Financial Statements Discussion and Analysis of

THE CITY OF EDMONTON

INTRODUCTION

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

In addition to providing an overview of the City's 2023 financial performance and position, this report describes significant fiscal policies, strategies and plans related to financial control, accountability, long-term sustainability and risk management.

Included in the 2023 Annual Report are the City's consolidated financial statements and notes, which have been prepared in accordance with Canadian Public Sector Accounting Standards (PSAS). KPMG LLP has audited the City's financial statements and provided an Independent Auditor's Report. The financial statements and auditor's report satisfy the legislative reporting requirement set out in the *Municipal Government Act* (MGA) of Alberta.

The following financial statement discussion and analysis, dated April 23, 2024, should be read in conjunction with the financial statements. Both have been prepared by and are the responsibility of the Management of the City of Edmonton. A section for the Task Force on Climate-related Financial Disclosures has been included as well as the five-year statistical review of key information.

NEW ACCOUNTING STANDARDS

Effective January 1, 2023, The City adopted the new accounting standards PS1201, *Financial Statement Presentation*, PS3450, *Financial Instruments*, PS2601, *Foreign Currency Translation* and PS 3041, *Portfolio Investments*. These standards were applied prospectively with no adjustments made to comparative figures. The significant changes for the City resulting from these standards are:

- the introduction of a new Consolidated Statement of Remeasurement of Gains and Losses. This new statement includes unrealized gains and losses arising from the fair value measurement of certain financial instruments as well as the City's proportionate share of other comprehensive income that arises when the City includes the results of its subsidiary operations in EPCOR on a modified equity basis.
- the measurement of certain items within the City's portfolio investments changed from cost to fair value, and
- derivative instruments for foreign exchange forward contracts and fuel price hedge contracts are recognized in the financial statements at fair value.

These new standards impacted the City's financial results on January 1, 2023, by:

- recognizing the fair value of derivative assets of $8.1 million that resulted in an unrealized gain in the opening balance of remeasurement gains and loss and opening Accumulated Surplus,
- recording equity portfolio investments at fair value that resulted in an unrealized gain of $54.1 million in the opening balance of remeasurement gains and losses and opening Accumulated Surplus, and
- reclassifying the City's proportionate share of accumulated other comprehensive income of its subsidiary operations in EPCOR of $145.4 million from Accumulated Operating Surplus to the opening balance balance in the Consolidated Statement of Remeasurement Gains and Losses.

Effective January 1, 2023, the City adopted the new accounting standard PS3280, *Asset Retirement Obligations (ARO)*, using the modified retroactive approach, therefore prior year comparative figures were restated. Under PS3280 the City recognized its best estimate of asset retirement obligations associated with post-retirement maintenance and monitoring costs of the City's buildings and equipment. Solid waste landfill closure and post-closure liabilities previously recognized separately are now included within the Asset Retirement Obligations on the Consolidated Statement of Financial Position. This new standard restated December 31, 2022, results as follows:

- recognized Asset Retirement Obligations of $146.3 million and increased Tangible Capital Assets by $2.1 million,
- adjusted ending Accumulated Surplus downward by $144.2 million,
- reclassified the existing liability of $51.3 million for landfill closure and post-closure care to Asset Retirement Obligation, and
- increased expenses by $18.5 million.

Further information regarding these new accounting standards are detailed in Note 1t in the City's financial statements.

2023 FINANCIAL HIGHLIGHTS

The City has a multi-year budget policy in which operating budgets are developed and approved for a four-year period. The 2023-2026 Operating Budget was originally passed in December of 2022. The multi-year budget process provides for adjustments to the four-year budget on a semi-annual basis, in the spring and in the fall. Operating budget information for 2023 is consistent with the amounts approved by City Council (Council) in April 2024 with the passing of Bylaw 20443 - 2023 Property Tax and Supplementary Property Tax Bylaw.

The City ended the year with a $40.6 million deficit (1.1 per cent of budgeted tax-supported expenses) for general government (tax-supported) operations relative to the operating budget. The deficit is primarily the result of higher-than-anticipated salary settlements, decreased transit fare revenue due to changing purchasing behaviors and travel patterns, reduced ATCO Gas Franchise fees resulting from lowered customer rates and milder weather, and increased expenses for fleet and facility services contractors and materials. These were partially offset by increased membership and admissions revenue driven by strong demand for recreational and attraction facilities and lower-than-forecasted costs for snow and ice programs due to decreased snowfall in the last quarter of the year.

In 2023, a new four-year budget cycle commenced. Throughout the previous cycle, efforts were made to keep taxes low, with one year even seeing a 0.3 percent tax decrease. While this measure was vital to support Edmontonians during the pandemic, it fell short in covering inflationary pressures and meeting the needs of a growing population. Consequently, Council approved a 4.96 percent tax increase in 2023, positioning it within the middle range of tax increases among major Canadian municipalities. This increase enabled the City to sustain and enhance core services, alongside advancing the capital plan. Key projects such as LRT expansion, the Yellowhead Trail Freeway Conversion, and the Lewis Farms Recreation Centre benefited from this budget allocation.

With an overall accumulated surplus of $17,993.7 million, the City's financial position remains strong and resilient. The City will continue to monitor its financial performance and will implement strategies to address growth and increased service demand through the multi-year budget process. These areas are expanded upon in the Long-Term Sustainability section of this discussion.

FINANCIAL POSITION

Consolidated Statement of Financial Position

(millions of $)

	2023	2022 Restated*	2021	2020	2019
Financial Assets	**$ 8,873.7**	$ 8,511.1	$ 8,093.8	$ 7,527.5	$ 7,284.0
Liabilities	**6,041.7**	5,804.0	5,370.8	5,027.5	4,796.5
Net Financial Assets	**$ 2,832.0**	$ 2,707.1	$ 2,723.0	$ 2,500.0	$ 2,487.5
Non-Financial Assets	**15,161.7**	14,443.7	13,839.1	13,272.9	12,441.0
Accumulated Surplus	**$ 17,993.7**	**$ 17,150.8**	**$ 16,562.1**	**$ 15,772.9**	**$ 14,928.5**

* Effective January 1, 2023, the City adopted the new accounting standard PS3280, Asset Retirement Obligations, using the modified retroactive approach with restatement of 2022 prior year comparatives. Amounts before 2021 are not restated.

The City ended the year with **net financial assets** of $2,832.0 million, an increase of $124.9 million, or 4.6 per cent, compared to 2022 restated balance. The primary components of the net financial asset balance are the City's investment of $4,791.7 million in the EPCOR subsidiary, investments of $2,443.8 million, net of long-term debt of $4,167.5 million, and accounts payable and accrued liabilities of $1,147.8 million.

The City's **non-financial assets** at the end of 2023 were $15,161.8 million, an overall increase of $718.0 million, compared to 2022. Non-financial assets consist primarily of tangible capital assets such as roadways, buildings, land and light rail transit that are carried at $15,068.9 million. The City's non-financial assets have grown over the last five years due to continued investments in infrastructure; these investments include the construction of new infrastructure to meet the needs of a growing population and repairs to existing infrastructure to maintain the service standards that Edmontonians expect. The ability to build and maintain infrastructure assets ensures that the City of Edmonton is able to deliver services and programs that Edmontonians rely on everyday, while also attracting new residents to live and do business here.

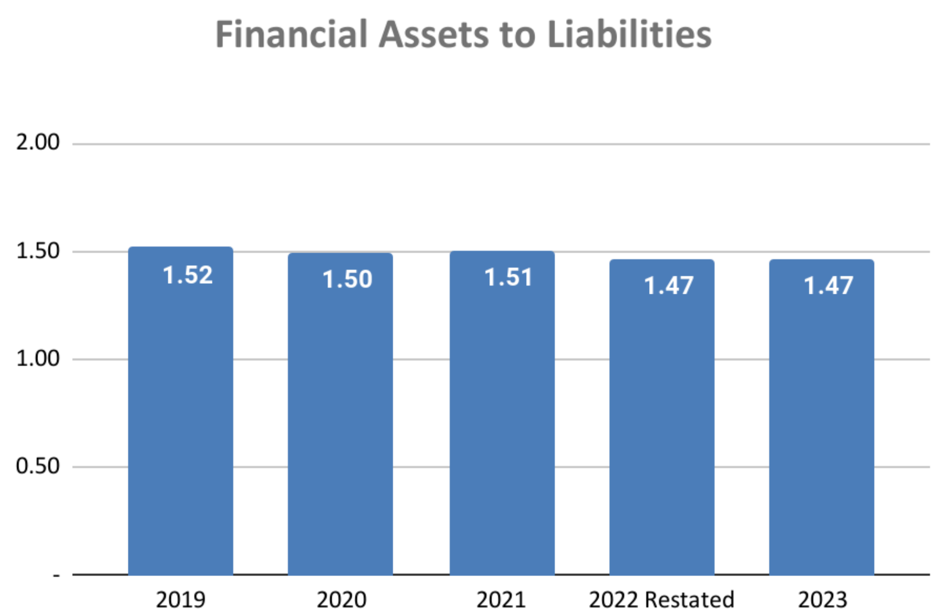
Accumulated surplus is an indicator of the City's overall financial viability that reflects the net economic resources the City has built up over time. The City ended 2023 with a total accumulated surplus of $17,993.7 million, an increase of 4.9 per cent compared to the prior year. This surplus includes the City's equity in tangible capital assets, the City's investments including its investment in the EPCOR subsidiary and Ed Tel Endowment Fund, and a number of reserves, including the Financial Stabilization Reserve. The City maintains a stable accumulated surplus balance due to its continued investments in Edmonton's infrastructure, its growing investment in EPCOR and robust reserve management.

