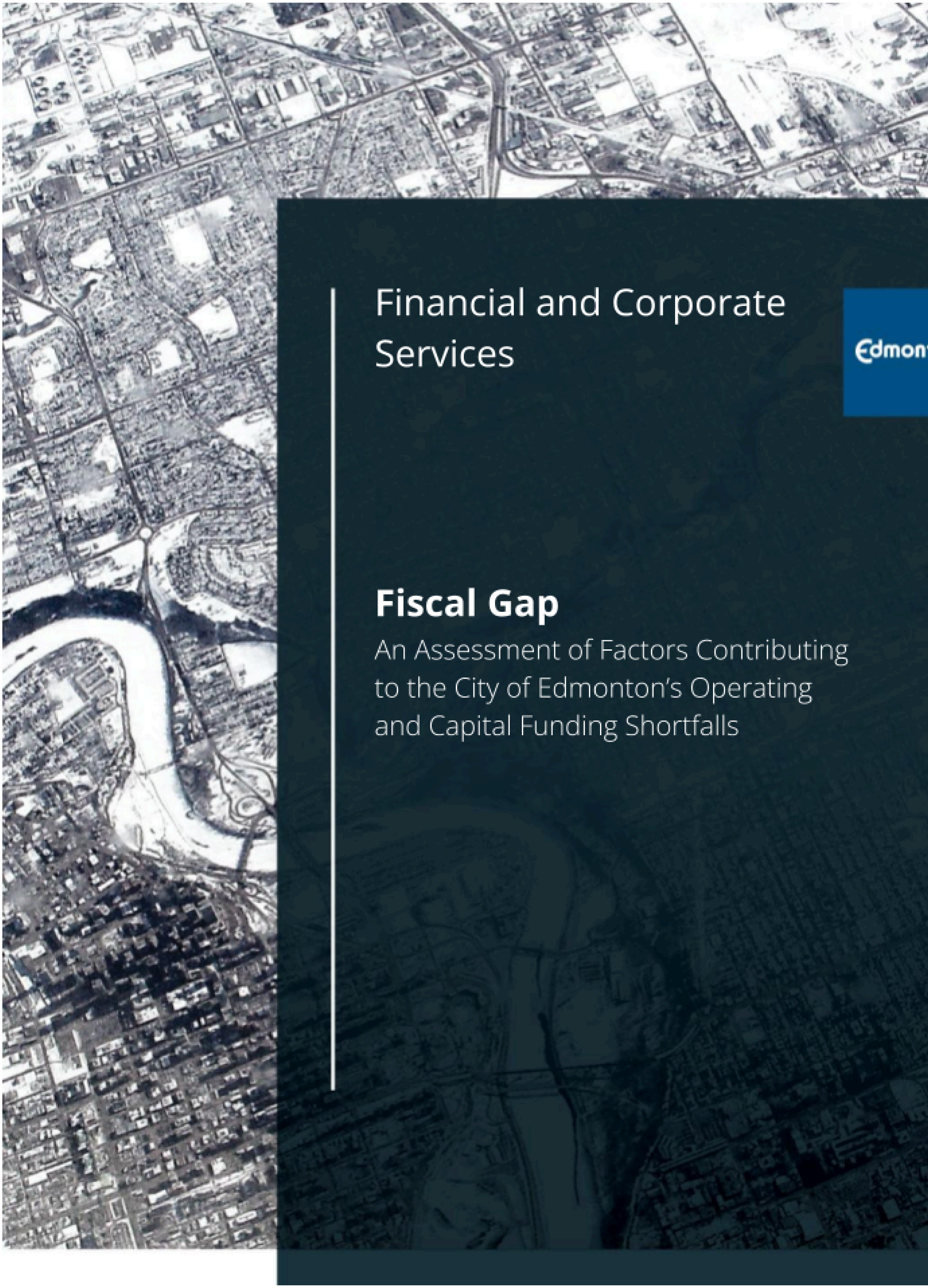


Financial and Corporate Services

Edmonton

Fiscal Gap

An Assessment of Factors Contributing to the City of Edmonton's Operating and Capital Funding Shortfalls

CONTENTS

EXECUTIVE SUMMARY

1. EXECUTIVE SUMMARY

1.1 THE CITY OF EDMONTON'S FISCAL GAP

The City of Edmonton is in stable financial condition. The City has a robust set of financial policies, well-defined budget practices and a financial reporting process that ensures transparent disclosure of financial information, and manages debt in a prudent and responsible manner. On July 11, 2024, the City's AA credit rating was reaffirmed by S&P Global. Consolidated financial statements are audited annually. The City also continuously seeks ways to improve the efficiency of services delivery to meet the evolving needs of Edmontonians.

Notwithstanding having robust financial processes and being in stable financial condition, the City's fiscal pressures are immense. Like other big cities in Canada, the City of Edmonton is experiencing significant fiscal challenges on numerous fronts. Municipalities have limited tools and legislated authority to raise revenues; at the same time, municipalities are experiencing rapid population growth and higher service expectations. On both an operating and capital basis, this has translated into the City's revenue-raising capacity persistently falling short of its expenditure needs. This difference, or shortfall, between revenue capacity and expenditure needs is defined in this report as the fiscal gap.

The fiscal gap threatens the City's fiscal sustainability, the programs and services Edmontonians rely on, and the City's ability to invest in infrastructure that makes Edmonton attractive, globally competitive, and improves quality of life for residents. There are many short-term and long-term implications from having a persistent and large fiscal gap, and left unaddressed will result in:

- Service level erosion,
- A deterioration of infrastructure,
- The inability to advance the City's strategic objectives, and
- Outsized tax increases.

