

PROPOSED 2023-2026 CAPITAL BUDGET

RECOMMENDATION

That the 2023-2026 Capital Budget for tax-supported operations in the amount of \$7.750 billion, as outlined in Attachment 1 of the October 31, 2022, Financial and Corporate Services report FCS01393, comprised of \$6.976 billion in 2023-2026 and \$0.775 billion in 2027 and beyond, be approved with the following revision:

- That Lewis Farms Community Recreation Centre and Library profile be reduced by \$57.9 million (the cost escalation amount added for this profile) and that it be removed from Attachment 1.

Requested Council Action	Decision required		
ConnectEdmonton's Guiding Principle	ConnectEdmonton Strategic Goals		
CONNECTED This unifies our work to achieve our strategic goals.	Urban Places		
City Plan Values	LIVE. THRIVE. ACCESS. PRESERVE.		
City Plan Big City Move(s)	A community of communities A rebuildable city Greener as we grow	Relationship to Council's Strategic Priorities	Mobility Network 15-minute districts Economic Growth Climate adaptation and energy transition Conditions for service success
Corporate Business Plan	Transforming for the future		
Council Policy, Program or Project Relationships	<ul style="list-style-type: none"> • Multi-year Budgeting Policy (C578) • Neighbourhood Renewal Program Policy (C595A) • Debt Management Fiscal Policy (C203C) 		
Related Council Discussions	<ul style="list-style-type: none"> • FCS01169, City Council, June 7, 2022 • FCS01494, City Council, October 17, 2022 		

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Executive Summary

- This report provides the proposed 2023-2026 Capital Budget for tax-supported operations. The Capital Budget is the mechanism through which City Council prioritizes and allocates funding on how best to allocate limited City resources between replacing, rehabilitating and modernizing existing assets, and building new infrastructure.
- Increasing renewal requirements on a growing number of assets, combined with reductions in sustainable infrastructure funding from the provincial government, results in significant challenges for the City to maintain its existing infrastructure. The ideal renewal investment over the 2023-2026 Capital Budget is \$3.5 billion; however, the available funding for renewal is only 54 per cent of this ideal requirement. Once renewal programs with constrained funding (e.g., Neighbourhood Renewal) and bridges (which are funded to their ideal level to mitigate for increased risk of failure) are considered, the remainder of the renewal program is funded at 30.4 per cent of its ideal investment.
- As there is limited funding available for new projects, the only new growth projects included in the proposed budget are those mandated by legislation, with high safety impacts, and high priority projects eligible to receive funding from partners and other orders of government, or projects funded with constrained funding sources.
- The total funding in the proposed 2023-2026 Capital Budget is \$7.75 billion. This includes \$6.98 billion for the period of 2023 to 2026, and \$0.77 billion for 2027 and beyond. Of this, \$4.44 billion in capital growth spending has been previously approved.
- The breakdown of total funding for the \$7.75 billion capital budget is \$3.85 billion of constrained funding, \$1.25 billion of unconstrained funding and \$2.65 billion of debt financing.

REPORT

Administration has prepared the Proposed 2023-2026 Capital Budget in accordance with the Council approved Multi-year Budgeting Policy (C578) approved on September 9, 2014. The Policy directs the City to undertake a multi-year approach to budgeting for operating and capital programs and services with the end of the term of the multi-year budget to align with the calendar year end of the year after the year in which a new Council is elected. The most recent multi-year capital budget was approved by Council for the four-year period 2019-2022.

Strategic Context

The City's long-term goals are outlined in two documents: ConnectEdmonton 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, Urban Places, Regional Prosperity and Climate Resilience.

The City Plan combines a Municipal Development Plan and Transportation Master Plan and includes direction for environmental planning, social planning and economic development. The City Plan's five Big City Moves are bold, transformative priorities that advance

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ConnectEdmonton's goals and point the way as Edmonton is built in its journey towards a population of two million people. The Big City Moves are:

- Greener as we Grow - we make decisions that protect and enhance our land, air, water and biodiversity
- A Rebuildable City - we plan for flexibility, adaptation and heritage preservation
- A Community of Communities - we welcome new residents and create connections for people
- Inclusive and Compassionate - we are culturally diverse and improve equity by creating supports
- Catalyze and Converge - we cultivate an innovative and competitive business environment

The 2023-2026 Capital Budget will be an important tool in ensuring Edmonton is a vibrant, equitable, prosperous and sustainable city for the next generations. It is the first multi-year budget since Edmonton's City Plan, Charter Bylaw 20000, was approved by City Council on December 7, 2020. This budget is the first of many that will help Edmonton determine what choices are needed to be a healthy, urban and climate resilient city of two million people supporting a prosperous region.