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

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

FINANCIAL ASSETS

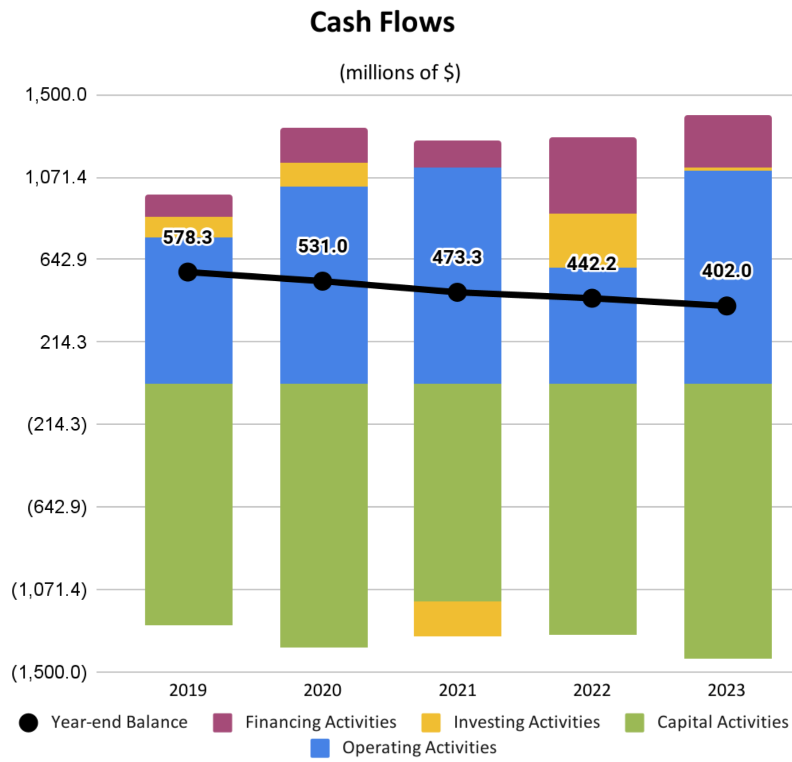
The financial assets-to-liabilities ratio is used to assess the sustainability of the City's financial position. A ratio lower than one indicates that future revenues will be required to pay for past transactions and events. A result higher than one indicates the City currently holds sufficient financial resources to meet its financial obligations. The City's financial assets-to-liabilities ratio over the past five years has remained stable, ranging from 1.47 to 1.52. The ratio has decreased slightly over 2022 and 2023 due to the recognition of the asset retirement obligations.



Cash

The City's cash position includes both cash and cash equivalents such as bankers' acceptances, treasury bills and commercial paper, which is used to ensure that sufficient cash and liquid assets are available to manage the timing of payments for the City's operating, capital, investing and financing activities. In 2022, the City's cash position decreased to $402.0 million from $442.2 million in 2022, an overall decrease of $40.2 million, or 9.1 per cent.

The Consolidated Statement of Cash Flows summarizes the sources and uses of cash by the City in 2023. During the year the City cash balance decreased due to capital activities of $1,435.1 million, mainly due to acquisition of tangible capital assets, and a net increase in portfolio investments of $170.7 million. This was partially offset due to cash raised of $1,104.1 million from operations, $276.5 million through financing activities, largely due to net debenture borrowings to finance capital, and $185.0 million from an EPCOR dividend. Generally the cash balance has trended downwards over the last five years due to increased capital investment activities to support the increased infrastructure required to support a growing City. The City still maintains a healthy financial assets to liabilities ratio, a robust accumulated surplus, and monitors its working capital requirements to ensure sufficient cash funds are on hand to manage expenditures.

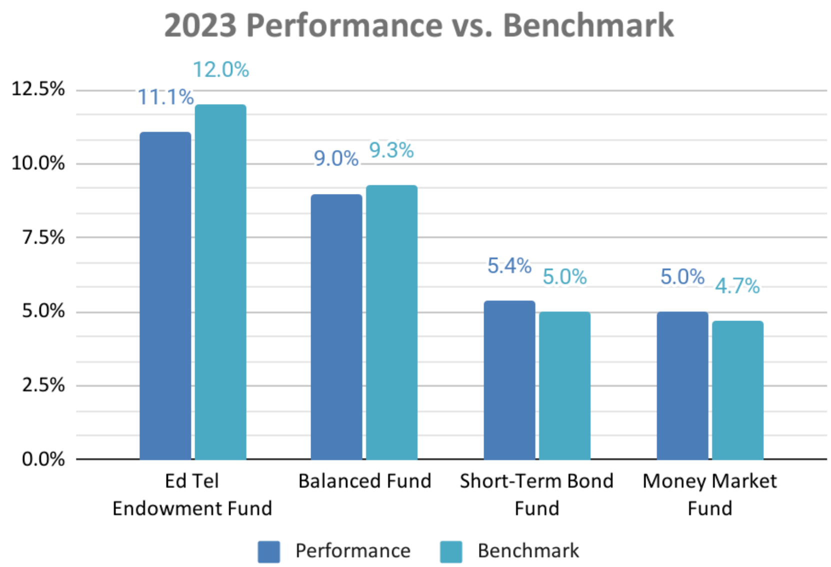


Receivables

The 2023 receivables balance of $982.5 million decreased by $29.0 million, or 2.9 per cent, from the prior year balance of $1,011.5 million. The majority of the decrease in government transfers receivables of $146.6 million resulted primarily from the receipt of funding through the Investing in Canada Infrastructure Program during the year, which was used for LRT construction, and Provincial Municipal Sustainability Initiative funding which was received in the current year. This is partially offset with an increase in Trade Receivables of $46.8 million mainly due to amounts owing from EPCOR Water Services Inc. for cost sharing for Valley Line West work and the wildfire response reimbursement, and an increase in GST receivable of $53.8 million mainly due to higher GST receivable related to the Valley Line Southeast project.

Portfolio Investments

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



Included in investments of $2,443.8 million are Canadian, international and global equities, fixed income, and private pooled funds, which includes real estate funds and other investments. The majority of these investments are held within the Money Market Fund, Short-Term Bond Fund, the Balanced Fund and the Ed Tel Endowment Fund.

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

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

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

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

Since 1995, the Ed Tel Endowment fund has contributed a total of $1,013.7 million to the City in the form of annual dividends. In 2023, the fund contributed $44.7 million in dividends to the City. The fund ended the year with a market value of $936.5 million.

Performance of the City's investment funds ranged from 5.0 per cent (Money Market Fund) to 11.1 per cent (Ed Tel Endowment Fund), reflecting each fund's asset mix.

Overall, in terms of general market conditions, global equities grew 23.5 per cent for the year, and U.S. equities gained 26.3 per cent. Canadian equities were up 11.8 per cent as oil prices decreased 11 per cent during the year. The Canadian dollar appreciated 2.3 per cent against the U.S. dollar.

Finally, Canadian fixed income securities went up 6.7 per cent for the year.

As a result, the Ed Tel Endowment Fund and Balanced Fund, both of which are invested in a mix of fixed income and equity markets in accordance with the City's investment policy, saw returns of 11.1 per cent and 9.0 per cent, respectively. Conversely, the Money Market Fund and Short-Term Bond Fund, which are invested solely in less volatile fixed income securities, had returns of 5.0 per cent and 5.4 per cent, respectively. Overall, the market value of the City's investment portfolio at year-end was $2,430.5 million, which includes unrealized gains of $63.6 million.

More detailed information about the investment performance and benchmarks is available in the 2023 Investment Committee Annual Report on the City of Edmonton's website.

Additional investments are managed for trust assets under Administration's control, including City-sponsored pension plans and a long-term disability benefit plan funded by employees. Consistent with public sector accounting standards, trust assets that are not owned by the City are excluded from the reporting entity. Note 25 to the financial statements provides summary disclosures with respect to trust assets under City administration.

Investment in EPCOR

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

The City applies a modified equity method of accounting and reporting for EPCOR, a wholly owned subsidiary, as a government business enterprise. EPCOR's management has prepared their 2023 consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). EPCOR's accounting principles are not adjusted to conform to those used by the City as a local government; therefore, inter-organizational transactions and balances are not eliminated.

In 2023, the City's investment in EPCOR increased to $4,791.7 million from $4,561.7 million in 2022, a net increase of $230.0 million, or 5.0 per cent. The net increase is due to EPCOR's reported net income of $361.3 million for 2023 and $60.5 million of tangible capital assets contributed to EPCOR by the City. This is offset by other comprehensive loss of $3.6 million, $3.2 million in amortization of contributed assets and a dividend of $185.0 million paid to the City. Summary financial information for EPCOR is included in Note 23 to the financial statements.

Additional detail on EPCOR's strategies, financial performance and health, and significant events that occurred in 2023 are discussed in EPCOR's annual reporting for 2023, which is available on the company's website.

LIABILITIES

Promissory notes

The City has the ability to issue promissory notes for a term of one year or less to a maximum of $250.0 million to manage cash flow requirements. As at December 31, 2023, the City has four promissory notes totalling $50.0 million with a discounted value of $49.4 million with maturity dates ranging from March 8 to 15, 2024.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include the categories of trade, developer obligations, payroll and remittances, and accrued interest amounts owing. The balance of $1,147.8 million at year end decreased over the prior-year balance of $1,180.7 million by $32.9 million, or 2.8 per cent.

Trade payables reflect a net decrease of $106.4 million over prior year largely due the completion of the Valley Line Southeast LRT and the substantial completion payment to TransEd (P3 partner), this is partially offset by increased trade payables related to capital infrastructure projects in the first year of the capital budget cycle.

Payroll and remittance liabilities increased by $51.4 million over the prior year mainly due to approved mandates, arbitrated settlements and the timing of the payroll period for 2023.

Developer obligations increased by $14.8 million over the prior year mainly due to an increase in development construction in 2023.

Information on the composition of the accounts payable and accrued liability balance is provided in Note 10 to the financial statements.

Deferred Revenue

Deferred revenue is largely made up of government transfers provided to fund operating and capital expenditures. The use of these revenues is externally restricted until they are used for the purposes intended. The deferred revenue balance of $214.2 million decreased by $26.3 million, or 10.9 per cent, from the prior year balance of $240.5 million. The decrease is mainly due to the Municipal Sustainability Initiative grant program, where funds received in advance of project expenditures in 2022 were fully recognized by the end of 2023. This is partially offset with deferred Rapid Housing Initiative funding, which is a federal funding program administered by Canada Mortgage and Housing Corporation (CMHC) to rapidly create affordable housing for vulnerable populations. Additional details about balances and changes in deferred revenue are included in Note 11 to the financial statements.

Asset Retirement Obligations

Asset retirement obligations were identified upon the implementation of new accounting standard PS3280, *Asset Retirement Obligations (ARO)*. The City has recorded a liability of $203.9 million as of December 31, 2023, representing the estimated obligation primarily related to the removal of asbestos in its buildings at retirement, landfill closure and post-closure care costs from its Clover Bar and Rundle Park landfill sites, and storage tanks. The obligation increased $6.3 million from the restated 2022 balance of $197.6 million as a change in estimate of $15.2 million, accretion during the year of $3.5 million, an increase in the liability of $0.4 million, partially offset by settlements of the obligation during the year of $12.8 million. The change in estimate was largely due to revisions in the Clover Bar landfill post-closure liability. Further information on the new asset retirement obligation is included in Note 13 to the financial statements.