Though it would be simpler to categorize these issues as solely a "revenue problem" or a "spending problem," the reality is that the fiscal gap is compounded by numerous issues related to revenues, spending, the City's strategic goals, its infrastructure assets and its tax base. While many contributing factors to the fiscal gap are caused by circumstances outside of the City's control, many others are within the City's control to influence. Some key contributing factors to the fiscal gap are:

- The fiscal framework in which municipalities operate enables a limited suite of revenue tools. This results in municipalities becoming primarily reliant on property taxes and user fees.
- The City has become even more heavily reliant on property tax as non-tax revenue growth has occurred at relatively low rates compared to expenditure growth, and user fee revenue streams have not kept pace with inflation or other economic benchmarks in many years. Loss of funding for grants in place of taxes and pressures from programs like ride transit compound fiscal challenges and increase the burden on Edmonton taxpayers.
- Edmonton has been the fastest growing large city in Canada since the turn of the century, and has grown at more than 2.2 times the national growth rate. Rapid population growth puts immense pressure on operating and capital expenditure budgets across all City services.
- The cost of infrastructure is significant and growing, and municipalities deliver a significant portion of the infrastructure that impacts the lives of residents. The City is reliant on transfers from other orders of government to fund growth and renewal. The flexible funding from other orders of government that could help fund the large and growing renewal deficit has diminished significantly.
- From 2008 to 2022, Edmonton's non-residential assessment base declined from 72 per cent of the EMRB non-residential base, to 60 per cent. This is in large part due to insufficient real growth of the non-residential tax base. There was an estimated $29.9 billion in real growth from 2010 to 2022, of which the City absorbed only 41 per cent, whereas surrounding municipalities absorbed 59 per cent (inflation-adjusted 2022 dollars). Ideal real growth absorption should be somewhat proximate to the City's population share (72.8 per cent), as population is one of the primary drivers of the City's expenditure responsibilities.
- Edmonton's location as the centre of the region, a service hub and a gateway to the north presents unique challenges, as social and public health issues tend to concentrate in Edmonton.
- As a consequence of the COVID-19 pandemic, the City underwent a high inflation period that constrained City resources at a time when more people needed social supports. Many individuals continue to struggle with affordability, addictions and mental health challenges. In response, the City has been taking on more responsibilities in areas that have traditionally been under the jurisdiction of higher order governments.
- Growing resident expectations on both the variety and service level of programs, services and infrastructure delivered creates expenditure pressures that are amplified by a rapidly increasing population.

- The City developed ambitious strategic plans through engagement with Edmontonians about the future vision of Edmonton as it grows to accommodate 2 million people. Many of the strategic goals developed through this process pulls the City into non-traditional service areas and puts upward pressures on City expenditures beyond its revenue-raising capacity.

The City of Edmonton operates in a larger and continually evolving intergovernmental context. As the higher-orders of government redefine their roles in spaces which have historically been theirs to deliver, the City feels pressure to invest in areas of unmet need that have a direct opportunity or challenge to Edmonton's safety, sustainability and/or prosperity. As an additional pressure, government grant programs are increasingly tied to other qualifying requirements (e.g. the interconnection of housing and transit) which means that immediate municipal investments are required to secure long-term provincial and federal support to achieve the objectives of The City Plan.

The strength of the City's fiscal position is the foundation for its ability to deliver high-quality programs, services and infrastructure projects, and to build an attractive and globally competitive city; a strong and sustainable fiscal position enhances the City's ability to deliver on these objectives, whereas a weakened fiscal position constrains the City financially, diminishing its capacity for program, service and infrastructure delivery. Moving the City towards a fiscally sustainable path by narrowing its fiscal gap will require difficult decisions and trade-offs about current and future service levels, prioritization, revenue generation, strategic goal evaluation and capital planning, and will require a comprehensive, disciplined and coordinated effort to solve.

While the report makes clear that many contributing factors to the fiscal gap are not caused by the City, the Conclusion focuses on the levers, actions and decisions within the City's control that can help it narrow its fiscal gap. Public expectation will demand the City maximize the powers under its control to move towards a more fiscally sustainable path. Doing so will also place the City in a better position for requesting assistance from higher-order governments.

1.2 REPORT STRUCTURE

This report provides a comprehensive discussion of factors contributing to the City's fiscal gap. The report has 35 sections, with sections 4 through 35 each presenting an underlying factor or cause of the City's fiscal gap. The report sections are grouped together by theme, with each section nesting within one of eight overarching parts:

PART I
INTRODUCTION

2. WHY CITIES MATTER

Big cities are the centres of economic activity, innovation, research and technological progress. They are Alberta's and Canada's face to the world. In a globalizing world, money and capital flow to where the returns are highest, and labour moves to where the best economic and social opportunities reside. In turn, cities compete within global marketplaces for access to financial and human capital.

Large cities like Edmonton provide the ideal setting for economic development, as they are endowed with the optimal set of characteristics desired by investors and entrepreneurs, such as:

- The efficiency-enhancing advantages of a specialized and diverse labour force;
- A higher-skilled workforce;
- Favourable demographic structures, as higher urban wages attract the young and highly skilled;
- Greater endowments of physical capital;
- A higher capital-to-labour ratio, which yields higher productivity; and
- A greater stock of transportation and telecommunications infrastructure.

Cities are economic engines that concentrate capital and talent, because opportunities, productivity, and returns are highest. Well-populated cities have a higher share of knowledge-economy infrastructure, such as universities and research centres. From this basis, knowledge spillovers occur more readily: it is easier to learn from activities of other firms through patent disclosures, reverse engineering, idea exchanges, and through skills transfer when employees move from one firm to another.

As the world continues to globalize, competition among cities for talent supplies and access to markets will increase. Cities keep pace when they can make the right investments in the right places in a timely manner. There is a direct relationship between public investment in cities, and the appeal of such cities to investors and highly skilled workers. Cities that fail to offer the quality of service found in other metropolitan centres cannot compete in a globalizing world, so will be crowded out of the global marketplace by other cities.

Edmonton's future success hinges on being an attractive place to live, with high quality and well designed infrastructure and public spaces, great transportation systems, good access to markets, strong talent pools, and excellent services and cultural amenities. These are the building blocks that transform good cities into great cities. The City of Edmonton, however, is experiencing significant fiscal challenges and pressures, which constrain its ability to deliver the high-quality programs, services, and infrastructure necessary to remain globally attractive.

3. THE MUNICIPAL FISCAL GAP

The City of Edmonton is in stable financial condition. The City has a robust set of financial policies, well-defined budget practices and a financial reporting process that ensures transparent disclosure of financial information, and manages debt in a prudent and responsible manner. On July 11, 2024, the City's AA credit rating was reaffirmed by S&P Global. Consolidated financial statements are audited annually. The City also continuously seeks ways to improve the efficiency of services delivery to meet the evolving needs of Edmontonians.

Notwithstanding having robust financial processes and being in stable financial condition, the City's fiscal pressures are immense. Like other big cities in Canada, the City of Edmonton is experiencing significant fiscal challenges on numerous fronts. Municipalities have limited tools and legislated authority to raise revenues; at the same time, municipalities are experiencing rapid population growth and higher service expectations. On both an operating and capital basis, this has translated into the City's revenue-raising capacity persistently falling short of its expenditure needs. This difference, or shortfall, between revenue capacity and expenditure needs is defined in this report as the fiscal gap.

