Capital from Previously Approved Growth** - As part of the 2023 to 2026 budget development process, all estimated OICs for previously approved capital projects will be refined in the summer of 2022. Additional OICs may be added through this process, with the potential to increase the forecasted OIC totals over the 2023 to 2032 period.
- **Transit COVID-Impacts** - If the COVID-19 impacts on ETS ridership are more severe or prolonged than what is projected in the OIO, there will be a requirement for additional tax support or a reduction in service levels.
- **ETS Fleet Storage, Operations and Maintenance Facility Strategy** - Should Council advance the ETS Fleet Storage, Operations and Maintenance Facility Strategy, the future debt servicing impacts of the transit garage may be higher than what is presented in this scenario, subject to how much funding can be secured from higher-order governments. Furthermore, the capital cost of 40-foot battery-electric buses are approximately double that of 40-foot diesel buses. Should this strategy be advanced, the future capital costs of bus fleet growth may be higher than what is projected in the baseline scenario, subject to how much funding can be secured from higher-order governments.
- **Capital renewal** - If part of the infrastructure renewal shortfall is addressed using either debt or PAYG capital funding, the impacts on the operating budget will be higher than what is presented in the OIO baseline scenario.
- **Service Growth and Enhancements** - Should Council choose to advance new services, or enhance existing services, the impacts to the operating budget will be higher than what is presented in the OIO baseline scenario.
- **Capital Growth Debt Impacts** - Should Council choose to use debt to finance growth capital in the 2023 to 2026 budget cycle, the impacts to the operating budget will be higher than what is presented in the OIO baseline scenario.
- **Capital Growth Operating Impacts of Capital** - Should Council choose to allocate some portion of unconstrained capital funding to growth capital, or finance growth capital using debt, there will be OICs once that growth capital comes into

operational services, with impacts the operating budget higher than what is presented in the OIO baseline scenario.

- **Provincial Operating Grants** - The OIO baseline scenario projects provincial operating grant revenues to remain fairly flat over the 10-year forecast term, with some modest growth projected in library operating grants. If any reductions are made to provincial grant programs, the City will be required to reduce services or increase tax support.

APPENDIX 1: CORPORATE SUMMARY FORECAST

2023 - 2032 OPERATING BUDGET CORPORATE SUMMARY										
($000)	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**
REVENUES & TRANSFERS										
Taxation Revenues	1,924,130	2,054,644	2,174,309	2,286,191	2,404,742	2,506,420	2,587,122	2,671,418	2,754,982	2,837,149
User Fees, Fines, Permits, etc.	489,189	497,211	509,194	525,282	548,842	568,162	583,696	597,387	611,743	628,909
Franchise Fees	213,592	218,601	223,774	228,926	233,920	238,740	243,479	248,365	253,509	258,742
Other Revenues	199,148	201,921	202,953	205,117	204,513	206,095	207,997	209,624	211,229	212,377
EPCOR Dividends	177,000	177,000	177,000	177,000	177,000	177,000	177,000	177,000	177,000	177,000
Operating Grants	109,565	109,644	109,722	108,907	104,784	93,074	75,384	66,268	65,779	65,859
Investment Earnings & Dividends for Capital Financing	83,291	86,786	89,544	91,807	93,923	95,697	97,616	99,891	102,231	104,738
Total Revenue & Transfers	**3,195,914**	**3,345,808**	**3,486,495**	**3,623,231**	**3,767,723**	**3,885,188**	**3,972,294**	**4,069,952**	**4,176,474**	**4,284,775**
NET EXPENDITURES & TRANSFERS										
Personnel	1,655,161	1,710,076	1,765,659	1,818,693	1,872,541	1,927,288	1,982,649	2,039,380	2,097,743	2,157,471
Non-Personnel	798,327	836,088	874,406	913,691	942,416	970,035	998,082	1,027,190	1,054,112	1,081,732
Debt	294,192	335,981	367,317	390,665	398,436	392,185	375,612	365,822	365,890	364,144
Neighbourhood/Alley Renewal	180,386	180,386	180,386	180,386	185,798	191,372	197,113	203,026	209,117	215,390
PAYG Funding - Transfer to Capital	124,338	127,623	130,216	132,332	134,296	136,104	141,990	147,568	151,342	157,662
Other	70,870	70,870	70,870	70,870	70,870	70,870	70,870	72,153	74,284	75,056
Valley Line SE Dedicated Levy - Transfer to LRT Reserve	57,100	57,100	57,100	57,100	57,100	57,100	57,100	57,100	57,100	57,100
Operating Impacts of Capital[24]	15,540	27,682	40,541	59,494	106,266	140,235	148,878	157,713	166,887	176,220
Total Net Expenditures & Transfers	**3,195,914**	**3,345,808**	**3,486,495**	**3,623,231**	**3,767,723**	**3,885,188**	**3,972,294**	**4,069,952**	**4,176,474**	**4,284,775**

[24] Cumulative operating impacts of capital begin in 2023. All operating impacts of capital prior to 2023 are included in personnel and non-personnel subtotals.