Long-Term Debt

The City of Edmonton Charter Regulation AR 39/2018 allows the City to establish its own debt limits provided the City obtains an external credit rating and develops a Council-approved debt policy. The City obtains a credit rating annually from Standard and Poor's and uses debt to finance capital expenditures under the principles and limits established by the City's *Debt Management Fiscal Policy (DMFP), (City Policy C203D)*. The DMFP supports the City's long-term capital plans and strategies while maintaining long-term financial affordability, flexibility and sustainability.

The City limits tax-supported debt servicing to 18.0 per cent of tax-supported net expenditures and total debt servicing to 21.0 per cent of City revenue. Total debt servicing is permitted up to 26.0 per cent of City revenue for emergency purposes.

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

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

The City borrows through the Government of Alberta's department of Treasury Board and Finance, using rates available to large municipalities in the bond market to determine the City's cost of borrowing.

Interest rates are established at the time of borrowing and remain constant throughout the term of the debenture, eliminating the risk associated with fluctuating interest rates. Repayments are made annually or semi-annually.

The following rates were applicable for new borrowing during the year:

Borrowing Terms and Interest Rates

Term	Interest Rates
5 years	4.30%
10 years	4.34% to 5.17%
15 years	4.34%
20 years	4.74% to 5.38%
25 years	4.84% to 5.43%

The City’s net long-term debt was $4,167.5 million at December 31, 2023, an increase of $227.2 million, or 5.8 per cent, compared to the 2022 balance. Long-term debt consists of debentures, mortgages and P3 term debt. The gross amount of debentures, mortgages payable and P3 term debt of $4,626.7 million is offset by $459.2 million in amounts receivable from EPCOR. The amounts receivable from EPCOR are for debentures issued in the name of the City on behalf of EPCOR relating to the Gold Bar Wastewater Treatment Facility, transferred to EPCOR in 2009, and the Drainage Utility, transferred to EPCOR in 2017.

Debt Schedule

(millions of $)

	Tax-Supported	Self-Liquidating	**Total Debt (net)**
Opening	$ 3,452.6	$ 487.7	**$ 3,940.3**
Borrowings	404.9	97.3	**502.2**
Increase in P3 term debt	10.7		**10.7**
Principal Payments	(248.0)	(37.7)	**(285.7)**
Ending	**$ 3,620.2**	**$ 547.3**	**$ 4,167.5**

Of the total net long-term debt of $4,167.5 million, $3,620.2 million is tax-supported and $547.3 million is self-liquidating. Tax-supported debt includes $472.8 million of P3 term debt related to the portion of deferred capital costs owing to TransEd from 2023 to 2050 for the construction of the Valley Line Southeast LRT. The P3 term debt is based on 100 per cent project completion as of December 31, 2023.

During the year, the City added a total of $502.2 million through new debenture borrowings and mortgages; $404.9 million is considered tax-supported and $97.3 million is considered self-liquidating. Tax-supported debt was borrowed to finance various capital projects, including the Valley Line, Metro Line and Capital Line LRT construction ($135.2 million), Yellowhead Trail Freeway Conversion ($70.7 million), Terwillegar Drive Expressway ($19.0 million),Lewis Farms and Coronation Community Recreation Centres ($89.3 million) and continued progression of Downtown and Quarters Community Revitalization Levy funded projects ($26.9 million). Self-liquidating borrowings during the year include $80.9 million for Non-Profit Housing Corporation, $12.4 million related to local improvement projects and $4.0 million for the Clean Energy Improvement Program.

Debt principal repayments of $285.7 million were made during the year, comprising $248.0 million for tax-supported debt (including $77.2 million of P3 term debt) and $37.7 million for self-liquidating debt.

The City's DMFP sets limits more restrictive than those legislated in the MGA, limiting the City's total debt servicing to 21.0 per cent of City revenues and up to a maximum of 26.0 per cent of City revenues for emergency purposes, compared to the MGA limit of 35.0 per cent. City revenues are consolidated annual revenues net of capital government transfers and developer contributed tangible capital assets. The DMFP further restricts the use of debt for tax-supported debt servicing to 18.0 per cent of tax-supported net expenditures.

Debt Service Limits - DMFP*

(millions of $)

	2023	2022	2021	2020	2019
Total debt servicing limit (26%)	**$ 871.2**	$ 799.0	$ 777.2	$ 761.4	$ 759.3
Debt servicing limit	**$ 425.0**	$ 341.9	$ 289.1	$ 291.8	$ 283.2
Percentage used (%)	**48.8**	42.8	37.2	38.3	37.3
Total debt servicing limit (21%)	**$ 703.7**	$ 645.3	$ 627.7	$ 615.0	$ 613.3
Debt servicing limit	**$ 425.0**	341.9	289.1	291.8	283.2
Percentage used (%)	**60.4**	53.0	46.1	47.5	46.2
Tax-supported debt servicing limit (18%)	**$ 481.7**	$ 446.1	$ 406.5	$ 397.3	$ 414.9
Tax-supported debt servicing	**$ 369.8**	$ 268.8	$ 238.5	$ 242.2	$ 233.2
Percentage used (%)	**76.8**	60.3	58.7	61.0	56.2

*The limits outlined in the table above for 2019 to 2021 comparatives have been restated from previous years reporting to reflect the revised City Policy C203D Debt Management Fiscal Policy and 2022 has been restated related to the adoption of the new accounting standards.

NON-FINANCIAL ASSETS

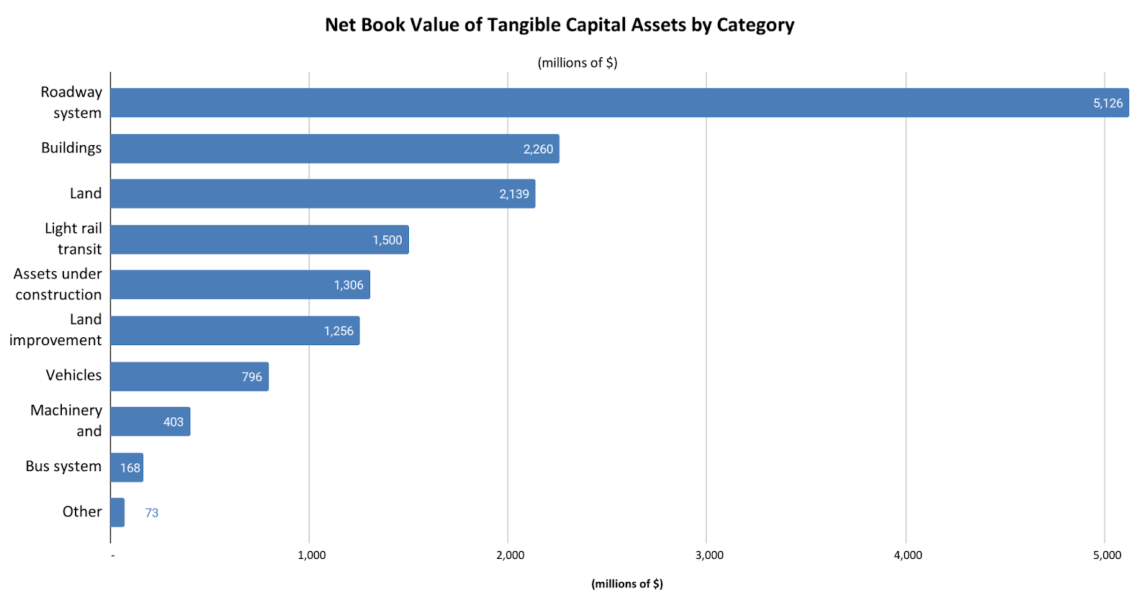
Tangible Capital Assets

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

Tangible capital assets of $15,068.9 million have increased by 5.0 per cent compared to the 2022 balance of $14,352.7 million. The net increase of $716.2 million is a result of acquisitions of tangible capital assets of $1,432.1 million and contributed tangible capital assets of $80.5 million. This increase was partially offset by annual amortization of $661.0 million, and disposals and transfers of assets with a net book value of $135.4 million.

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

During 2023, the first year of the 2023-2026 capital budget, spending focused on key growth projects and infrastructure maintenance. The capital additions and contributions of $1,512.6 million in 2023, compared to $1,397.2 million in 2022, reflects the City's continued commitment to investing in infrastructure to accommodate both growth and renewal. Capital additions are higher due to the expansion of Terwillegar Drive, Valley Line Southeast and West LRT construction, Capital Line LRT, upgrades to the Coronation Community Recreation Centre and numerous neighbourhood renewal projects. The City also made progress on significant capital projects such as Yellowhead Trail Freeway Conversion, WIlliam Hawrelak Park Rehabilitation, Edmonton EXPO Centre Rehabilitation and Lewis Farms Community Recreation Centre and Library. Roadways continue to be the largest asset category with a net book value of $5,126.0 million. These are followed by buildings and land with net book values of $2,260.2 million and $2,139.4 million, respectively.

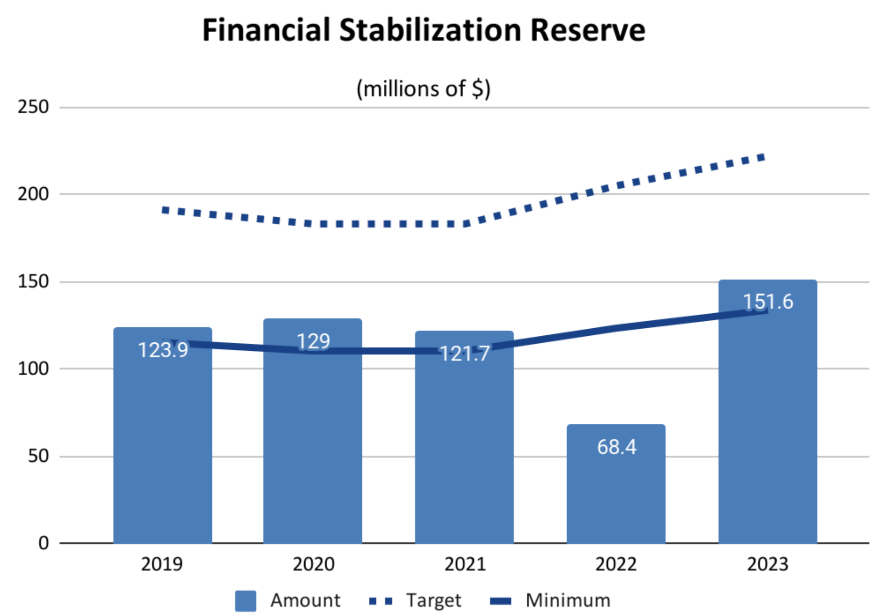


Reserves

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

In accordance with City Policy C217E, the City completed a review of reserves in 2021. This review is completed at minimum once every three years and ensures that City reserves continue to support the City's financial goals and serve the highest priority needs of the City and its residents. The reserve policy and balances are monitored on an ongoing basis with the next formal review planned for 2024.