Some factors leading to the City's fiscal gap are systemic and have been long-standing, such as limitations on revenue-raising powers. Some are due to more-recent shifts in economic, social and environmental factors well beyond the City's control, such as rapid population growth. Some are a consequence of actions and decisions made by higher-order governments, whereas others are internally driven from decisions made over multiple years. The City's fiscal gap is compounded by regional pressures and complexities. Taken together, these factors threaten the City's fiscal sustainability.

Though it would be simpler to categorize these issues as solely a "revenue problem" or a "spending problem," the reality is that the fiscal gap is compounded by numerous issues related to revenues, spending, the City's strategic goals, its infrastructure assets and its tax base. While many contributing factors to the fiscal gap are caused by circumstances outside of the City's control, many others are within the City's control to influence.

Legislation does not permit the City to budget for deficits. Consequently, the City's fiscal gap materializes as reduced service levels, deteriorating infrastructure, above-average tax increases and the inability to advance its strategic goals. In contrast, because higher-order governments can incur budget deficits, their gaps between spending needs and revenue generation often materialize in the form of budget deficits, where spending is higher than revenues.

A persistent and large fiscal gap has many implications for the City, and on the programs and services Edmontonians rely on. Maintaining service levels becomes challenging under these fiscal conditions, let alone delivering new services or enhancing existing services. This means that the City will have limited financial means for making operating or capital investments that advance its strategic plan. Under these conditions, the City's existing infrastructure asset condition will deteriorate, and investments in new infrastructure that make Edmonton attractive, competitive, and improve quality of life will be challenging to make.

Left unaddressed, the fiscal gap will result in service level reductions, a deterioration of infrastructure, the inability to advance the City's strategic objectives, and outsized tax increases. While not all financial challenges are the City's to manage on its own, as several factors are the result of decisions of higher-order governments, the City must take measures towards addressing the fiscal gap. Public expectation will demand the City maximize the powers under its control to move towards a more fiscally sustainable path. Doing so will also place the City in a better position for requesting assistance from higher-order governments.

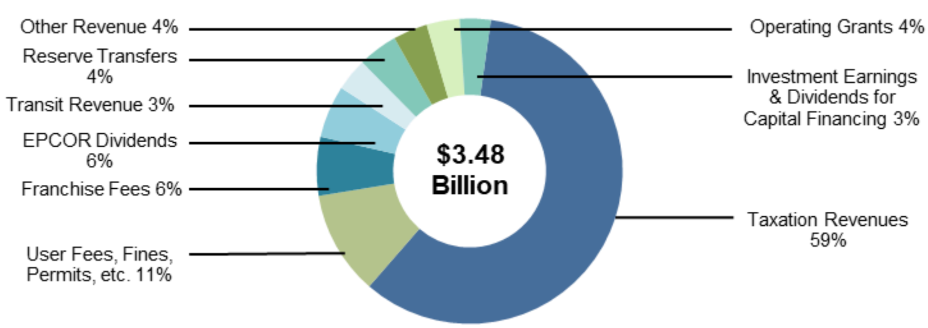
PART II
LIMITATIONS OF PROPERTY TAXATION

4. HEAVY RELIANCE ON PROPERTY TAXATION

Section 92 of the Constitution Act, 1867, which sets out legislative powers of provincial governments, makes municipal governments legally subordinate to provinces.[1] Municipal governments do not have authorities granted under the constitution, rather, authorities are enabled through provincial legislation. Municipalities in Alberta have no autonomous ability for revenue generation. The Municipal Government Act (MGA) in Alberta limits municipal taxing authority primarily to property tax. The MGA does permit other tax tools, such as special tax and local improvement tax, but these generate relatively smaller amounts.

As a consequence of the municipality-enabling legislation in Alberta, which does not enable a diversity of municipal tax tools, the City of Edmonton has developed a heavy reliance on property tax. As is shown in Figure 1, residential and non-residential property tax is the most predominant revenue-raising tool used by the City, comprising 59% of operating revenues in 2024. Additional operating revenues are raised through a variety of sources including: user fees, fines and permits (11%); franchise fees (6%); EPCOR dividends (6%); transit revenue (3%); reserve transfers (4%); other revenue (4%);[2] grants (4%); and investment earnings and dividends for capital financing (3%).[3]

Figure 1: Revenue Sources for the 2024 City of Edmonton Operating Budget



Source: City of Edmonton 2024 Approved Operating Budget, as of Spring 2024 Supplementary Operating Budget Adjustment.

This heavy reliance on property tax has increased in the past 24 years, as property tax comprised 46% of revenues in 2000, but has grown to 59% in 2024 (Figure 2).

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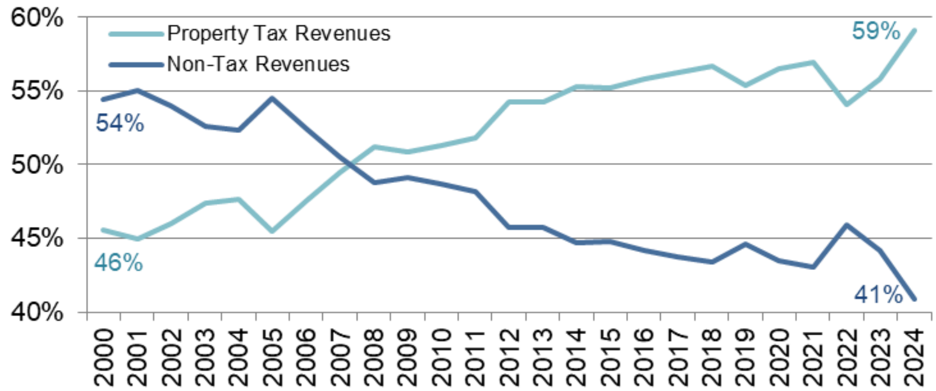
[1] The Act also sets out provincial authorities respecting non-renewable natural resources, forestry resources, and electrical energy in section 92(A). Section 93 of the Act sets out provincial authorities respecting education.
[2] Includes revenues from Downtown Arena (Non CRL), external debt recovery, local improvements, and other taxation revenues.
[3] Includes dividends from the Ed Tel Endowment Fund.

Figure 2: Property Tax and Non-Tax Revenues as a % of Operating Revenues, 2000-2024



Source: City of Edmonton Operating Budgets.
Note: Approved budget as of Spring 2024 Supplementary Operating Budget Adjustment shown for 2024; Adjusted budget shown for 2023; Actuals shown for 2000 to 2022.