The City's Corporate Weave identifies how City Council and Administration bring the vision embedded within ConnectEdmonton and the City Plan to life. The capital budget helps Edmontonians and the municipal government imagine Edmonton's future. It builds the infrastructure necessary for a vibrant, healthy, prosperous and sustainable community, while considering the impacts on the environment, the city's carbon footprint and the people who call Edmonton their home.

Proposed Capital Budget

The foundation of the proposed 2023-2026 Capital Budget is the 2023-2032 Capital Investment Outlook (CIO), a high-level overview of the City's capital investment requirements over the next 10 years. The 10-year CIO was presented to City Council on June 7, 2022 (Financial and Corporate Services report FCS01169).

The proposed 2023-2026 Capital Budget for tax-supported operations, as outlined in Attachment 1, is \$7.75 billion. This includes \$6.98 billion for the period of 2023 to 2026, and \$0.77 billion for 2027 and beyond. Council has already approved through previous decisions \$4.44 billion of the expenditures for 2023-2026 and beyond.

The proposed 2023-2026 Capital Budget balances the infrastructure investment required to maintain existing assets in good repair while supporting critical ongoing growth needs.

- Approximately 42 per cent (\$3.23 billion) of the proposed 2023-2026 capital expenditures is designated for transformational projects including LRT expansion, Yellowhead Trail Freeway Conversion and Blatchford Redevelopment.
- 32 per cent (\$2.54 billion) is proposed to be allocated to the movement of people and goods which includes active pathways and road service, transit service and parking service.
- The remaining 26 per cent supports recreation and culture stewardship (\$784 million); environmental protection (\$439 million); project and asset management (\$265 million); public

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safety (\$238 million); land development (\$183 million); technology and data (\$43 million); and social support (\$26 million).

The proposed new growth projects recommended by Administration in 2023-2026 are for projects that are mandated by legislation; have high safety impacts; or are high priority and eligible to receive funding from partners and other orders of government.

As part of deliberations in November and December 2022, Council will ultimately determine the extent to which investment is made in each new growth project given the limited available funding.

The City of Edmonton funds its capital program from a number of sources. Transformational projects noted above support the advancement of Council's strategic goals and are being advanced primarily through a combination of key provincial and federal grant programs together with debt financing. Other revenue sources include the neighborhood tax levy, local improvement funding, community/partner funding, and Pay-As-You-Go, which includes both property taxes and investment income.

A list of projects has been included in Attachment 1, Appendix A, which were identified as important to the City through the corporate prioritization process. Administration applied a prioritization based approach to the evaluation capital profiles and the development of the proposed capital budget. The prioritization approach is outlined in Attachment 1. As a result of the limited funding available in this budget and the pressures related to the City's renewal needs, the proposed 2023-2026 Capital Budget includes only those projects that were required as a result of safety or changes in legislation. The projects listed in Attachment 1, Appendix A would only be recommended for debt financing should Council choose to proceed by granting its approval and after consideration of the revised City Policy C203D - Debt Management Fiscal Policy.

City Council had also requested a number of items return to the 2023-2026 budget deliberations for funding consideration. These motions, along with some context from Administration, are listed in Attachment 2. Unfunded capital profiles for each motion are included in Attachment 3.

The proposed Capital Budget is not without risk and there are numerous emerging issues that could have direct impacts on the City's capital program.

Emerging Issues and the Economy

In the development of the proposed Capital Budget a number of emerging issues have been identified that could have a significant impact on the City's capital program, including capital planning in a high price environment, borrowing conditions for local authorities, and uncertainty of future capital grant funding.