A schedule of reserves has been provided in Note 18 to the financial statements. The reserve balance of $1,060.2 million at the end of 2023, increased by $67.1 million over the prior year balance of $993.1 million.



The **Financial Stabilization Reserve (FSR)** was established in 1997 to provide flexibility in addressing financial risks associated with revenue instability and emergent financial issues, and to ensure the orderly provision of services to residents. The appropriated balance of the reserve represents funds that have been set aside by City Council to fund future commitments. The unappropriated balance of the FSR is uncommitted and provides the City with flexibility to address significant emergent financial issues. The reserve is not intended to be used to stabilize future tax rate increases. City policy establishes that the FSR must have a minimum balance of 5.0 per cent with a target balance of 8.3 per cent of current general government expenses (excluding non-cash amortization and gain/loss on sale of tangible capital assets). Any annual general government surplus would be applied to the reserve in the subsequent year. Any annual tax-supported deficit would draw on the reserve.

City Policy C629, Financial Stabilization Reserve, requires that a risk-based review of the unappropriated FSR be completed every three years to ensure the sufficiency of the minimum and target percentages. Administration conducted a risk-based review of the unappropriated FSR balance in 2021 and confirmed that the respective minimum and target balances of 5.0 per cent and 8.3 per cent of current general government expenses (excluding non-cash amortization and gain/loss on sale of tangible capital assets) were appropriate.

As of December 31, 2023, the unappropriated FSR balance is $151.6 million. During the year, the general government surplus from 2022 of $81.6 million was transferred to the reserve, of which $20.8 million was appropriated within the FSR to provide funding in 2023 for projects and initiatives not completed in 2022. During 2023 City Council approved the use of $5.5 million from the unappropriated FSR to fund priority initiatives over 2023 to 2026 on a one-time basis. Additionally, $24.6 million in funding for projects previously appropriated in the FSR were released back to the unappropriated FSR as it was determined that the funding was no longer required. As a result, the reserve ended the year with a balance of $151.6 million as at December 31, 2023. However, after considering the tax-supported deficit of $40.6 million, other uses of the FSR to fund Council approved priorities in 2024 of $6.0 million, and Council approved operating budget carry-forwards of $25.8 million, the projected unappropriated FSR balance in 2024 is $79.2 million. This is $54.6 million below the required minimum balance of $133.8 million.

In accordance with City Policy, in the event the unappropriated FSR balance falls below the minimum, a strategy will be adopted to achieve the minimum balance over a period not to exceed three years, starting with the subsequent year's operating budget. Council will need to approve a strategy in 2024 in order to restore the FSR back to the minimum balance over a period not exceeding three years, starting in 2025. If required, this strategy will be approved through the Fall 2024 Supplemental Operating Budget Adjustment process in November/December 2024.

As of December 31, 2023, the appropriated FSR balance is $100.0 million, which is a decrease of $92.4 million from the 2022 balance of $192.4 million. During 2023 the balance decreased as $97.6 million was used to fund approved items and $24.6 million were released back to the unappropriated FSR as the funding was no longer required. The balance increased as $26.2 million was transferred into the appropriated FSR to fund specific projects and $3.6 million was allocated for future uses.

The **Community Safety and Well-Being (CSWB) Reserve** was approved by City Council on September 12, 2023. The purpose of this reserve is to advance seven Council-approved pillars of action to address the root causes of complex social challenges. With the creation of this reserve any unspent community safety and wellbeing funds can be retained and applied to support future funding requirements in alignment with the CSWB Strategy. At the end of 2023 the reserve balance was $10.2 million.

The **Tax-Supported Debt Reserve** is used to accommodate timing differences between debt servicing requirements and receipt of taxes to pay for the debt. A minimum balance of $1.0 million is to be maintained and any unappropriated balance above this is made available to stabilize debt servicing costs within a year or to fund capital on a pay-as-you-go basis. The minimum balance is to be used to manage any interest rate or cash flow fluctuations. The balance of the reserve decreased to its minimum of $1.0 million from its prior year balance of $14.5 million, largely due to use of funds from the reserve to offset debt servicing costs during 2023.

The **Sanitary Servicing Strategy Fund (SSSF) Reserve** ended the year with a balance of $103.4 million, an increase of $32.8 million. The increase is due to revisions in the sanitary sewer trunk lines construction plan as the program undergoes a review. The reserve also earned interest income during the year due to the increased balance and higher than expected interest rates.

The **LRT Reserve** ended the year with a balance of $151.6 million, an increase of $36.8 million from 2022. The balance increased as the Valley Line Southeast opened in November 2023, which was later in the year than planned; this reduced the P3 debt payment requirements in 2023 that were to be funded with the reserve.

The **Traffic Safety and Automated Enforcement Reserve** closed 2023 with a balance of $10.5 million, marking a $9.6 million increase from 2022. Established on November 26, 2014, under City Policy C579B, this reserve aims to accumulate surpluses (and cover shortfalls) arising from the variability of photo enforcement revenues. It transparently outlines budgeted allocations for programs funded from the reserve in line with policy guidelines. The increase in the reserve during the year is largely due to higher than anticipated revenues due to higher incidents of speed violations and average fines per ticket, as well as a reduction in initiatives funded from the reserve in order to maintain a sustainable reserve balance over the long term.

The City maintains reserves that are used to accommodate differences between expenses and related funding sources. As of December 31, 2023, the City had six reserves that were in deficit balances. These include the Interim Financing, Community Revitalization Levy (Capital City Downtown, Belvedere and Quarters), Brownfield Redevelopment and Edmonton Police Service Reserves. In accordance with City Policy C217E Reserve and Equity Accounts, reserves that are expected to have deficit balances will only be established if future funding to offset the deficit balance has been identified at the time of the reserve's creation.

A **Community Revitalization Levy (CRL)** is a provincially legislated financing tool that provides up to 20 years of stable funding for public infrastructure investments in the approved redevelopment areas. Within each CRL area a baseline property assessment is established in the year that the plan is approved. Subsequent increases in property tax revenue above the baseline (both municipal and equivalent provincial school taxes) that result from new development and property value growth make up the CRL revenue. The CRL funds are dedicated to CRL plan projects within the CRL area. There is a timing difference between project expenses and CRL revenue generation. In each of the three levy areas, debt (referred to as CRL debt) is used to finance City-owned projects. Debt-servicing (principal and interest) associated with capital investment began immediately, before there is sufficient revenue generated to fully cover those costs. These annual shortfalls have resulted in a negative reserve position for each of the three CRL Reserves. These reserves will begin to be repaid when annual levy revenues start to exceed annual expenditures. The intent is for the reserves to be replenished over the life of the CRL (20 years from start date). If the reserve deficit is not repaid by the end of the term, annual tax-levy would be required until the deficit balance in the reserve is repaid. An annual update on the progress of the CRLs was presented to Council's Executive Committee on March 20, 2024. The annual update noted that the CRL Reserves will all be in deficit positions at the end of the related CRL terms, therefore requiring ongoing tax-levy to offset the deficit balances existing in the reserves at the end of the CRL terms.

The **Interim Financing Reserve** is used to accommodate timing differences between operating impacts of capital projects and related external funding sources and differences that arise between the timing of cash outflows (budget) and recognition of expenses (accounting) to ensure that the City can levy taxes in a manner that matches the cash outflow. At the end of 2023, the reserve has a deficit balance of $34.8 million, which will be repaid through external funding sources.

The **Brownfield Redevelopment Reserve** supports Phase III Brownfield Redevelopment, granting payments to qualified developers under the program to help finance costs related to environmental testing, remediation and/or exposure control in preparation for redevelopment. On September 13, 2023, City Council approved to increase the scope of the reserve to include the Phase I, II and IV grant programs to take into account timing differences between when applicants enter a grant funding agreement and when they fulfill the criteria for grant payment. At the end of 2023, the reserve has a deficit balance of $2.0 million, which will be recovered through future municipal tax uplift relating to the developer agreements.

The **Edmonton Police Service Reserve** was established to manage operational surpluses and deficits of the Edmonton Police Service over time. At the end of 2023, the reserve has a deficit balance of $1.1 million. In accordance with Policy C605 Edmonton Police Reserve, in the event the reserve falls into a deficit position, a strategy will be developed by EPS, to be approved by City Council, to achieve a balanced position over a period not to exceed three years, starting with the subsequent year operating budget.

Equity in Tangible Capital Assets

As summarized in Note 17 to the financial statements, equity in tangible capital assets represents the investment made in tangible capital assets, after deducting the portion financed by outstanding long-term debt, net of long-term debt for land redevelopment and debt recoverable. With an increase of $487.1 million for 2023, as a result of the net acquisition of tangible capital assets partially offset by net additional debt, the ending balance of equity in tangible capital assets for the year is $10,998.3 million.

Advances for Construction (capital to be financed)

At the end of 2023, $175.4 million of capital funding was in place in advance of incurring capital expenditures, an increase of $72.5 million compared to prior year. This is as a result of borrowing for capital projects such as LRT construction, a new transit garage, and Yellowhead Trail Freeway construction where expenditures have not been incurred by the end of the year.

Obligations to be funded in future years

Obligations to be funded in future years of $148.8 million represents an estimate of funding required for asset retirement obligations associated with post-retirement maintenance and monitoring costs of the City's buildings and equipment. For further details refer to the New Accounting Standards section of this report and Note 13 to the financial statements.