The shift in property tax as a share of revenues has occurred for two reasons:

1. Property tax growth has occurred at relatively high rates; and
2. Non-tax revenue growth has occurred at relatively low rates, and has not kept pace with expenditure growth.

Table 1 shows the compound annual growth rate (CAGR) of City operating expenditures in relation to property tax revenues and non-tax revenues from 2000 to 2024. Over this period, operating expenditure had a CAGR of 5.8%, property tax had a CAGR of 7.0% and non-tax operating revenues had a CAGR of 4.6%. Because the MGA requires municipalities to balance their budgets each year, the relatively low rates of non-tax revenue growth necessitated higher rates of property tax increases to ensure revenues were balanced with expenditures. After 24 years of significantly different CAGRs, the relative shares of property tax and non-tax revenues diverged (Figure 2). Section 10 discusses non-tax revenue growth challenges in more detail.

Table 1: Compound Annual Growth Rate (CAGR) of City Expenditures vs. Revenues, 2000-2024

	2000 $Millions	2024 $Millions	24-Year CAGR
Operating Expenditures	$891	$3,484	**5.8%**
Property Tax Revenues	$406	$2,061	**7.0%**
Non-Tax Revenues	$485	$1,423	**4.6%**

Source: City of Edmonton, Calculations by City of Edmonton.
Note: Edmonton property taxes include property taxes, business taxes (phased out in 2011), and payments in lieu of taxes.

A heavy reliance on a singular revenue source presents sustainability challenges for the City. If the public's tax tolerance reduces significantly for sustained durations of time, the City's principal revenue tool will be constrained, as will its ability to deliver services.

5. COMPETING PERSPECTIVES ON PROPERTY TAX

There are competing perspectives on property tax. While property tax has beneficial characteristics, the heavy reliance on this singular tax tool presents some challenges for the City, as well as for other municipalities in Alberta. The following four subsections discuss the strengths and limitations of this tax tool.

5.1 STRENGTHS OF PROPERTY TAX

As a fiscal tool property tax has a number of strengths as follows:

1. **STABLE AND PREDICTABLE** Property tax is a stable and predictable tax. Property taxation in Edmonton follows a budget-based approach in that a budget is developed first, which determines how much property tax is collected. Under the budget-based approach, when property market values fluctuate, overall tax revenues remain stable and unchanged. An advantage of this model is that property tax revenues remain stable during periods of economic contraction and falling assessment values. Income and consumption tax revenues (models used by provincial and federal governments), in contrast, typically shrink during economic downturns.

2. **EFFICIENT AND TRANSPARENT** When accounting for all revenue raised through the property tax system, compliance and administrative costs of a property tax system in Edmonton work out to less than 1% of total revenues raised. Property tax is also a transparent tax. Amounts owing are clearly shown on a single notice and accountants are rarely required to determine an individual's tax incidence. In both cases, property tax compares favourably to often less transparent and more complex income and consumption based taxes.

3. **ALIGNMENT WITH BENEFITS PRINCIPLE FOR RESIDENTIAL PROPERTIES** Many municipalities deliver services that provide benefits closely aligned with housing consumptions (owning or renting property). Examples include roads, sidewalks, neighbourhood parks and fire rescue. In these cases, the benefits principle is adhered to, as the residential payers of property tax are also the beneficiaries of the service.

4. **LESS IMPACTED BY DEMOGRAPHIC SHIFT** As Canada's Baby Boomer demographic cohort ages and retires, the country's income tax base may be negatively impacted over time.[4] It may be that property tax is less affected by this demographic transition, as an individual's property tax burden is not subject to one's income level.[5]

5. **RESIDENTIAL PROPERTY TAXES ARE LESS HARMFUL TO ECONOMIC GROWTH** The Organisation for Economic Co-operation and Development (OECD) gives property tax high marks in comparison to other taxes on the basis it is less harmful to economic growth. High-level analysis by the OECD on four common tax types indicates corporate taxes are the most harmful for economic growth, followed by personal income taxes, then consumption taxes.[6] Their analysis indicates property taxes are the least harmful of the four.

   However, in the Canadian context, the public finance literature supported by more detailed local data indicates this feature of being less harmful to economic growth applies only to residential property tax: the School of Public Policy has argued that excessive property taxation of business properties increases the marginal effective tax rate on capital, which discourages investment in structures, and reduces the competitiveness of the business sector.[7] In the Edmonton region context, differences in non-residential tax rates can influence the locational choice of business in the region, particularly when a firm has flexibility in where it locates, and is not bound to a specific geographic location within the region.[8] This can have the effect of diminishing the non-residential tax base in certain municipalities within the region. In these cases, while regional economic growth may not be affected, the location choice of businesses can have significant impacts on municipal tax bases. This critical issue is discussed in more detail in Section 17.

[4] The Baby Boomer generation is typically defined as those born between 1946 and 1964.
[5] Mintz, Jack, and Tom Roberts. 2006. "Running on Empty: A Proposal to Improve City Finances." C.D. Howe Institute Commentary, No, 226.
[6] OECD. 2010. "Tax Policy Reform and Economic Growth." OECD Publishing.
[7] Dahlby, Bev. 2012. "Reforming the Tax Mix in Canada." University of Calgary, The School of Public Policy, SPP Research Papers, Vol. 5, Issue 14.
[8] Slack, Enid. 2003. "Are Ontario Cities at a Competitive Disadvantage Compared to U.S. Cities? A Comparison of Responsibilities and Revenues in Selected Cities." A report prepared for the Institute for Competitiveness and Prosperity.

5.2 EQUITY CONCERNS WITH PROPERTY TAX

5.2.1 FAIRNESS

The question of the fairness of property tax is a contentious one. Property tax is an indirect tax in that it is not directly based on income; it is calculated based on the market value of physical land and property improvements. There are fairness arguments with property tax compared to other forms of taxation, which suggest that despite not being based on income, for most people, property tax is paid out of income, and for many people, income and property value may not perfectly correlate. This characteristic makes property tax regressive in respect to household income, which is defined as taxes that have decreasing effective tax rates, as the amount subject to taxation increases.[9,10] Such taxes impose a greater burden on lower-income groups than higher-income groups.

On the other hand, there are arguments in favor of property taxation that suggest taxes on wealth create a more balanced tax system and that ability to pay will often correspond to personal wealth. While property taxes do not perfectly correlate with income, proponents argue there is still generally a loose relationship, or imperfect correlation.

