COUNCIL REPORT

OPTIONS FOR A NEW DEDICATED TAX LEVY

Allocation Of Property Tax Levy To A Dedicated Renewal Fund

RECOMMENDATION

That the October 17, 2022, Integrated Infrastructure Services report IIS01338, be received for information.

Requested Council Action		Information only	
ConnectEdmonton's Guiding Principle		**ConnectEdmonton Strategic Goals**	
CONNECTED This unifies our work as we achieve our strategic goals.		**Urban Places**	
City Plan Values	PRESERVE. CREATE.		
City Plan Big City Move(s)	A rebuildable city	**Relationship to Council's Strategic Priorities**	Conditions for service success
Corporate Business Plan	Managing the corporation		
Council Policy, Program or Project Relationships	• C598 - Infrastructure Asset Management Policy • Infrastructure Strategy • C591 - Capital Project Governance • C203C - Debt Management Fiscal Policy		
Related Council Discussions	• IIS01349 Rationalizing and Rightsizing Municipal Assets (PRIVATE), Executive Committee, September 29, 2022 • IIS01330 Neighbourhood Renewal Funds, City Council, October 17, 2022 • IIS01166 Hangar 14 (Aviation Heritage) - Facility Rehabilitation & Investment Study, Executive Committee, June 29, 2022 • FCS01169 2023-2032 Capital Investment Outlook, City Council, June 7, 2022		

Previous Council/Committee Action

At the June 7, 2022 City Council Meeting, the following motion was passed:

> That Administration return prior to the 2023-2026 Operating and Capital budget deliberations with options for a new dedicated tax levy to address funding challenges for

the City's renewal program, including but not limited to funding either general renewal needs or a specific component of the renewal program.

Executive Summary

- The City of Edmonton has a comprehensive asset management program that helps inform the appropriate level of investment to maintain the service they are intended to provide.
- Based on a recent analysis shared in the Capital Investment Outlook 2023-2032, over the next 10 years, the City expects a $4.7 billion gap between ideal investment levels and forecasted revenues.
- The City has a successful Neighborhood Renewal Program, which sets the standard for an approach to dedicated renewal funds.
- This report provides three options for implementing a new dedicated renewal fund modelled after the Neighborhood Renewal Program with support for Facility assets, Bridge assets, and/or Transit service assets.
- Dedicated renewal fund(s) will require support with successive tax levy increases to eventually reach the designed program budget.
- Administration is exploring other opportunities to address the identified funding gap, including a one-time partial reallocation of the Neighbourhood Renewal Program to address short term needs, and right-sizing the asset inventory to ensure the City's portfolio is consistent with its service requirements.

REPORT

The City of Edmonton is responsible for stewarding a wide range of assets on behalf of Edmontonians with a replacement value of $31.2 billion and growing each year. Assets must be renewed and upgraded throughout their lifecycle to ensure they are safe and deliver on defined service levels while meeting resident expectations. The City has a comprehensive asset management program that informs the appropriate level of investment for each asset to maintain the service they are intended to provide. Assets are continually assessed and classified on a rating scale that reflects physical condition, the asset's capacity to meet service needs and program delivery needs, on a scale of Very Good (A) to Very Poor (F). The rating scale is presented in detail in Attachment 1.

The City has successfully reduced the number of assets in Poor (D) and Very Poor (F) condition during the past decade by prioritizing renewal investment alongside growth investment and focusing renewal investments such as the Neighborhood Renewal Program. However, the 2021 Infrastructure State and Condition report (Attachment 2) identifies a growing number of Fair (C) condition assets within the inventory. If these assets, and the assets in D and F condition, are not renewed within the next 10 years, the City's overall condition rating could drop from today's rating of 9.4 per cent in D & F condition to 17 per cent in D and F condition (equivalent to the 2011 level).

OPTIONS FOR A NEW DEDICATED TAX LEVY - Allocation Of Property Tax Levy To A Dedicated Renewal Fund

After analyzing the condition and deterioration rates of the City's assets, to maintain the current percentage of assets in D and F condition, the overall investment requirements for the City increases by approximately 10 per cent between 2023 and 2032. Within specific asset portfolios such as Facilities, the increase is 25 per cent. These amounts do not include inflation, and the challenge of meeting the gap could be greater if inflation continues at its current pace.

The 2023-2032 Capital Investment Outlook (CIO) highlighted the funding challenges facing the City's renewal program. In order to adhere to City Policy C598 - Infrastructure Asset Management, and Infrastructure Strategy, all unconstrained funding would need to be directed to the City's renewal program over the next 10 years. The CIO identified a $4.7 billion gap between ideal investment levels and forecasted revenues even with this direction. The CIO identified the need for additional strategies to address the funding shortfall, including exploring a dedicated fund to support renewal programs.