Economic and employment growth rates over the long term are expected to moderate, which suggests slower rates of growth in incomes and reduced demand for goods and services provided by businesses in Edmonton. High inflation not only impacts the City but erodes the purchasing power of residents and businesses. This means that residents and businesses may

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still be under financial pressure entering the 2023-2026 budget cycle, especially if prices do not see a reversal, which in turn, may limit their tolerance for future tax and user fee increases.

Inflation

Since spring 2021, inflation has been high due to supply-side constraints that have affected the pricing and availability of materials and equipment needed for capital projects. While price pressures are expected to ease, there is uncertainty around the timing and pace. It is possible that elevated price pressures could continue into 2023 and throughout the four-year cycle. If prices remain high, this will continue to erode the City's purchasing power through its capital program, at least over the medium-term.

Interest Rates and Borrowing Conditions for Local Authorities

Since March 2022, the Bank of Canada has increased its policy interest rate target five times to address excess demand in the Canadian economy and high inflation. These rate increases are pushing provincial loan pricing rates higher for local authorities like the City. This will impact operating budgets by requiring additional tax levy funding to service future borrowings for capital projects currently in construction and new projects financed by debt. It can also impact the level of debt available to borrow under the debt servicing limits defined in the City's existing and proposed Debt Management Fiscal Policy, since high interest rates have a significant impact on the total debt servicing incurred by the City.

Grant Funding

The City does not have the financial means to fund transformational infrastructure projects without assistance from the other orders of government. While there is recognition that the recovery period following a global pandemic is challenging for all orders of government, the City must continue to advocate for its residents to ensure their needs are being met. The timing of the 2023-2026 Capital Budget cycle and the implementation of the next generation of federal and provincial infrastructure funding programs is not well-aligned. The City has accessed significant funding from programs like the Investing in Canada Plan (ICP), the federal government's current multi-year infrastructure strategy, introduced in 2016, and GreenTrip, a provincial program that supported transit infrastructure. These programs have ended or are ending, and new targeted programs that can help to support the City's strategic infrastructure goals, such as achieving net zero emissions by 2050, have yet to be announced.

The City will continue to pay close attention to these issues, with the long-term capital plan continuing to be refined in the coming years.

Environmental Goals

From an environmental perspective, Edmonton is committed to climate action and protection, through the implementation of Edmonton's two climate strategies:

1. Community Energy Transition Strategy, which is Edmonton's greenhouse gas emissions reduction plan
2. Climate Resilient Edmonton: Adaptation Strategy and Action Plan, which is Edmonton's plan to prepare for changing climate impacts

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The implementation of the City's two climate strategies involve not just resource allocation, but policy choices applicable to both the City and its residents ensuring that the city is being built in an environmentally responsible manner.

Along with these strategies, the City of Edmonton has a number of policies that support environmental goals including:

- City Policy C567 Green Building
- City Policy C594 Open Space Policy
- City Policy C627 Climate Resilience and related procedures

While items in this capital budget are presented by corporate outcome and service, the City's policies, procedures and practices embed environmental considerations into the planning, design and delivery. There are many examples throughout the budget, but are most evident in the transformational projects undertaken by the City. Examples include climate resilience and flood mitigation embedded in the Yellowhead Freeway conversion, the investment in mass transit projects like LRT and Blatchford, the City's carbon neutral neighbourhood powered entirely by renewable energy. The City's environmental goals are not limited to capital projects funded over the next 30 years, the goals are part of all projects. The City's commitment to the environment is also embedded in the budget process through the City's Carbon Budget.

Carbon Budget

The 2023-2026 Carbon Budget is scheduled to be released on November 3, 2022. The City of Edmonton is one of the first cities in Canada to formalize a carbon budget. The concept of a carbon budgeting and accounting framework is relatively new, and it is anticipated that this process will be further developed and adapted over the next few years as Administration applies its learnings, and as the organization and process matures.

Adding a carbon budget into the City greenhouse gas reduction targets and financial budgets highlights the urgent need to reduce emissions. Formalizing the carbon budget and implementing a carbon accounting framework is a significant step for the City, as doing so will increase Administration and Council awareness of how budget decisions are reducing or increasing emissions relative to the carbon budget targets.

While the City has direct control over corporate emissions, it represents only two per cent of Edmonton's emissions as a whole; financial investment in corporate emissions reductions alone is not enough. Municipal funding will only have a limited impact to meet emissions targets. Climate solution leadership through reduction of operational emissions must therefore balance with policy, other orders of government and private investment to achieve the targets outlined in the Community Energy Transition Strategy. Climate change is a collective problem that requires collective action.