FINANCIAL OPERATIONS

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

Consolidated Statement of Operations

(millions of $)

	2023 Actual	2022 Actual Restated	2021 Actual	2020 Actual	2019 Actual
Operating Revenues	**$ 3,674.1**	$ 3,433.8	$ 3,358.5	$ 3,170.6	$ 3,120.0
Capital Revenues	**762.5**	633.5	527.1	717.4	749.8
Operating Expenses	**3,658.7**	3,426.0	3,093.5	3,023.5	3,189.7
Excess of Revenues over Expenses	**$ 777.9**	**$ 641.3**	**$ 792.1**	**$ 864.5**	**$ 680.1**

Consolidated revenues exceeded expenses for the year by $777.9 million after accounting for government transfers for capital, contributed tangible capital assets, developer and customer contributions for capital and local improvements. Operating revenues increased 6.5 per cent from the prior year, with increases in revenue from user fees and sale of goods and services, property taxes and investment earnings, partially offset by decreases in operating government transfers, subsidiary operations - EPCOR, franchise fees, licenses and permits, and fines and penalties. Capital revenues vary from year to year based on timing of capital projects and recognition of capital revenues to fund capital expenses. The largest increase was in capital government grants required to fund expenditures related to advancement in significant capital projects during 2023, including Yellowhead Freeway Conversion, Terwillegar Drive Upgrade, and 50 Street Canadian Pacific Railway Grade Separation. Operating expenses over the past five years reflect the cost to maintain and improve existing infrastructure and core services that comes with a growing population, personnel increases for wage progression, operating impacts related to new capital projects, and general inflationary increases. Facility closures and reduced services dictated by public health orders related to the pandemic resulted in slower growth in expenditures in 2020-2021.

Significant year-over-year variances and variances from budget are discussed in the following sections. The operating budget is based on the original 2023-2026 operating budget approved by Council in December 2022, including the supplementary operating budget adjustment in the 2023 Spring Supplemental Budget Adjustment approved by Council on April 17, 2023. The capital budget line items are based on the 2023-2026 capital budget approved in December 2022. The original budgets are adjusted to comply with the Canadian Public Sector Accounting Standards for inclusion in the Consolidated Statement of Operations and Accumulated Surplus. A reconciliation between the budget approved by Council and the budget for financial statement purposes is provided in Note 33.

OPERATING REVENUES

Operating Revenues

(millions of $)

	2023 Budget (A)	**2023 Actual (B)**	Variance (B-A)	2022 Actual (C)	Variance (B-C)
Net taxes available for municipal purposes	$ 1,931.3	**$ 1,927.5**	$ (3.8)	$ 1,807.0	$ 120.5
User fees and sales of goods and services	669.0	**713.0**	44.0	588.9	124.1
Subsidiary operations - EPCOR	341.0	**361.3**	20.3	379.9	(18.6)
Franchise fees	213.7	**206.8**	(6.9)	208.5	(1.7)
Government transfers - operating	112.9	**140.3**	27.4	198.1	(57.8)
Licenses and permits	79.4	**74.5**	(4.9)	80.3	(5.8)
Investment earnings	107.9	**138.3**	30.4	70.0	68.3
Fines and penalties	65.7	**69.5**	3.8	69.5	0.0
Developer/ customer contributions - operating	36.4	**42.9**	6.5	31.6	11.3
Operating Revenues	**$ 3,557.3**	**$ 3,674.1**	**$ 116.8**	**$ 3,433.8**	**$ 240.3**

Comparison to Budget

Operating revenues were higher than budget by $116.8 million, or 3.3 per cent of the revenue budget, mainly due to higher than budgeted income from user fees and sales of goods and services, investment earnings, government transfers - operating, and subsidiary operations - EPCOR.

User fees and sales of goods and services were higher than budget due to an expected recovery through the provincial Disaster Recovery Program of $16.5 million in costs for wildfire responses, higher than budgeted revenues due to recreation and attraction facilities achieving higher than expected demand for programs and services, greater than budgeted land sales due to timing of sales, higher waste collection fees due to customer growth,and more than expected conference and convention revenue as conferences returned to pre-pandemic levels. These favourable variances compared to budget were offset by decreased transit fare revenue due to changing purchasing behaviors and travel patterns.

Government transfers - operating were higher than budget due to increased federal and provincial transfers, including new federal 2 Billion Trees Program, the Alberta Mental Health Urban Strategy grant provided to Edmonton Police Services, and the federal Rapid Housing Initiative funding to support affordable housing.

Subsidiary operations (EPCOR) net income was higher than budget due to substantially higher US construction revenues, as well as higher overall income due to higher rates and customer growth. This was partially offset with higher interest costs on short term debt due to higher interest rates, and a loss on the fair value of financial electricity purchase contracts.

Investment earnings were greater than budget due to improved market conditions. Markets were up significantly in 2023 as inflation decreased and investor confidence rose.

Comparison to Prior Year

Overall, operating revenues were higher when compared to last year by $240.3 million, due to increases in revenue from user fees and sales, property taxes, and investment revenue. These increases were partially offset by a decrease in government transfers and subsidiary operations - EPCOR.

User fees and sales of goods and services increased from the prior year as the post-pandemic recovery continued, with demand for services returning to normal and in some cases being higher than expected. Recreation facility and attractions revenue was higher than the prior year as attendance and demand for programs increased over prior year. Transit fare revenue was higher in 2023 due to continued ridership recovery towards pre-pandemic levels. Additionally, there were higher land sales, waste collection fees due to rate increases and customer growth, and higher conference and convention revenue as conferences returned to pre-pandemic levels. Also, in 2023 the City recognized a receivable for recovery of wildfire supports costs totalling $16.5 million.

Net taxes available for municipal purposes increased by $120.5 million from the prior year mainly due a 4.96 per cent tax increase for 2023 approved by Council, as well as growth in property taxes due to assessment growth (the growth that occurs through new construction, upzoning, subdivision or exemption changes).

Investment earnings increased by $68.3 million compared to the prior year benefitting from higher interest rates. In a reversal to the previous year, markets were up significantly in 2023. As inflation eased and investors became more confident that interest had peaked, this provided support to financial assets.

Government transfers - operating decreased by $57.8 million mainly as a result of a prior year one-time injection of $67.0 million provided through the Government of Canada's Transit COVID-19 Funding Support (RESTOR funds). These funds were provided to help offset the financial impacts of the pandemic relating specifically to reduced transit ridership and the associated loss of transit fare revenue. This decrease was partially offset with additional CMHC funding as part of the Rapid Housing Initiative and National Housing Co-Investment Fund, and the Government of Alberta grants related to the Alberta Mental Health Urban Strategy grant (EPS).

Subsidiary operations (ECPOR) net income was lower than the prior year due to higher amortization expenses related to significant asset additions in 2023, and unfavourable changes on the fair market value of financial electricity purchase contracts.

CAPITAL REVENUES

Capital revenues are made up of government transfers, contributed tangible capital assets, developer and customer contributions and local improvement revenues. These revenue sources are approved by City Council as funding sources for capital projects through the capital budget process. Capital revenues are recognized in the Statement of Operations to fund the related capital expenditures as they are incurred, and as a result the recognition of capital revenues often varies with timing of expenditures.

Capital Revenues

(millions of $)

	2023 Budget (A)	**2023 Actual (B)**	Variance (B-A)	2022 Actual (C)	Variance (B-C)
Government transfers - capital	$ 1,980.3	**$ 643.9**	$ (1,336.4)	$ 532.8	$ 111.1
Contributed tangible capital assets	119.3	**80.6**	(38.7)	81.6	(1.0)
Developer and customer contributions - capital	82.5	**24.9**	(57.6)	6.7	18.2
Local improvements	12.3	**13.1**	0.8	12.4	0.7
Capital Revenues	**$ 2,194.4**	**$ 762.5**	**$ (1,431.9)**	**$ 633.5**	**$ 129.0**

Comparison to Budget

Capital revenues of $762.5 million were $1,431.9 million lower than budget due to less than expected capital government transfers, developer and customer contributions, and contributed tangible capital assets.

Government transfers - capital were lower than budget by $1,336.4 million due to timing of LRT projects (Metro Line: NAIT to Blatchford, Century Line: Century to Heritage Valley and Valley Line West) and recognition of the Investing Canada Infrastructure Program (ICIP) grant used to fund a portion of the LRT projects. The LRT projects are still in design phase or early stages of construction. Grant eligible spending related to Fort Edmonton Park - Utilities and Enhancements and Yellowhead Freeway Conversion projects, which are funded through the Building Canada Fund program, has occurred at a slower rate than originally planned with expected completion now in 2024.

Developer and customer contributions were $57.6 million lower than budget largely due to the timing of capital expenditures that are partner or developer funded, such as the Edmonton-Strathcona County Pedestrian Bridge capital project.

Contributed tangible capital assets were lower than budgeted, as the amount of land and developer contributed assets related to roadway assets varies depending on the neighbourhood development.

Comparison to Prior Year

Capital revenues were higher than the prior year by $129.0 million due to increases in government transfers - capital and developer and customer contributions.

Government transfers - capital revenues increased due to an overall increase in capital activity in 2023 across numerous capital projects including LRT construction on Valley Line West, Valley Line Southeast, Metro Line and Capital Line South extension. Advancement on the Yellowhead Trail Upgrade project, 50 Street Canadian Pacific Railway Grade Separation, Edmonton EXPO Centre and Edmonton Convention Centre Rehabilitation also contributed to the increased use of government capital revenues. Revenue is recognized as expenses are incurred on these projects with significant advancement made on these projects during 2023.

Developer and customer contributions - capital was $18.2 million higher due to additional developer contributed funding, particularly funding for the Edmonton-Strathcona County Pedestrian Bridge.

OPERATING EXPENSES

Operating Expenses by Function

(millions of $)

	2023 Budget (A)	**2023 Actual (B)**	Variance (A-B)	2022 Actual (C)	Variance (B-C)
Transportation services	$ 1,060.7	**$ 1,038.7**	$ 22.0	$ 1,028.4	$ 10.3
Protective services	826.1	**846.1**	(20.0)	793.8	52.3
Community services	795.3	**803.9**	(8.6)	774.9	29.0
Waste Services Utility	219.5	**213.6**	5.9	202.3	11.3
Land Enterprise	73.9	**63.4**	10.5	28.2	35.2
Blatchford Renewable Energy Utility	3.1	**2.1**	1.0	1.0	1.1
Fleet services	38.4	**41.9**	(3.5)	42.1	(0.2)
Corporate administration, general municipal and other	605.4	**649.0**	(43.6)	555.3	93.7
Operating Expenses	**$ 3,622.4**	**$ 3,658.7**	**$ (36.3)**	**$ 3,426.0**	**$ 232.7**

Comparison to Budget

Operating expenses of $3,658.7 million were higher than budget by $36.3 million, or 1.0 per cent of the consolidated expenses budget.