Select assets have a consistent, reserve-based funding model funded through ongoing tax-levy to help reduce the number of assets reaching D and F levels. These include the Fleet Reserve and the Neighborhood Renewal Program and associated Alley Renewal Program. Renewal funding for all other asset types, including facilities, arterial roads, bridges, open spaces, transit assets, information technology, equipment and ancillary assets, are budgeted using a combination of tax levy and Provincial and Federal grant funding sources. As a result, funding streams can be less inconsistent and do not lend themselves well to long term program planning.

A dedicated funding allocation model similar to the Neighborhood Renewal Program would allow Council to direct renewal funding to a specific asset portfolio, enabling Administration to plan and deliver renewal projects in the context of the 10 year CIO and would assist in proactively improving overall asset condition. Additionally, the consistent funding would allow Administration to strategically procure contracts to assist in stabilizing prices.

A dedicated renewal allocation would be designed to mirror the successes of the Neighborhood Renewal Program and would use Policy C598 and an updated Infrastructure Strategy to guide project prioritization and project selection decisions.

Other Activities Supporting Renewal Investment Funding

Administration is actively exploring opportunities to right-size its asset base to ensure renewal investment levels are sustainable and align with service delivery requirements. In the context of this report, the options for program funding assessments assume that continued right-sizing of the inventory takes place throughout the life of the program.

Identified in Report IIS01330, Neighbourhood Renewal Funds (City Council October 17, 2022), Administration is considering the impacts of a re-allocation of between 25 and 35 per cent, or $151-212 million, of the Neighbourhood Renewal Program funds to other renewal priorities for 2023-2026. This one time re-allocation of neighbourhood renewal funds will result in a six to 10 year delay in achieving the long term goals of the program, however, it will assist in bridging the funding gap for these assets while a potential dedicated renewal fund is growing with tax levy increases. Using facilities assets for comparison, the funding from the neighbourhood renewal program can support the renewal of 15 to 25 additional facilities in the 2023-2026 budget cycle, depending on the option selected for re-allocation.

Options for Dedicated Renewal Fund Allocation

Multiple options exist to structure the Dedicated Renewal Fund, with each option having opportunities and impacts:

Allocation Option 1: Facilities Renewal Fund

This option would direct a dedicated renewal fund to the Facility portfolio of assets which includes structures that are owned by the City of Edmonton, supporting programs, services, or operations in support of Edmontonians' needs. Examples include City Hall, recreation centres, fire stations, community hubs, as well as operations and maintenance and office buildings.

Facility assets support all of the City's services by accommodating public facing and support services and are often a cornerstone of communities and, as such, play a critical role in advancing The City Plan's Community of Communities, supporting 15 minute communities and anticipated growth in the nodes and corridors.

Overall, the physical condition of the assets in this portfolio is Good (B) to Fair (C), with only 4.7 per cent of the portfolio (45 buildings) in Poor (D) or Very Poor (F) condition. This statistic may be misleading as 60 per cent of the portfolio is rated in Fair (C) condition. Over the next five to 10 years, without increased renewal investment, up to half of the Fair (C) rated facilities could fall into D and F condition, bringing the portfolio well above the City average of 9.1 per cent in D and F condition. Given the integration of this asset portfolio to all of the City's services, a failure in the facilities portfolio would have an immediate impact on service delivery.

This option would direct the dedicated renewal fund to the Facility portfolio of assets, which could include buildings, open-air structures and utility services structures. Funding would support a mix of public-facing and internal-supporting facilities (e.g. service yards). Administration would prioritize projects based on current models that factor in risk, cost and service levels to the public.

Based on the relative size of the facilities portfolio, the cost and complexity of renewing the assets within the portfolio, the advanced age of the assets requiring significant service level improvements, the proposed dedicated renewal fund requirement at its fully realized value would be $150 million annually or approximately two per cent of the portfolio's replacement value.

- Opportunities: Given the forecasted condition ratings of the portfolio, facilities are in the greatest need of renewal funding in the next 10 years. This option provides direct and consistent funding and supports comprehensive long-range renewal planning for future capital budgets. The Facility portfolio currently competes for renewal funding from the corporate pool of capital. With dedicated tax supported funding, the Facility portfolio will no longer need to draw funds from the corporate pool and approximately one quarter of the renewal funding will be made available to other capital priorities each year. Given many of the facilities are in the mature area of the city, this option provides an opportunity to renew assets in areas that are expected to see redevelopment and support population growth over the life of The City Plan.