5.2.2 REGIONAL INEQUITIES

The second limitation of property tax is that the burden is not equally shared by all beneficiaries of the City's infrastructure and services. Edmonton CMA consists of 34 municipalities (or equivalent) centred on Edmonton. As of July 1, 2023, the municipalities surrounding Edmonton had an estimated population of 434,800, comprising nearly one-third of the CMA population.[11]

The City faces the challenge that the beneficiaries of Edmonton's services and infrastructure reside both in Edmonton and in the surrounding municipalities. The costs, however, are borne only by those who own taxable property within the City's borders. Property tax's linkage to fixed property creates disparities between those who pay and those who benefit in large city regions. This phenomenon is referred to in economic terms as the "free rider problem:" where someone benefits from a good, service, or resource, without paying for the cost of receiving that benefit. Section 24 discusses the free rider problem in more detail.

[9] Effective tax rate refers to the average rate at which one's earned income is taxed. A decreasing effective tax rate implies that as one's income increases, the percent they pay in tax grows smaller. Property tax typically has a decreasing effective tax rate, as when household income increases, a smaller share is spent on housing. Further, as income and wealth increase, real estate assets comprise a smaller share of personal net worth.
[10] Palameta, Boris, and Ian Macredie. 2005. "Property Taxes Relative to Income." Statistics Canada - Perspectives, Catalogue no. 75-001-XIE.
[11] Source: Statistics Canada Table 17-10-0148-01; Statistics Canada Table 17-10-0155-01.

5.2.3 TAX DIFFERENTIAL ON NON-RESIDENTIAL PROPERTIES

Throughout most of Canada and the United States, higher property taxes are typically levied on commercial and industrial properties than on residential properties. It has been argued extensively throughout the public finance literature that this tax rate differential is not equitable from a benefits-principle perspective, as residential properties typically accrue significantly greater direct benefits from municipal service. On the other hand, advocates of higher non-residential property tax argue that businesses generate income that can offset tax costs, can deduct property taxes from their before-tax income, and can transfer the cost of taxes to end consumers. A more detailed discussion of these competing perspectives are provided in Section 16.

5.2.4 LACK OF ALIGNMENT WITH BENEFITS PRINCIPLE FOR RESIDENTIAL PROPERTIES

As was discussed in Section 5.1, when municipalities deliver services oriented towards housing consumption, the benefit principle holds, as the payers of the tax are also the beneficiaries of the municipal service. However, when municipalities broaden their service offerings with services that are unrelated to housing consumption (owning or renting property), such as health, social services, social safety net services, and services that directly or indirectly transfer wealth or income across society, the benefits principle does not hold. Such services are better and more equitably funded when income and consumption tax tools are available for government use, such as with the federal and provincial governments. When municipalities expand into these service areas, it creates a disconnection between the property taxed and the service delivered. The disproportionate impact this has is further amplified when acknowledging large cities also tend to support the health, social and community needs of a broader population beyond those who pay property taxes in Edmonton. This has a compounding impact on Edmonton property tax payers.

5.3 ECONOMIC CONCERNS WITH PROPERTY TAX

5.3.1 TAX BASE FLIGHT

In multi-municipal metropolitan city regions, differential property tax rates across the region can influence the locational choice of businesses and households. When it comes to inter-metropolitan locational decisions—for example, a firm choosing between Toronto CMA or Edmonton CMA—the available evidence suggests that property tax rate differentials are relatively unimportant to business location decisions.[12] When making this locational choice, other business factors weigh more heavily on decision-making, such as market characteristics, growth potential, market access, costs, and availability of skilled labour, among others. However, once a firm identifies a metropolitan market to do business in, property tax rate differentials do play a role in intra-metropolitan locational decisions—for example, choosing which municipality in the Edmonton CMA to establish itself.[13]

The beneficial economic characteristics of Edmonton's economy are effectively uniform across the region. Businesses who choose to locate in the region also benefit from the majority of these economic attributes enabled by the central, hub city—Edmonton. This includes, but is not limited to, a highly-skilled labour force, post-secondary institutions, a large consumer market and global market access. It becomes particularly problematic for municipalities when non-residential properties move to low-tax jurisdictions, as most municipalities in North America levy higher taxes on businesses and rely on them to fund services that more substantially benefit the residential sector. This critical topic is discussed in Sections 16 and 17.

5.3.2 TAX EXPORTATION

Tax exporting refers to situations where some portion of a local tax burden is borne by people who live elsewhere. It typically occurs through non-residential property taxes on businesses that sell goods or services to consumers residing elsewhere. The ability of a business to export some or all of their property taxes depends on how sensitive consumer demand is to changes in price. Tax exportation is generally considered undesirable from a local tax perspective, as it weakens municipal government accountability, as the direct link between the local government responsible for services and the ultimate person paying the tax is absent.[14]

5.4 IMPEDIMENTS TO RAISING PROPERTY TAXES

5.4.1 HIGH VISIBILITY

Unlike income taxes or sales taxes, which are typically automatically deducted from paycheques, or automatically added on to purchases, property taxes are billed to property owners annually. This characteristic makes the tax much more visible compared to income

[12] Kitchen, Harry, and Enid Slack. 2012. "Property Taxes and Competitiveness in British Columbia." A report prepared for the BC Expert Panel on Business Tax Competitiveness.
[13] Ibid.
[14] Kitchen, Harry, and Enid Slack. 2012. "Property Taxes and Competitiveness in British Columbia." A report prepared for the BC Expert Panel on Business Tax Competitiveness.

and sales taxes. The visibility of property tax can make it easier for property owners to examine the bill for municipal services with a greater degree of scrutiny than regular income tax contributions to the provincial and federal governments, which are significantly larger. This is compounded by the nature of a property tax system, which is typically budget-based, meaning that any increase in tax revenue must be generated by declaring a tax increase.[15] Income tax revenues, on the other hand, can increase for other orders of government as wages naturally increase without the need for those governments to declare an increase.

Furthermore, the municipal government process is more participatory than other governments. In the municipal government forum, residents can more easily observe how public dollars are generated and used, and can provide direct input to this process. The nature of this open forum ensures that residents can be engaged in municipal taxation policies. It is argued in the public finance literature that this high visibility feature of property taxes is a positive attribute, as it promotes accountability and transparency.[16] Requiring local governments to justify higher spending by requesting tax levy increases can improve the financial efficiency of government.