Transportation services expenses were lower than budgeted primarily due to lower snow and ice clearing cost due to less than expected snowfall in the last quarter of the year, as well as lower LRT operating costs due to the delay in opening of the Valley Line South East line. This is partially offset with higher wage costs for transit operators due to sick related leaves, costs to cover long-term disabilities, and higher interest costs due to the timing of borrowing.

Land Enterprise costs were lower than budgeted due to timing of land sales within the budget cycle. This was primarily related to land sales in Blatchford.

Waste Services Utility costs were less than budgeted due to lower than anticipated contractor costs, salaries and wages, and various other cumulative favourable cost variances compared to budget. This was partially offset by $14.0 million higher than budgeted landfill post-closure costs for the Clover Bar Landfill as a result of inflationary cost impacts and increased complexity in post closure activities.

Protective services expenses, which includes Fire Rescue Services, was higher than budgeted primarily due to the Alberta Wildfire response costs, comprising $3.4 million additional personnel costs and $13.1 million for materials and equipment. These costs included establishment of an evacuee reception centre and fire support services provided to the impacted communities, including Drayton Valley and Edson, as well as Northwest Territories in the fight against the Yellowknife wildfires. The City expects to be fully reimbursed for these costs through the provincial Disaster Recovery Program and through mutual aid agreements with impacted communities.

Community services experienced higher costs compared to budget as a result of various factors. Recreation facilities saw costs greater than budget due to higher than expected demand at facilities, resulting in higher personnel, material and contractor costs. Convention and tourism costs were greater than budget to support more than expected conferences post-pandemic. These unfavourable variances were partially offset by budget savings in the planning and corporate properties areas due to delays in grants and rebates resulting from slower than expected progress on projects by applications. The delays were due to supply chain issues and general construction delays.

Corporate administration, general municipal and other expenses were higher than budget due salary settlements, and higher interest costs due to the timing of borrowing.

Comparison to Prior Year

In 2023 operating expenses increased by $232.7 million over the prior year mainly due to increases in Corporate administration, general municipal and other expenses of $93.7 million, $52.3 million in Protective services, $35.2 million in Land Enterprise, and $29.0 million in Community services.

Corporate administration, general municipal and other costs increased over the prior year mainly due to salary settlements, higher interest costs due to the timing of borrowing, and higher costs within financial strategies which are used to manage risk and provide flexibility for unknown amounts over the four-year budget cycle.

Protective Services experienced higher costs due to salary settlements as well as higher wage costs due to increase in overtime related to higher demand for services. Costs in Fire Rescue Services were higher than prior year primarily due to the Alberta Wildfire response.

Land Enterprise costs were higher than the previous year as a result of timing of land sales and increase in related costs of land sold.

Community services costs increased over prior year largely due to post-pandemic recovery. Recreation facilities saw increased costs due to higher than expected demand at facilities. Convention and tourism costs were greater than prior year to support more than expected conferences post-pandemic. The cost increases were partially offset by a decrease in expenses, as the prior year included a loss on transfer of land and assets related to permanent supportive housing of approximate value of $70.0 million to Homeward Trust.

Waste Services Utility saw higher costs primarily due to an increase in the post-closure liability related to the Clover Bar Landfill as a result of inflationary cost impacts and increased complexity in post-closure activities.

Operating Expenses by Object

(millions of $)

	2023 Actual (A)	2022 Actual Restated (B)	Variance (A-B)
Salaries, wages and benefits	**$ 1,790.7**	$ 1,669.5	$ 121.2
Materials, goods and utilities	**398.5**	375.4	23.1
Contracted and general services	**426.0**	349.4	76.6
Interest and bank charges	**171.9**	132.8	39.1
Grants and other	**146.0**	159.3	(13.3)
Amortization of tangible capital assets	**661.0**	653.8	7.2
Loss on disposal, impairment and transfer of tangible capital assets	**64.6**	85.8	(21.2)
Operating Expenses	**$ 3,658.7**	**$ 3,426.0**	**$ 232.7**

The operating expense increase of $232.7 million compared to prior year was largely due to higher salaries and wages, contracted and general services, interest and bank charges, and materials, goods and utilities costs. This is partially offset with lower loss on disposal, impairment and transfer of tangible capital assets, and fewer grant expenses.

Salaries, wages and benefits increased by $121.2 million mainly due to salary settlements and contractual rate adjustments, as well as higher demand for services causing the need for additional staff at recreation facilities. There was also increased overtime in Edmonton Transit Services and Fire Rescue Services in order to maintain services while staff were on leave.

Contracted and general services were higher than the previous year due to increased attendance at recreation facilities and attractions, as well as higher overall contracting costs due to inflation and supply chain issues. Waste services saw increased expenses due to an electrical outage resulting in maintenance costs as well as higher collection costs related to the Communal Collection program.

Interest and Bank Charges were higher than the previous year due to increased borrowing for capital infrastructure projects, higher interest rates and the timing of borrowing. This is partially offset by a gain on the fuel hedge in 2022, while the current year saw nominal loss.

Materials, goods and utilities increased by $23.1 million primarily because of increased demand for materials and goods at recreational facilities and attractions, elevated expenses for wildfire assistance, and higher land costs resulting from increased land sales in 2023. This is partially offset by reduced expenses related to snow and ice due to minimal snowfall during the winter season.

Grants and other expenses were lower than the prior year due to the timing of payments as funding milestones were not met in the current year for funding to be released. These funds are expected to be released in future years as funding milestones are met.

Loss on disposal, impairment and transfer of tangible capital assets decreased by $21.2 million from the prior year. In 2022 the City recognized a loss on transfer of land and assets related to permanent supportive housing of approximate value of $70.0 million to Homeward Trust. During the year there were higher levels of roadway asset retirements as a result of increased road construction due to higher neighborhood and arterial road construction. This was partially offset by a $27.6 million gain on asset retirement obligation revaluation in 2023.

Schedule 2 – Consolidated Schedule of Segment Disclosures, provides an analysis of revenues and expenses (by object) for each of the significant business groupings within the reporting entity. A description of each of the segments is provided in Note 32 to the financial statements.

FINANCIAL CONTROL AND ACCOUNTABILITY

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

FISCAL POLICIES

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

City Policy, C217E, Reserve and Equity Accounts. This policy outlines the governance, accountability, administration, monitoring and reporting of all City reserves and equity accounts. The City has policies in place for various reserves, including the Financial Stabilization Reserve, Traffic Safety and Automated Enforcement Reserve, Edmonton Police Services Reserve and Planning and Development Reserve, that ensure sufficient funds are in place to satisfy the financial needs of the operations being supported by the reserve.

City Policy, C629, Financial Stabilization Reserve. This policy outlines the governance, administration, and reporting of the appropriated and unappropriated Financial Stabilization Reserve (FSR). The appropriated FSR balance is designated for specific purposes, including operating and capital projects, as approved by City Council. The purpose of the unappropriated FSR balance is to manage one-time unexpected emergent financial needs and should not be used to address ongoing pressures or to mitigate tax-levy increases. A risk based review of the unappropriated FSR is completed every three years with revisions to the minimum and target level, if necessary, with the results reported to City Council for approval. The previous review was completed in 2021 and the next scheduled review will be carried out in 2024. Currently the unappropriated FSR has a minimum balance of 5.0 per cent and a target balance of 8.3 per cent of current tax-supported operating expenses.

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

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

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

City Policy, C604B, Edmonton Police Services (EPS) Funding Formula. The EPS Funding Formula was created to provide a predictable level of funding for each year within the four-year budget cycle. The goal of the funding formula was to provide funding certainty to allow for long-term budgeting and workforce planning. At the August 23, 2023 City Council meeting, Council approved the revised Edmonton Police Service Funding Formula Policy C604B.

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

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

City Policy C203D, Debt Management Fiscal Policy. This policy provides guidelines for prudent debt management and ensures that debt is used responsibly to advance key infrastructure projects.

City Council's Waste Management Utility Fiscal Policy, C558B governs the financial relationship between the City and the municipally owned and operated utility. This policy requires the utility to operate in a manner that balances the best service at the lowest cost while employing private sector approaches to rate setting. The utility is required to charge rates that are sufficient to meet expenditures and cash flow requirements, repay capital debt and ensure financial sustainability.

City Policy C578, Multi-year Budgeting Policy. This policy enshrines the use of a four-year budget cycle for budgeting operating and capital programs, unless otherwise directed by Council, with the end of the term of this four-year budget to be coincidental with the calendar year-end of the year after the year in which a new Council is elected. The purpose of this policy is to establish guidelines and the approach for the planning and approval of multi-year budgets to ensure greater certainty for future expenditures and revenue increases, and the related impact on future tax increases.

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

Council Policy C587A, Enterprise Risk Management Policy. The purpose of this policy is to ensure the consistent application of the Enterprise Risk Management process to support the alignment of informed choices and prioritize actions to address risks, reduce downside impacts and elevate opportunities to reach corporate goals, objectives, strategy and service commitments. This policy and procedure were updated in 2023 to align more closely with the 2021 Enterprise Risk Management (ERM) Framework and to reflect new processes and systems implemented as part of the Framework.

REGULATORY

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

STRATEGIC PLANNING

The Strategic Planning Framework is composed of six interconnected plans and processes that direct the growth and evolution of Edmonton. Broadly, the framework answers three main questions: Where are we now? Where are we going? How will we get there?

ConnectEdmonton and The City Plan

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 to prepare for a city of two million Edmontonians.