- Impacts: Selected renewal projects may not be perceived as benefitting all members of the public equally as many of the facilities are either located in mature areas of the city or are not deemed as public-facing, such as service yards, civic office spaces or other support-type assets. While not directly serving front facing services, it is important to ensure these assets are renewed as well to ensure the assets are safe for employees while supporting important services.

<u>Allocation Option 2: Bridges and Auxiliary Structures Renewal Fund</u>

This option would direct the dedicated renewal fund to support the bridges and auxiliary structures portfolio, which includes bridges, culverts, tunnels, noise and retaining walls, and stairs within open space. As with the facilities option above, Administration would prioritize projects based on current models that factor in risk, cost and service levels to the public.

Bridge assets are critical to enabling goods and people movement and many of the City's services such as transit, recreation, police and fire protection. Bridge assets provide access across waterways, major roadways, or rail lines, ensuring all areas of the city are accessible with limited interruption. The effects of bridge closures are felt citywide when one roadway bridge is out of service. When a tunnel is out of service, LRT service may be suspended completely.

Bridges and tunnels receive high levels of stress and strain on all the asset's various structural elements. Bridges are designed to accommodate these stresses but require a robust maintenance and renewal program to ensure all the components are responding appropriately to these stresses and, when these assets are not functioning as designed, are renewed or replaced in a timely manner before the component reaches a failing condition, risking the integrity of the bridge or tunnel structure.

Because of the higher risk and profile of bridge assets, Administration currently treats this portfolio differently than the rest of the City assets. Most City assets are allocated budgets based on what is available within the corporate pool of capital funds. Within this pool of funds, Bridge assets are fully allocated the optimal funding recommended through the Risk-Based Infrastructure Management System (RIMS) before the remainder of the City assets receive allocations. This practice has been successful in ensuring bridge assets are safe, but this practice limits the funding made available to other assets, limiting the value of their renewal programs and ultimately impacting the condition ratings of other city assets. Building a consistent formal allocation for bridges and auxiliary structures would provide security for these critical assets and because the funding for these assets is supported through a dedicated fund, it leaves more funding available within the corporate pool for other renewal priorities.

Overall, the condition of the assets in this portfolio is Fair, with two-thirds of the portfolio rated in Fair (C) condition, nine per cent in Poor (D) condition and zero per cent of the portfolio in Very Poor (F) condition.

Based on the relative size of the Bridges portfolio, the advanced age of the assets and the magnitude of some of the individual renewal projects supporting these assets, the proposed dedicated renewal fund requirement at its fully realized value is $75 million annually or approximately three per cent of the portfolio's replacement value.

- Opportunities: Bridges are a high value, high risk impact asset. Bridges have a much higher investment requirement than other assets due to high value maintenance requirements. The Bridges asset class is currently prioritized over all other assets for renewal funding from the corporate pool of capital. With a dedicated tax supported fund for Bridge renewal, the Bridges and Auxiliary portfolio will no longer need to draw funds from the corporate pool and approximately one quarter of the renewal pot will be made available to other capital priorities each year.
- Impacts: Bridges and tunnels are intended to be the longest lasting assets in the inventory, with a few of them more than 100 years old and still supporting service delivery. With the long term certainty of a dedicated Bridges and Auxiliary Structures Renewal Fund, Administration is enabled to implement long term strategies to renew and replace assets in alignment with the growth and redevelopment of the City.

Allocation Option 3: Transit Service Renewal Fund

This option would direct the dedicated renewal fund to assets which support the transit service. This includes a broad array of asset types, which include buses, light rail vehicles, LRT tracks and equipment, transit facilities and service delivery equipment.

Public transit plays an essential role in serving mobility needs and shaping our urban communities. Transit reduces traffic congestion, contributes to more compact and lively neighbourhoods, reduces our carbon footprint, links workers with jobs and riders with businesses and enables Edmontonians to be connected to urban life.

Transit service supports the City's Low Carbon City and Transportation pathway in the Community Energy Transition Strategy. In addition to expansion of transit service, renewal of the existing service includes transitioning the fleet and related infrastructure to support an emissions neutral fleet. The incremental costs to complete this work is not currently included in the renewal funds for transit service. This option would also allow for renewal that supports climate resilience through mitigation of climate risks in infrastructure renewal.

The proposed levy requirement at its fully realized value is $100 million annually or approximately three per cent of the portfolio's replacement value. This is based on a number of factors, including: the relative size of the Transit service portfolio of assets, the advanced age of much of the LRT track assets, the need to modernize a large portion of the fleet of buses and Light Rail Vehicles and the magnitude of some of the individual renewal projects supporting these assets.