The visibility of property tax, coupled with the highly participatory process of municipal government, can make it more difficult to raise property taxes.

5.4.2 TOLERANCES ON TAX INCREASES

Tax tolerance refers to the amount of property tax property owners are willing to pay. Tolerance for property taxation, and for property tax increases, is often subject to the financial circumstances of property owners. Business property owners can experience variable revenues, losses, and insolvencies. Similarly, residential property owners may experience periods of reduced or no income, or be on a limited or fixed income. In both cases, property owners are liable to pay property taxes, regardless of their ability to pay. In these cases, tolerance for tax increases is likely very low.

Tax tolerance can also fluctuate with broad movements in the economy. For example, when the economy is prospering, and business revenues and household income growth is high, there is tendency for tax tolerance to increase; conversely, when economic times are challenging, tolerance for tax increases typically declines. Income and consumption taxes are not burdened with this limitation, as they self-adjust according to the taxpayer's financial

[15] Real property growth would be an exception, but this growth is typically insufficient to cover increasing municipal expenditures. This is discussed further in Section 6.
[16] Dahlby, Bev, and Melville McMillan. 2019. "The Right Tax for the Job: The Role of Property Taxes in Funding Cities." The Institute on Municipal Finance and Governance. IMFG Perspectives, No. 24.

circumstances: when income is reduced, income taxes correspondingly reduce; similarly, consumption of goods and services tends to reduce when individuals are financially constrained, which automatically reduces one's consumption tax burden.

Under a low tax tolerance environment, increasing the property tax levy to support budgetary growth becomes challenging. Under periods of fiscal constraint, available tax room shrinks, and base budgetary increases—such as to address inflation or expand services to accommodate population growth—are difficult to fully absorb. Anything beyond base budgetary increases in these economic periods, such as to add new services, enhance existing services, or advance the City's strategic plan, becomes difficult to fund.

For example, during the COVID-19 pandemic, social distancing mandates resulted in significantly reduced economic activity that led Canada and Alberta into a deep recession. Alberta's unemployment rate spiked to 15.5% in May 2020,[17] and a large number of Edmonton property owners saw a significant reduction to their personal or business incomes. The original approved municipal tax increases from 2019 to 2022 were 2.6% each year. However, City Council took steps to limit tax increases because tax tolerance was perceived to be lower, and subsequently reduced the increases to 1.3% in 2020, passed a 0.3% tax decrease in 2021, and a 1.9% tax increase in 2022. In another example, from 1993 to 1997, City Council approved 0% tax increases for five consecutive years. When tax increases are held at 0%, they effectively erode services, as inflation reduces the purchasing power of the City budget, and population growth limits how far budget dollars can stretch. Furthermore, prolonged 0% tax increases can impact the City's capital program, as it did from 1993 to 1997, by insufficiently funding infrastructure renewal needs and growing the infrastructure deficit. This has the effect of deteriorating Edmonton's public infrastructure.

6. EVALUATING GROWTH OF TAXATION REVENUES

6.1 IS PROPERTY TAX LESS RESPONSIVE TO ECONOMIC GROWTH?

There is debate in public finance literature on whether property taxes are less responsive to economic growth, and whether that is a problem for municipal governments. For example, the Canada West Foundation has argued that growth of the property tax base does not grow in line with GDP or the expenditure needs of cities.[18] In contrast, the University of Calgary's School of Public Policy has argued there is insufficient evidence that over long periods of time property tax bases grow more slowly than other major tax bases: slower growth of the

[17] Source: Statistics Canada Table 14-10-0287-03.
[18] Vander Ploeg, Casey G. 2008. "Problematic Property Tax: Why the Property Tax Fails to Measure Up and What to Do About It." Canada West Foundation.

property tax base would mean that the stock of residential and non-residential structures are not growing at the same rate as other forms of capital and GDP.[19]

Setting the context for this discussion requires an overview of growth-responsive taxes. A tax that is responsive to economic growth is one that grows in relation to the economy. Provincial and federal income and consumption tax revenue streams are responsive to economic growth by design, with broad exposure to changes in the economy; they can grow and shrink without a corresponding tax rate change. For example, the federal government's Goods and Services Tax (GST) rate has been 5% since 2008, but GST revenues have increased from $26 billion in 2008 to $46 billion in 2022 due to increased consumption in the economy.[20] This feature of growth-responsive taxation enables governments to raise spending from revenue growth using constant tax rates.

Unlike most forms of taxation in Canada, where tax rates are set by governments and tax bases fluctuate with movements in the economy, property tax in Edmonton follows the budget-based approach, which is regarded as best practice by the International Association of Assessing Officers (IAAO).[21] Under this approach, property tax revenue is neutral of market value changes; changes in the market value of the City's tax base does not itself influence the City's tax revenues. So how does the City grow its property tax revenues? The City's property tax levy can grow in two ways: through real growth, or through tax levy increases. In a typical year, the tax levy grows in a combination of both ways, which are described below:[22]

1. **REAL GROWTH:** Real growth is defined as new construction that adds value to a property. This can take the form of a new building, such as a newly built house, or an improvement to a pre-existing property, such as a finished basement or garage.[23] Real assessment growth measures how much new construction value is incrementally added to the tax base each year. Real assessment growth generates real tax growth, as newly constructed properties are added to the tax base and taxed

[19] Dahlby, Bev. 2012. "Reforming the Tax Mix in Canada." University of Calgary, The School of Public Policy, SPP Research Papers, Vol. 5, Issue 14.

[20] Department of Finance Canada. 2023. "Annual Financial Report of the Government of Canada: 2022-23." Cat. No.: F1-25E-PDF; Department of Finance Canada. 2009. "Annual Financial Report of the Government of Canada: 2008-09." Cat. No.: F1-25/2009E-PDF

[21] International Association of Assessing Officers. 2020. "Standard on Property Tax Policy: A Criterion For Measuring Fairness, Quality, Equity and Accuracy."

[22] There are no documented historical instances where the City generated no real growth tax uplift in a fiscal year. There are, however, instances where City Council did not increase the tax levy, such as from 1993 to 1997, or decreased the tax levy, such as in 2021.

[23] When property is rezoned, sub-divided or changed from farmland to development land, the City also recognizes it as real growth.

like most other properties. Typically, real growth is the City's single largest revenue growth item in the operating budget.