Lewis Farms Community Recreation Centre and Library

The Lewis Farms Community Recreation Centre and Library project has progressed beyond the City's Project Development and Delivery Model (PDDM) Checkpoint 4, into construction with site preparation and servicing underway. Since the approval of the delivery funding at the Fall 2021 Supplemental Capital Budget Adjustment, Administration has been working with its industry partners

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to finalize the design and commence construction. Through design and constructability adjustments, the impact of market conditions and overall inflation have been reduced, however completing the project within the current scope requires \$57.9 million of additional funding. The proposed budget as presented in Attachment 1 includes the cost escalation funded with tax-supported debt. This assumption was made to preserve the necessary debt room required as the City is reaching the tax-supported debt limits defined in the City's current Debt Management Fiscal Policy and is nearing the unrestricted borrowing limit defined in the proposed revised Debt Management Fiscal Policy (C203D). Given the significance of the price escalations, the increasing constraint on debt in a rising interest rate environment, the significant number of requests for growth projects expected in the future and the need to use debt for match funding under future federal and provincial programs as well as significant renewal needs, Administration is now recommending that the Lewis Farms Recreation Centre be built to budget as outlined in the recommendation.

Building the project within the \$310.6 million budget approved in the 2021 Fall Supplementary Capital Budget will require the project scope to be reduced. The scope of the project will be revised to focus on the programmatic elements to serve the community, each element will be right-sized to be comparable to district level recreation centres across Edmonton.

The core program elements that support community recreation that will be retained include the district park, public library and maintenance yard, as well as arena, gymnasium, fitness centre, gathering and aquatic based opportunities. To address cost escalations, the aquatic program would be reduced, eliminating the elements supporting aquatic sport training, such as the separate deep tank and dive tower, but maintaining the aquatic elements that primarily support community use. Should Council support Administration's recommendation, the tax-supported debt that is currently being recommended would be removed from Attachment 1.

Funding Held in Abeyance

There are times when Administration recommends funding a project conditional on a future event or requirement being met. Most of the time, this happens when there is a likelihood of a future grant being available that would require the City to provide matching funding to access it. In these cases, it is financially prudent to approve funding when the budget is initially set. When funding is recommended but includes a future condition that must be met in order to spend it, it is referred to as "funding held in abeyance". When funding is held in abeyance, work does not commence until the required conditions are met. The proposed 2023-2026 Capital Budget includes three projects where the funding is being recommended but held in abeyance. These projects are:

1. New Southeast Transit Garage

The total estimated additional costs for the remaining design and delivery of this project is \$632 million. The proposed 2023-2026 Capital Budget recommends that 50 per cent of this amount (or \$316 million) be approved and held in abeyance for match funding to leverage federal funding opportunities. The condition for this abeyance is to be lifted if the City is successful in obtaining federal funding for the remaining 50 per cent of the eligible project costs.

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2. Greener As We Grow Tree Planting Program

The total estimated budget required for this eight-year tree planting program is \$116.8 million. The proposed 2023-2026 Capital Budget recommends that the estimated City share of these costs, \$66 million be approved and held in abeyance. The condition for this abeyance to be lifted is the City being successful in obtaining the remaining funding required under the federal Two Billion Trees grant program.

3. Imagine Jasper Avenue (114 Street to 124 Street)

The total estimated budget required for this project is \$36.0 million. The proposed 2023-2026 Capital Budget recommends that \$13.6 million of City funding be approved and held in abeyance. The condition for this abeyance to be listed is the City being successful in obtaining grant funding under the Active Transportation program.

COMMUNITY INSIGHT

Perspectives from Edmontonians regarding 2023-2026 budget priorities are outlined in the October 31, 2022, Communications and Engagement report CE01489 - Budget 2023-2026 Community Insights.

GBA+

The projects and services delivered within the 2023-2026 Capital Budget will each have individual implications for GBA+.

ATTACHMENTS

1. Proposed 2023-2026 Capital Budget
2. 2023-2026 Capital Budget - Responses to Council Motions
3. Unfunded Capital Profiles