- Opportunities: This option helps to reinforce the importance of the Transit service by ensuring that the assets supporting the service are in a state of good repair. Stable funding allocation enables the long term planning for renewal or replacement of assets aligned to service delivery objectives. Currently, the Transit service competes for renewal funding among all other asset types and does not receive the funding required to keep its assets in good condition. This fund will ensure the Transit service is appropriately supported during prosperous and challenging fiscal periods.

- Impacts: Transit plays an important role in city building and provides a seamless connection within Edmonton and the region. Transit assets are highly utilized and impact a significant portion of the city's population. The increasing use of the transit service, coupled with advancing age and deteriorating condition of the assets in this portfolio, present an increased risk to broader City Plan goals. The long term certainty of a dedicated Transit Service Renewal Fund enables Administration to implement long term strategies to renew and replace transit assets in alignment with the growth and advancement of the service, while ensuring transit assets meet the condition and quality required by the service.

Budget/Financial Implications

As identified in the Capital Investment Outlook: 2023-2032, even under a scenario where all unconstrained funding goes towards renewal, Administration only achieves 54 per cent of the ideal investment to address renewal needs. This will also result in limited funds for growth investment in new assets. As noted below, consideration of a one per cent dedicated Tax Levy increase per year beginning in 2023 would take approximately seven years to fully fund dedicated revenue program option 1, four years to fully fund dedicated revenue program option 2 and five years to fully fund dedicated revenue program option 3. The timelines identified can be shortened by increasing the rate increase above one per cent or lengthened by decreasing the tax increase below one per cent.

A funding model must consider the following elements:

- Reducing the number of assets with a condition assessment rating of D or F, ensuring assets are renewed to a condition rating of A, B, or C (asset dependent, and as appropriate)
- Ensuring that assets not yet built or added to inventory are accounted for, as appropriate
- The City's inventory is continually right-sized to ensure non-productive assets are divested of in a timely manner, thereby reducing the need for renewal investment.

A funding model must balance these elements with both public expectations of service delivery and the tax tolerance of residents and businesses.

Dedicated Renewal Fund Option	Proposed Annual Budget	Number of Years to Full Budget (Starting 2023): 1% Successive Annual Increases	Budget Year Program is Fully Funded	Approximate Total Per Cent Increase When Fully Funded
1 - Facilities	$150 million	7 years	2029	7%
2 - Bridges and Auxiliary Structures	$75 million	4 years	2026	4%
3 - Transit	$100 million	5 years	2027	5%

This program proposes to generate revenue from successive tax levy increases beginning in 2023. It will generate funding in the years the program is introduced but it will not yet be fully funded for use towards renewal projects. Option 1 is estimated to be fully funded in 2029. Options 2 and 3 are estimated to be fully funded in 2026 and 2027 respectively. All three options will begin collecting revenue, building up to the full funding amount. The cumulative total revenue is $191 million within the 2023-2026 fiscal cycle (Attachment 3). Once the program is fully funded no further tax increases are required and the base funding remains committed to the strategy selected. Similar to the Neighbourhood Renewal Program, if Council chooses to dedicate tax levy, Administration would create a policy to ensure the planned revenue is used as directed.

Next Steps

If Council supports a dedicated renewal fund, the following next steps will occur:

- A new dedicated renewal fund policy will be developed supporting the selected dedicated renewal fund option(s) and presented to Council for approval.
- The Asset Management Plan corresponding to the selected dedicated renewal fund option(s) will be revised to reflect the new policy and available funds. In the case of Option 3: Transit Service Renewal Fund, an Asset Management Plan will need to be developed.
- The funds held in abeyance for future Council decision will be added to the agenda of the next available Supplemental Capital Budget Adjustment to be incorporated into the appropriate capital profile(s).

COMMUNITY INSIGHT

The City conducted extensive public engagement on the 2023-2026 budget this summer, including exploring participants' level of comfort with adding a dedicated tax levy for renewal of infrastructure. At the time of this report writing, the results were being analyzed. Administration will share the results of budget public engagement activities through a report at the October 31, 2022 City Council meeting.

GBA+

Administration recognizes that asset renewal projects, by their nature, do not provide equal impact and benefit to all members of the public. Assets in greatest need of renewal are older and, in many cases, have served the public beyond their originally designed lifespan. While larger assets may support more users (such as the river valley, a district park or a large recreation centre), smaller assets are designed for use at a neighbourhood level.

With a dedicated funding model for asset renewal, Administration would have a greater opportunity to deliver on Council's goals of an inclusive and accessible Edmonton. GBA+ would focus on the design, construction and delivery of each renewal project and would be a key component of activating the six Guiding Values of the City Plan. Individual projects would include a full GBA+ analysis.

ATTACHMENTS

1. Assessment Classification Rating Scale

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2. 2021 Infrastructure State and Condition Report
3. Dedicated Annual One Per Cent Tax Levy Increase