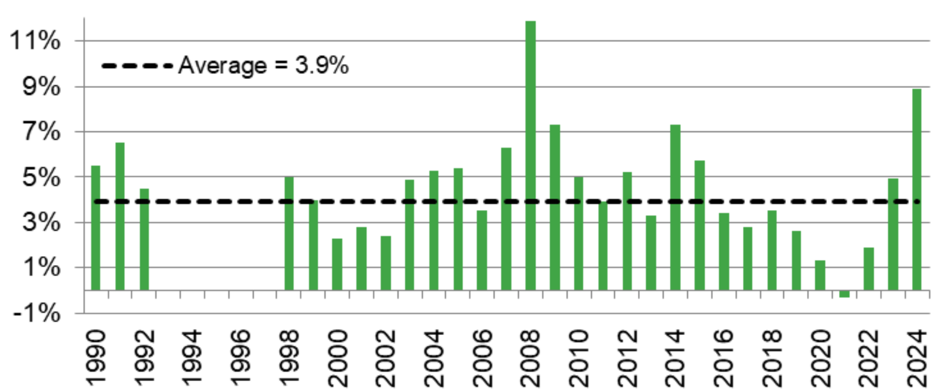
2. **TAX LEVY INCREASES:** Tax levy increases happen when City Council decides to increase the tax levy through the operating budget process to generate additional operating revenues to fund programs and services.

A byproduct of the budget-based approach is the total tax levy does not automatically adjust to changes in property assessment value. This means when Council sets the tax levy each year as part of the budget process, after accounting for real tax growth, it must decide on the tax levy increase.[24] This feature of budget-based taxes raises questions about what level of tax increase, if any, is appropriate?[25]

6.2 HISTORY OF EDMONTON PROPERTY TAX INCREASES

Figure 3 shows the City's historical annual tax increase at time of tax bylaw from 1990 to 2024. The average tax increase over this 35-year period was 3.9%. From 1993 to 1997, there were no tax increases and a 0.3% tax decrease in 2021. The highest tax increase was 11.9% in 2008, followed by 8.9% in 2024. Growth and inflationary pressures were the predominant forces behind the level of tax increase in both periods. In the current context, pressures on the tax increase are coming from adjustments to a prolonged period of high inflation and increased service requirements for a rapidly expanding population.

Figure 3: City of Edmonton Annual Property Tax Increase At Time of Tax Bylaw, 1990-2024



Source: City of Edmonton.
Note: Net of Business Tax phase out that occurred from 2008-2011, where the entire business tax was transitioned to property tax; There were no tax increases from 1993 to 1997; In 2021 there was a 0.3% tax decrease.

[24] There have been historical instances where the tax levy was not increased, or was reduced.
[25] Council also has the authority to reduce the tax levy if desired.

6.3 1993-2022: PROPERTY TAX GREW SLIGHTLY BELOW ECONOMIC GROWTH

As was discussed above, the City's property tax revenues grow through a combination of real growth and tax levy increases. From 1993 to 2022, the total growth of the City's tax levy, which includes both forms of growth, had a compound annual growth rate (CAGR) of 5.7% (Table 2). Comparing this to growth of Alberta's economy, Alberta nominal GDP had a CAGR of 6.1% over this same period.[26]

Table 2: Compound Annual Growth Rate (CAGR) of Edmonton Property Tax Levy vs. Alberta GDP, 1993-2022

	1993 $Millions	2022 $Millions	29-Year CAGR
City Tax Levy - Total Growth	$361.1	$1,779.9	**5.7%**
Alberta GDP	$83,061	$459,288	**6.1%**

Source: City of Edmonton, Statistics Canada Table 36-10-0222-01; Calculations by City of Edmonton.
Note: Figures are not adjusted for inflation; Edmonton property taxes include property taxes, business taxes (phased out in 2011), and payments in lieu of taxes.

This analysis indicates that Edmonton's property tax revenues grew slightly below the rate of provincial economic growth over the long term. The difference between 6.1% and 5.7% CAGR produces a 12% difference in revenues after 29 years, which is significant, but not enormous. Had the City's tax levy grown at a CAGR of 6.1% instead of 5.7% over this 29-year period, $214 million of additional annual tax revenue would have been available by 2022. Note that this analysis compares City tax levy growth to provincial GDP, and not Edmonton GDP. Due to data limitations there are no reliable estimates of Edmonton GDP for this time horizon. It is possible the CAGR of Edmonton GDP was slightly below that of Alberta's GDP over this same period, which could negate the potential difference between tax and economic growth.

Given the reasonably close CAGRs of tax levy growth and Alberta GDP, it could be argued that Edmonton's property tax levy, while slightly below GDP growth, has generally been responsive to economic growth from 1993 to 2022; albeit without approved tax increases in most years (average of 3.6% from 1993 to 2022), real growth alone would not have kept the tax levy in line with economic growth.

6.4 2007-2022: PROPERTY TAX GREW ABOVE ECONOMIC GROWTH

Due to data availability, the analysis of total tax levy growth can be partitioned into real growth and tax levy increases in more recent years. From 2007 to 2022, real growth of the

[26] Nominal GDP measures GDP in current prices, without adjusting for inflation. Current price estimates express values of all goods and services produced in the economy in the dollar value of the year they were produced.

tax levy, excluding growth effects of tax levy increases, had a CAGR of 3.6% (Table 3). The CAGR of real tax levy growth was slightly below that of provincial nominal GDP (3.8%) and national nominal GDP (3.9%). During this period, real growth alone grew the tax levy in line with Alberta's economic growth. When comparing real tax levy growth to other major tax sources, its CAGR was below GST (4.2%) and federal income tax (4.6%), but was equivalent to provincial income tax (3.6%).