The Corporate Business Plan and Budgets

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

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

Enterprise Performance and Enterprise Risk Management

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

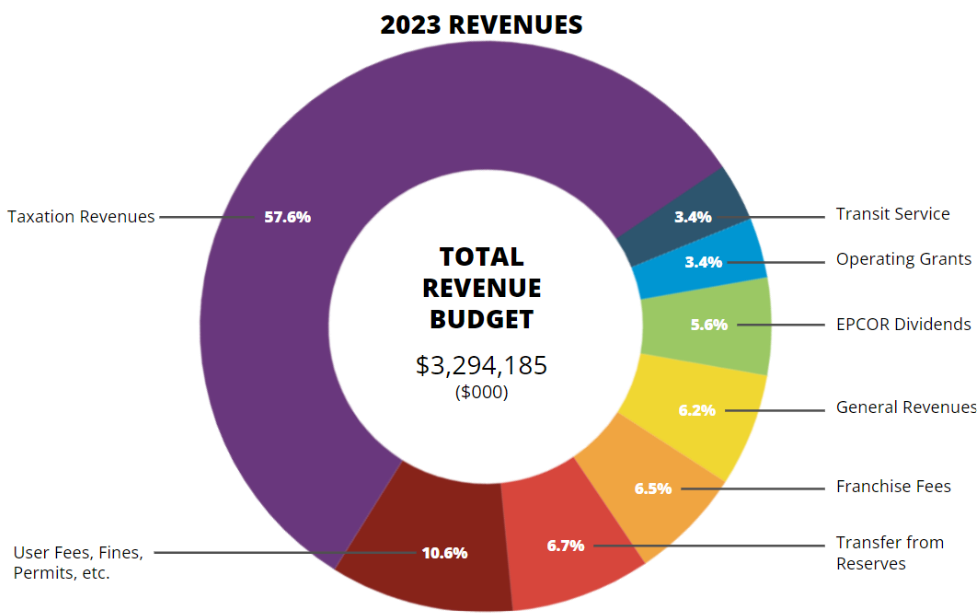
Enterprise Risk Management (ERM) is about the City's assurance and plan to achieve its objectives by preparing for uncertainty and obstacles by seizing emerging opportunities. ERM helps the City understand uncertainty and envision new ways to view the world. It focuses on the shift to opportunities,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

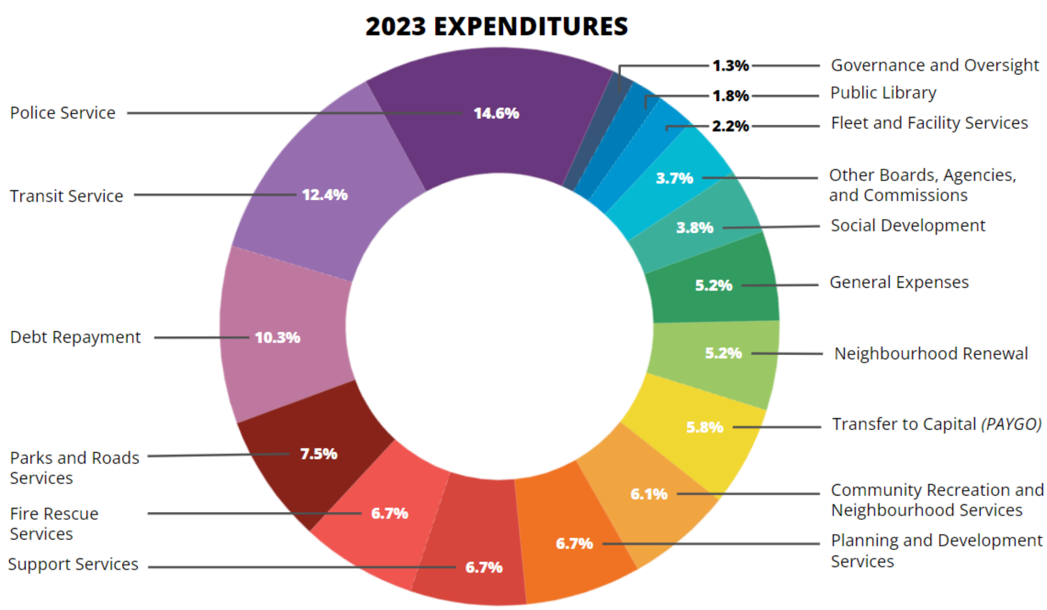
BUDGETING

Guided by Edmonton's strategic plans Connect Edmonton and the City Plan, the 2023-2026 Operating and Capital Budgets assist Council in making strategic decisions about how to allocate City resources. This multi-year approach, governed by *City Policy C578 - Multi-year Budgeting Policy*, allows the City to align strategic plans, business plans, and operating and capital budgets, to ensure the dollars are spent to achieve City Council's vision. It also allows for better alignment with Council's election terms, providing the foundation for more informed and strategic financial decision making. Funding can be reallocated across different years of the budget and needs can be assessed over a longer term to allow for more prudent and informed financial decision making, while building stable program and service delivery and infrastructure development.

The multi-year process includes opportunities to adjust the budget twice a year through the supplemental budget adjustment process approved by City Council. During the supplemental budget adjustment process, Council can adjust the capital and operating budgets in response to changing project needs, new funding opportunities, changes in federal and provincial budgets, changes imposed by legislation, Council directed changes in priorities, operating impacts of capital projects, unforeseen impacts to economic forecasts and emerging issues. In December 2022, City Council approved the original 2023-2026 Operating and Capital budgets. In April 2023, City Council finalized the 2023 budget through the Spring supplemental operating budget adjustment process.

The operating budget identifies how resources for the day-to-day costs required to run the city are allocated for services such as maintaining roads and public transit, police, bylaws and fire rescue services, as well as parks and waste services. The approved budget resulted in a 4.96 per cent general property tax increase in 2023. The chart below shows the City's total revenue budget by category followed by a further breakdown of the total tax supported expenditure budget that is spent on each major expense category:





Certain Expenditure Budget groupings consist of multiple departments:

- Governance and Oversight includes Offices of the City Auditor, City Manager, City Clerk, and Mayor and Council
- Planning and Development Services includes Integrated Infrastructure Services and Urban Planning and Economy
- Community Recreation and Neighbourhood Services includes Community Recreation and Culture, and Community Standards and Neighbourhoods
- General Expenses includes Automated Enforcement, Capital Project Financing, and corporate wide expenditures
- Support Services includes Communications and Engagement, Employee Services, and Financial and Corporate Services

The Bylaw to establish the 2024 municipal tax rate for all property types will be set by City Council in April 2024. Changes to the operating budget that will impact the tax levy will be completed prior to the taxation bylaw approval.

As part of the 2023-2026 budget deliberations, Council provided direction to remove $60 million from the base budgets for 2023-2026 and identify $240 million of expenses that could be re-allocated towards housing, climate change, public transit and core services. This motion is referred to as Operating Budget Amendment 12 or “OP12.”

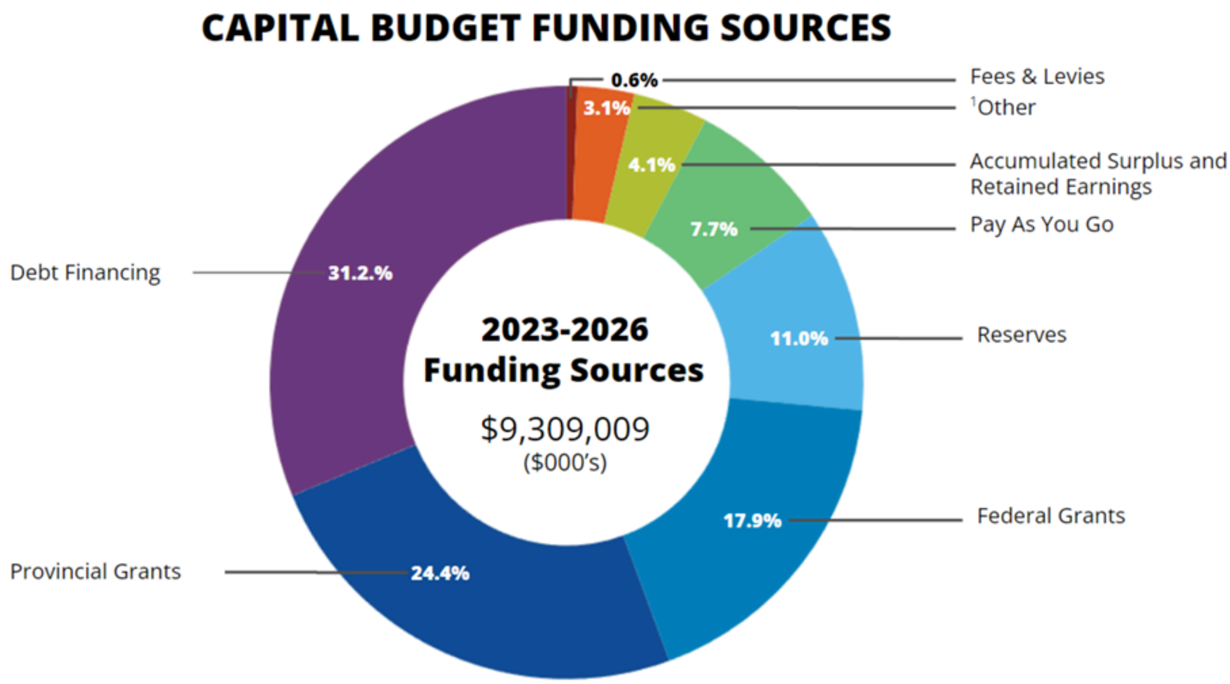
To implement this direction, Administration developed a seven stream project approach. This process included a review of past work, significant organizational structure changes and an idea generation process which engaged Council, union partners and employees. As ideas were reviewed, evaluated and prioritized, teams were tasked with considering guiding questions regarding the efficiency, effectiveness, value and relevance of various City services.

An annual reduction of $15 million totalling $60 million over a span of four years has already been incorporated into the 2023-2026 budget.

The identification of $240 million of options where resources could be shifted is well underway, with several early ideas generated through the OP12 process that were incorporated into the Fall 2023 Supplemental Budget Adjustment. This work will continue into 2024.

The capital budget strikes a balance between investments in infrastructure growth and the requirement to maintain and renew existing City assets. It determines the investment in Edmonton’s hard infrastructure, including the construction of buildings such as recreation centers and libraries, and transportation assets including LRT lines and bridges. The foundation of the 2023-2026 Capital Budget is the 2023-2032 Capital Investment Outlook, a high level overview of the City’s capital investment requirements over the next ten years that supports the strategic direction of Council.

The four-year capital budget saw investments of $10.3 billion on infrastructure based on the approved capital budget with cash flows extending beyond 2026, with $9.3 billion falling within the four-year budget cycle. Capital requirements directly related to EPCOR are not included in the capital budget. The funding and financing sources are as follows:



ACCOUNTING AND FINANCIAL REPORTING

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

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

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

In addition, the operating budget is amended for adjustments required to adhere to PSAS for the purpose of the audited financial statements. The objective is to provide City Council and other users of the financial statements and budget documents with an understanding of the budget approved by City Council compared to the actual results reported in the audited financial statements.