APPENDIX 2: BASELINE SCENARIO ASSUMPTIONS

REVENUES

Tax Lift from Real Assessment Growth

- Assumes a conservative low-to-medium growth scenario in all year.
- Incremental real growth (less CRLs) as follows:

($ Millions)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
TAX LIFT FROM REAL ASSESSMENT GROWTH										
Annual Growth	$27.0	$27.9	$26.7	$25.5	$27.9	$29.1	$30.3	$31.5	$32.7	$34.0

Operating Grants

- Social Development - All social development grants held flat for all 10 years.
- Police Service - MPAG and Police Officers Grant (POG) replaced by Policing Support Grant (PSG). PSG remains flat at $26,056,000 per year for all 10 years.
- Police Service - Provincial 911 Grant remains flat at 3,001,000 for all 10 years.
- Police Service - Provincial Victim Services grant remains flat at 700,000 for all 10 years.
- Edmonton Transit Service - Ride Transit provincial operating grant continues for the entire 10-year period, at 4,725,000 per year.

Reserves & Equity

- Land Enterprise Dividend is assumed to be $2.8 million per year for all 10 years. This is the 10-year average of historical actuals.

Education Tax

- No education property tax room absorbed throughout the entire 10-year forecast period.

EPCOR Dividend

- Held flat at $177M for all 10 years.

Franchise Fees

Gas :

- Grows at population growth rate (volumetric growth).
- Delivery tariffs held flat for 10-year forecast term.
- Gas franchise fee rate is held at 35.0 per cent for all years.

EPCOR:

- Power franchise fee grows as per formula - growth factor (1.5 per cent) plus inflation.
- Water franchise fee grows at population growth rate (volumetric growth).

- Wastewater Treatment franchise fee grows at population growth rate (volumetric growth).
- Drainage franchise fee grows at population growth rate (volumetric growth).

Ed Tel Endowment Fund

- Assumes no special dividend in any year.

Canada Community Building Fund

- As debt servicing on SLRT reduces/retires, Canada Community Building Fund (formerly Gas Tax Fund) revenues will be allocated to the capital budget for use as unconstrained funding. There will be no net impact on tax levy, but gross revenues and expenditures will gradually reduce by $44.5 million in the operating budget.

User Fees, Fines, Permits, etc.

ETS:

- No fare increases from 2023-25. Fare increases of 2% in 2026, 2029, and 2032.
- ETS non-fare revenues recover to 100% of pre-COVID levels in 2025.
- Base service fare revenues don't recover to pre-COVID levels until 2029 (based on ETS most likely scenario):

($ Millions)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
TRANSIT FARE REVENUE FORECAST - MOST LIKELY SCENARIO														
Base Service Fare Revenue	116.3	50.1	48.9	73.3	90.2	104.3	106.4	110.2	111.9	113.6	117.5	119.1	120.8	124.8
LRT - VLSE Additional Revenue				0.4	1.0	1.2	1.2	1.3	1.3	1.3	1.4	1.4	1.4	1.5
LRT - Metro Extension Additional Revenue							0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
LRT - VLW Additional Revenue										1.2	1.3	1.3	1.3	1.4
LRT - Capital Line Extension Additional Revenue										1.0	1.1	1.1	1.1	1.2
Total Fare Revenue	**116.3**	**50.1**	**48.9**	**73.7**	**91.2**	**105.5**	**107.8**	**111.6**	**113.3**	**117.4**	**121.4**	**123.1**	**124.8**	**129.0**

- Assumes $17.3M additional tax support provided to ETS in 2023 on an ongoing basis to backfill transit revenue shortfall. This enables ETS to maintain service levels at current levels.
- Assumes $15.3M one-time support provided to ETS in 2023 to backfill transit revenue shortfall.

Community Recreation:

- 2023 forecast revenues of $67,400,000.
- All rec admission and membership products increase in price at ½ the rate of consumer inflation from 2024-32 (approximately one per cent per year).

Automated Enforcement Revenues:

- Declining AE revenues over 2023-26 cycle as per CO01155.
- From 2027 onward, AE revenues continue to decline. However, total revenues remain above operating costs, so the AE program remains in operation.
- Assumes the Province extends moratorium on new equipment and site locations for automated enforcement in December 2022.
- Assumes the Province continues to disincentivize municipal automated enforcement use.

($ Millions)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
AUTOMATED ENFORCEMENT REVENUES										
Annual Revenue Forecast	23.4	20.8	18.7	16.8	15.2	13.6	12.3	11.0	9.9	8.9

All other User Fees:

- User fees (less rec and transit) increases at 0.5 times the rate of consumer inflation each year from 2023-32 (approximately one per cent per year).