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

RECOGNITION FOR ACHIEVEMENT

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

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Canadian Award for Financial Reporting to the City of Edmonton for its annual financial report for the fiscal year-ended December 31, 2022. The Canadian Award for Financial Reporting program was established to encourage Canadian municipal governments to publish high quality financial reports and to provide peer recognition and technical guidance for officials preparing these reports. To receive a Canadian Award for Financial Reporting, a government unit must publish an easily readable and efficiently organized annual financial report that conforms to program standards. Such reports should go beyond the minimum requirements of public sector accounting standards and demonstrate an effort to clearly communicate the municipal government's financial picture, enhance an understanding of financial reporting by municipal governments and address user needs. A Canadian Award for Financial Reporting is valid for a period of one year and, in 2022, Edmonton received this award for the 30th consecutive year.

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

The City also received the GFOA award for Distinguished Budget Presentation for the 2023-2026 fiscal years beginning January 1, 2023 and ending December 31, 2026. To be eligible for this award, a governmental unit must publish a budget document of the highest quality that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communications device.

AUDITING PROCESS

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

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

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

> **Agent of Change** – to conduct proactive and forward looking projects based on the provision of strategic, risk and control-related consulting services to better serve the changing needs of the corporation and bring about improvement in program performance; and
>
> **Guardian** – to conduct projects directed primarily towards providing assurance through review of existing operations, typically focusing on compliance, efficiency, effectiveness, economy and controls.

LONG-TERM SUSTAINABILITY

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

City Council approved an updated Enterprise Risk Management Policy in December 2023 to ensure continuous improvement and reflect the updated ERM framework and procedures. Enterprise risks and opportunities are proactively identified, evaluated, communicated and managed on an ongoing basis and the City progresses toward becoming a risk-mature organization.

The City's top risks to achieving the City's strategic goals currently are focused on economic prosperity and financial constraints, climate change impacts and employee retention, satisfaction and health.

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

ECONOMIC RISKS

Despite higher prices and interest rates weighing on the economy, Edmonton's economy continued to expand in 2023, with an estimated 2.7 per cent growth. Robust population growth, driven by high net migration, buoyed the Edmonton and census metropolitan area (CMA) economies in 2023. Still, the impact of an extended period of inflation and a dramatic rise in interest rates really materialized in the second half of the year with sluggish growth in retail sales, a softening labour market, and a delayed response to an influx of housing demand from new home construction. Households and businesses are still adjusting to the current interest rate environment, translating to softer growth in household spending and business investment levels. These factors are expected to temper employment growth and moderate overall economic growth in 2024, despite continued economic demand support from an expanding population.

In 2024, Edmonton's population growth is forecast to moderate from an estimated 4.8 per cent in 2023 to 3.6 per cent, and average 2.4 per cent growth annually between 2024 and 2028. A key risk to the City's economic outlook relates to the performance of population growth, specifically how migration trends evolve. Typically, stronger than anticipated growth brings additional consumers of goods and services, including housing, and potentially boosts the working-age population. However, this growth could also be a negative shock to the economy, especially if growth is sudden and robust, as the supply of housing and services may not have fully anticipated the scale of in-migration, translating into a sudden and strong increase in demand. Specific to housing, this could increase competition in the housing market and push prices up. The degree to which this impacts the overall economy depends on the duration of strong growth and the degree to which the construction sector and businesses are able to anticipate demand from future population growth. Should population growth exceed expectations for an extended period of time, there is a risk of further misalignment of business and household investment with demand pressures, resulting in a volatile path for prices.

The City of Edmonton will continue to monitor economic developments in order to balance Edmonton's economic realities with the City's need to provide quality services and infrastructure to all Edmontonians.

The City's new four-year budget cycle started in 2023. During the previous cycle, taxes were kept low, including one year with a tax decrease. While this was necessary to support Edmontonians through the pandemic, it was not enough to cover inflationary pressures and serve a growing population. Council approved a 4.96 per cent tax increase in 2023, which was in the middle range of tax increases among major Canadian municipalities. The increase allowed the City to maintain and continue to improve core services, while also advancing the capital plan, including projects like the LRT expansion,Yellowhead Trail Freeway Conversion and Lewis Farms Recreation Centre.

The 2023-2026 Capital and Operating Budgets, and 2023-2032 Capital and Operating Investment Outlooks outline the City's capital and operating spending, taking into consideration these economic challenges. The long-term sustainability of City infrastructure is impacted by the City's capital renewal plan. The concept of 'renewal' refers to investment in existing infrastructure to restore it to an efficient operational condition and extend its service life. Investing in renewal at key points throughout the life of an asset maintains its condition at a higher level while extending the life of the asset. Investment in renewal reduces the long-term requirement for capital funding while maintaining a suitable level of service for residents.

ASSET CONDITION

The City has built up its infrastructure significantly in recent years alongside population growth in Edmonton. This has created a much larger inventory of infrastructure that the City will be challenged to maintain, given the current levels of funding. The City's current inventory includes many individual assets like parks, bridges, paths, roads, buildings and LRT lines. For the 2023 reporting period, 56.6 per cent of City assets are in very good/good condition, 32.9 per cent are in fair condition, and 10.5 per cent are in poor or very poor condition. The City of Edmonton measures performance on asset condition by the percentage of assets in poor and very poor condition. The current value of 10.5 per cent represents a net increase of 0.3 per cent over 2022, however a net overall decrease of 7.2 per cent since 2011 where the percentage of assets in poor and very poor condition was 17.7 per cent.

The ideal renewal investment over the 2023-2026 Capital Budget is $3.5 billion; however there is only funding available for 54 per cent of this ideal requirement. While the capital budget makes the most of available funding, this level of funding is not sufficient and can create issues of sustainability in the long term. Continued underinvestment in renewal will impact the condition of the City's assets, and could shorten asset lifespans, cause service disruptions and create more urgent maintenance needs later on.

Administration will be monitoring and recommending funding decisions in future budget discussions with a high priority placed on renewal funding.

INTERGOVERNMENTAL

The City of Edmonton remains committed to partnerships with the federal and provincial governments - especially in areas where there are jurisdictional limitations to our fiscal capacity and policy authority - to achieve our shared vision of a safe, prosperous, vibrant and climate-resilient city. These partnerships are especially important in areas such as capital infrastructure, affordable housing, community safety and climate change, where there are limitations to the City's fiscal capacity and jurisdictional authority.

While progress has been made on addressing priorities such as houselessness, climate action, reconciliation and building a more inclusive economy, federal and provincial partnership and funding support will remain critical. As a service hub for the capital region, Northern Alberta and the Territories, the City of Edmonton continues to rely on funding from other orders of government in addressing complex public policy issues facing the City and the region, which also have a profound impact on the City's fiscal situation.

While the role of municipalities has expanded significantly over the last few decades, the fiscal and legislative framework in which municipalities operate does not fully reflect this changing reality. According to an Alberta Municipalities' estimate, municipalities in Alberta are facing an infrastructure deficit of $30 billion. There is an opportunity to modernize municipal finances and authorities over the long term through new fiscal arrangements and stronger partnerships with other orders of government to reflect the 21st century role of local governments.

MANAGING OTHER RISKS

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

- Environmental risks are monitored through internal City practices and policies, which aid in the effective management of environmental risks and responsibilities. City Council approved Edmonton's Environmental Management System Policy C505 as well as an Environmental Policy C512. The policies ensure commitment to sound environmental management practices, and stewardship in all aspects of its corporate activities. Standard environmental management system practices across the City will address environmental regulatory compliance, pollution prevention and continual improvement.
- The corporate Property and Casualty Risk Management area provides risk management advice, claims adjusting, purchase of insurance and risk control inspections.
- Ongoing proactive analysis of the physical, contractual and insurance risks associated with capital projects or major initiatives and establishment of appropriate measures to identify and control project risk. The intention of City Policy C591, Capital Project Governance Policy, is to ensure that an appropriate level of development is completed on projects prior to them moving onto the delivery phase. This risk management process helps to ensure that key projects are completed safely, on time, on budget, on quality and in scope. In 2023, an external review was undertaken to assess and compare the policies, processes, and frameworks employed by the City to manage major capital projects. The review concluded that the City has an established major capital infrastructure project management framework that is aligned with industry best practices.
- Hedges are purchased for future fuel purchases in order to stabilize operating budgets in the face of fuel price fluctuations. Similarly, forward currency contracts are used to mitigate foreign exchange risk within the City's capital purchases.
- The City borrows through the Government of Alberta's department of Treasury Board and Finance. The interest rates for borrowing reflect the market cost of borrowing for local authorities, and are set for the term of the borrowing, therefore reducing risk associated with interest rate fluctuations. Elevated interest rates increase the City's borrowing costs for infrastructure projects and public services, thereby putting additional strain on budgets and limiting funding for other essential community initiatives.
- The City has a Financial Stabilization Reserve that may be used to address emergent needs without impacting the City's financial position in the long-term. A financial risk based review was completed for the City in 2021, identifying potential risks faced by the City and the probable financial cost of each risk. The review substantiated the minimum and target balances of the reserve established through City policy. The next review will take place in 2024.
- The City's Debt Management Fiscal Policy, C203D, provides for prudent management of debt and ensures debt is used responsibly without burdening the financial health and long-term sustainability of the City. Administration continues to monitor the use of debt and provide debt forecasts as part of ongoing reporting to City Council.
- The City continues to leverage data analytics in order to discover and communicate meaningful patterns in data, which help to predict and improve business and financial performance, recommend strategies and guide financial decision-making.

CONCLUSION

Throughout 2023, the City of Edmonton has maintained its financial health and the City's economic performance remains one of the best in the province.

In July, the credit agency Standard and Poor's (S&P) re-affirmed the City's AA credit rating. S&P also improved its outlook for the organization from stable to positive due to an expanding economy and prudent fiscal management that will allow the City to continue to make headway on the capital program. However, continued reliance on debt in Edmonton's capital program will lead to a rising tax-supported debt burden, potentially putting pressure on the City's credit rating.

The City will continue to be challenged to manage emerging competing financial needs as the major centre for the region, and to maintain existing services while addressing service and infrastructure needs associated with the growth. The approved 2023-2026 Capital and Operating budgets and business plans have helped the City position itself well for the future.

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