All other Fines:

- All other fine (less AE) rates increase at 0.5 times the rate of consumer inflation each year from 2023-32 (approximately one per cent per year).

Development Services

- Planning and development business revenues and Development Services expenditures are self-sustaining. The business model is intended to maintain operational service levels so as to not require additional tax support.
- 2022 tax support levels are held flat for all 10 years ($4,745,000). No additional (or less) tax support is required.

EXPENDITURES

Personnel: FTE Growth to Maintain Service Levels

- To maintain 2022 service levels, an additional 1,234 tax-supported FTEs are added over the 10 year forecast period. This includes civic departments, boards and commissions.
- For all tax-supported services (less ETS), FTEs grow at 0.5 times the rate of population growth. This assumes that FTEs grow to accommodate a growing

population base, but with an efficiency factor built-in where FTEs are not required to grow at the same rate as population to maintain service levels.
- No FTEs are added to ETS until the new bus garage becomes operational in 2027. From 2027 to 2032, 360 FTEs are added to ETS to return service levels to 2022 levels and then hold them there.
- FTE growth costs for previously approved growth capital coming online (OIC) is not included in this calculation, and is part of the OIC section in the previously approved growth component.

Non-Personnel Expenditures
- Non-personnel expenditures include materials, goods, supplies, external services, fleet services and utilities and other charges that were not attributed to dedicated expenditure categories in the OIO model.
- These non-personnel expenditures are forecast to grow at a rate of population growth plus municipal price inflation (MPI). The assumption is that non-personnel expenditures will need to be inflation adjusted annually, and they'll also need to grow in proportion with the population base of the city to ensure the same service level is maintained over time to a larger number of residents.

Edmonton Transit Service
- Assumes 158 new buses are purchased to continue providing 2022 base service levels from 2027 to 2032.
- Kathleen Andrews equivalent bus garage at $273M ($2023) commences construction in 2023; operational in 2027.

Benefits
- A benefit rate of 16.3% is used for all 10-years of the forecast term. The Approved 2022 budget has a benefit rate of 16.3% (Benefits budget as share of total personnel budget).
- OIO assumes constant Employment Insurance (EI) and Local Authorities Pension Plan (LAPP) contribution rates over the forecast term.
- Canada Pension Plan (CPP) contribution rates escalate as per federal government's scheduled Step 1 and Step 2 enhancements.
    - CPP step 1 enhancements are completed in 2023. Step 2 (second earnings ceiling) implemented in 2024 and 2025.

($ Millions)	2023	2024	2025	2026
CANADA PENSION PLAN ENHANCEMENTS				
Incremental Operating Impacts	2.8	3.6	3.2	0.0
Cumulative Operating Impacts	2.8	6.4	9.6	9.6

Neighbourhood Renewal & Alley Renewal Programs

- NRP funding remains flat for 2023-26 budget cycle, at $158.1 million ($7 million transferred to Parks & Roads Services for microsurfacing).
- From 2027-32, NRP grows by 3.0% per year for inflationary adjustments to maintain 2026 purchasing power.
- ARP becomes fully funded at $22.28 million in 2023.
- ARP funding held flat from 2024 to 2026.
- From 2027-32, ARP grows by 3.0% per year for inflationary adjustments to maintain 2026 purchasing power.

($ Millions)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
NEIGHBOURHOOD RENEWAL & ALLEY RENEWAL PROGRAMS										
Neighbourhood Renewal Program										
Annual Funding	158.1	158.1	158.1	158.1	162.8	167.7	172.8	177.9	183.3	188.8
Alley Renewal Program										
Annual Funding	22.3	22.3	22.3	22.3	22.9	23.6	24.3	25.1	25.8	26.6

Valley Line Southeast

- VLSE tax levy fully funded in 2022; no additional increases over 10-year forecast term.
- Tax levy previously used for debt servicing (pre-2015 capital projects) is absorbed for VLSE as follows (agrees with Corporate Accounting and Reporting's 's projection as of April, 2022):\

(Millions)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
VALLEY LINE SOUTHEAST														
Tax Levy Reallocated for VLSE	0.9	1.6	6.7	9.4	12.0	13.5	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4

Contributed Assets

- OIO assumes $2 million incremental operating impact each year. Annual operating cost estimates based on historical budget figures.

Operating Impacts of Capital (OIC) - Tax Smoothing Strategy

- Valley Line West and Capital Line South Phase 1 Extension have very large OIC expenditures in 2028 ($25.95 million and $11.7 million, respectively). OIO assumes these are smoothed in gradually over 6 years:

($ Millions)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
OIC TAX SMOOTHING STRATEGY										
Incremental Annual OIC Tax Smoothing Strategy										
LRT - Valley Line West	4.3	4.3	4.3	4.3	4.3	4.3	0.0	0.0	0.0	0.0
LRT - Capital Line South Phase 1	2.0	2.0	2.0	2.0	2.0	2.0	0.0	0.0	0.0	0.0
Total	6.3	6.3	6.3	6.3	6.3	6.3	0.0	0.0	0.0	0.0
Cumulative Annual OIC Tax Smoothing Strategy										
LRT - Valley Line West	4.3	8.7	13.0	17.3	21.6	26.0	26.0	26.0	26.0	26.0
LRT - Capital Line South Phase 1	2.0	3.9	5.9	7.8	9.8	11.7	11.7	11.7	11.7	11.7
Total	6.3	12.6	18.8	25.1	31.4	37.7	37.7	37.7	37.7	37.7
Total Cumulative Excess Tax Levy	**6.3**	**18.8**	**37.7**	**62.8**	**94.1**					

Tax-Supported Debt Servicing

- As per Debt Management Fiscal Policy 2.08.3, as tax-supported debt retires, released debt servicing funds (2028 and beyond) will be used to directly fund capital (PAYG). The OIO assumes this tax room is allocated to PAYG for capital renewal.

Traffic Safety & Automated Enforcement Reserve (TSAER)

- Assumes programs funded from TSAER remain in place for all 10 years. 2026 funding levels are held flat for the remainder of the forecast period.
- Net operating requirements produced from lower AE revenues are funded through tax support.

($ Millions)	2023	2024	2025	2026
AUTOMATED ENFORCEMENT				
Programs Funded From TSAER				
Edmonton Police Service	22.3	22.3	22.3	22.3
Safe Mobility Section	13.9	14.0	14.2	14.2
Capital Expenditures	6.6	7.0	6.7	6.7
Total Funding Requirements	**42.8**	**43.3**	**43.2**	**43.2**

Carbon Tax

- Fuel volume consumption is assumed to be consistent for each year of the forecast term, at 35M litres.

COVID IMPACTS

Edmonton Transit Service

- ETS base service fare revenues do not recover to 2019 levels until 2029. Based on the most likely ETS ridership/revenue scenario.

(Millions)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
TRANSIT RIDERSHIP FORECAST - MOST LIKELY SCENARIO														
Base Ridership[25]	67.6	37.4	31.6	47.3	58.2	67.3	68.6	69.7	70.8	71.9	72.9	73.9	74.9	76.0

- Base service ridership recovers in 2024, but revenues do not recover until 2029. This means that, post-COVID, a greater share of riders are purchasing subsidized fare products.

($ Millions)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
TRANSIT FARE REVENUE FORECAST - MOST LIKELY SCENARIO														
Base Service Fare Revenue[26]	116.3	50.1	48.9	73.7	91.2	105.5	107.6	111.4	113.2	114.9	118.8	120.5	122.2	126.3

- ETS tax support - $17.3M of ongoing tax support needed in 2023 to maintain service levels.
- ETS revenues - one-time reserve funds of $15.3M used to “top up” transit revenues in 2023 to $136,666,000.

($ Millions)	2022 (Pre-COVID Impacts Budget)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
TRANSIT SHORTFALL FORECAST - MOST LIKELY SCENARIO											
Base Service Fare Revenue[27]	121.8	91.2	105.5	107.6	111.4	113.2	114.9	118.8	120.5	122.2	126.3
Base Service Non-Fare Revenue	14.8	12.8	13.8	14.8	15.1	15.3	15.6	16.0	16.3	16.6	16.9
One-Time Funding		15.3									
Ongoing Additional Tax Support		17.3	17.3	17.3	17.3	17.3	17.3	17.3	17.3	17.3	17.3
Total	**136.6**	**136.6**	**136.6**	**139.8**	**143.8**	**145.8**	**147.8**	**152.1**	**154.1**	**156.1**	**160.5**

SERVICE ENHANCEMENTS REQUIRED TO MAINTAIN SERVICE LEVELS

Snow & Ice Control (SNIC) Program

- SNIC Program - Enhancements to Roads (option R1) and Active Pathways (option AP1) phased in over 4 years 2023 to 2026 (ongoing), as follows (CO00778):

[25] Based on APC adjusted boardings methodology.
[26] Includes Valley Line Southeast LRT fare revenues, expected to be in operational service in summer 2022.
[27] Includes Valley Line Southeast LRT fare revenues, expected to be in operational service in summer 2022.

($ Millions)	2023	2024	2025	2026
SNOW & ICE CONTROL PROGRAM				
Roads - Option R1	6.8	13.6	20.3	27.1
Active Pathways - Option AP1	3.8	7.6	11.3	15.1
Total (Cumulative)	**10.6**	**21.1**	**31.7**	**42.2**