Table 3: Compound Annual Growth Rate (CAGR) of Edmonton Property Tax Levy vs. Benchmarks, 2007-2022

	Period	Starting Value (2007 / 2008) $Millions	End Value (2022) $Millions	15-Year CAGR
City Tax Levy - Real Growth Only	**2007-2022**	**$671.2**	**$1,143.2**	**3.6%**
City Tax Levy - Total Growth	**2007-2022**	**$671.2**	**$1,779.9**	**6.7%**
Canada GDP	2007-2022	$1,577,661	$2,813,289	3.9%
Federal GST*	2008-2022	$25,740	$45,962	4.2%
Federal Income Tax	2007-2022	$159,384	$315,004	4.6%
Alberta GDP	2007-2022	$261,122	$459,288	3.8%
Provincial Income Tax**	2007-2022	$12,966	$22,092	3.6%

Source: City of Edmonton, Statistics Canada Table 36-10-0222-01; Government of Alberta Annual Reports 2007-08 & 2022-23; Federal Government Annual Reports 2007-08 & 2022-23; Calculations by City of Edmonton.
*Note: Figures are not adjusted for inflation; Edmonton property taxes include property taxes, business taxes (phased out in 2011), and payments in lieu of taxes; Federal income tax includes personal, corporate and non-resident income taxes; Provincial income tax includes personal and corporate income taxes; *GST period begins in 2008 (14-Year CAGR) to demonstrate the growth effect of a constant tax rate, which has been 5% since January 1, 2008; **The provincial personal income tax model underwent substantial changes during this period, switching from a flat tax model to a progressive model in 2015.*

Layering on the effects of tax levy increases approved by Council at time of budget shows that the CAGR of total tax levy growth from 2007 to 2022 was 6.7%, substantially higher than provincial and federal nominal GDP growth, and all tax benchmarks (Table 3). Note that this 15-year period was marked by three significant economic contractions:

- The Great Recession that began in late 2008 that affected all of Canada;
- The COVID-19 pandemic that began in 2020 that also affected all of Canada; and
- The 2015 to 2016 oil price recession that affected Alberta.

Consequently, the 2007 to 2022 CAGRs of Alberta's and Canada's GDP will be comparatively lower than other historical periods. However, when examining Alberta's 1993 to 2022 long-term nominal GDP growth rate (6.1%), as shown in Table 2, property tax had a higher CAGR in more recent years (6.7%).

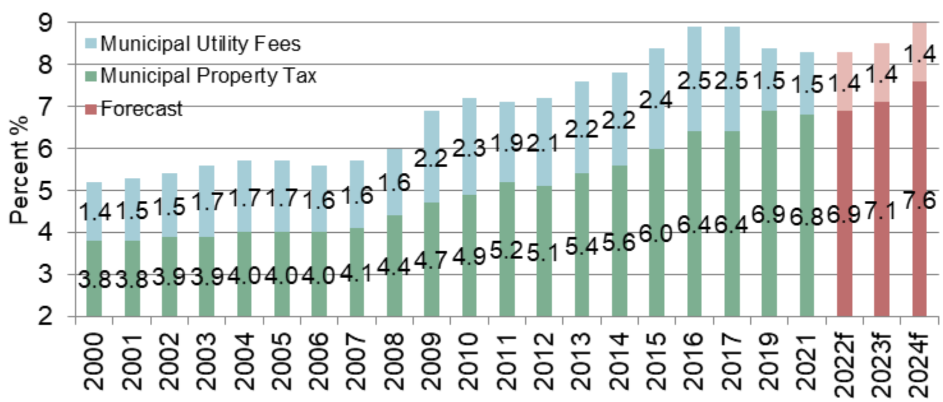
On the question of whether property tax growth is responsive to economic growth, the analysis indicates that it depends on which time period is examined. Over the long term (1993-2022), the compounded cumulative effects of both real tax growth and tax increases grew the tax levy in line with economic growth, albeit slightly below provincial GDP growth rates. In more recent years (2007-2022), Edmonton's property tax growth has been significantly higher than economic growth rates, though this may be partly due to relatively low GDP growth from three deep recessions within this 15-year period.

6.5 PROPERTY TAX BURDEN HAS GROWN

With property tax growth rates being higher than economic growth from 2007 to 2022, discussed above, the property tax burden of a typical Edmonton household has also increased. As is shown in Figure 4, City property taxes increased in share of each dollar paid in taxes to all three orders of government from 3.8 cents in 2000 to 6.8 cents in 2021. The growth in municipal tax share largely began around 2007, coinciding with higher growth rates of the tax levy. Comparatively, the other shares paid in 2021 were 65.7 cents to the federal government, and 26 cents to the provincial government.

Municipal utility fees' share of a tax dollar increased from 1.4 cents in 2000, to 2.5 cents in 2017, at which point the City transferred its drainage utility to EPCOR, reducing the utility share to 1.5 cents in 2019 and 2021. Property owners still pay for drainage utility services to EPCOR, but these revenues are not considered City revenues after the drainage transfer.

Figure 4: Share of Each Tax Dollar Paid to the Municipal Government Sector in Edmonton, 2000-2024



Source: Statistics Canada Survey of Household Spending (SHS) for Edmonton CSD 2000-2021; Statistics Canada Table 11-10-0028-01; City of Edmonton Tax Bylaws 2000-2021; Forecast by City of Edmonton; Calculations by City of Edmonton. Note: Municipal tax share is for a typical two-income, owner-occupied Edmonton household with house value equivalent to the median value for each year; the SHS methodology changed to every second year beginning in 2017, thus there is no data for 2018, 2020, 2022.

This tax share analysis is informed by Statistics Canada's Survey of Household Spending (SHS). As of this report's drafting, the most recent SHS release is for 2021. City forecasts of tax share from 2022 to 2024 indicate that City property taxes may increase to 7.6 cents of every tax dollar in 2024, while municipal utility fees will decrease to 1.4 cents; total payments to the City of Edmonton are forecast to grow to 9% of all taxes paid in 2024 (Figure 4).

Property tax in Edmonton has grown as a relative share of the tax burden for Edmonton households. In 2000, property tax was the sixth largest tax paid to the government sector by a typical, owner-occupied household.[27] By 2021, it had risen to be the fourth largest, surpassing GST and Employment Insurance (EI) Premiums (Table 4). The majority of taxes listed in Table 4 grew over the 2000 to 2021 period, but the City's property taxes grew at higher rates, so its relative share of taxes increased.

Table 4: Share of Total Tax Burden For Typical Edmonton Owner-Occupied Household, 2000 & 2021

#	Tax	2000	#	Tax	2021
1	Federal Income Tax	42.5%	1	Federal Income Tax	41.3%
2	Provincial Income Tax	18.7%	2	Provincial Income Tax	21.4%
3	CPP Contributions	8.5%	3	CPP Contribution	12.9%
4	Goods & Services Tax [GST]	8.1%	**4**	**Municipal Property Tax**	**6.8%**
5	EI Premiums	6.1%	5	Goods & Services Tax [GST]	5.2%
6	**Municipal Property Tax**	**3.8%**	6	EI Premiums	3.8%
7	Provincial Property Tax	3.2%	7	Provincial Property Tax	2.5%
8	**Municipal Drainage Services Fee**	**1.1%**	**8**	**Municipal Waste Utility Fee**	**1.5%**
9	**Municipal Waste Utility Fee**	**0.3%**	**9**	**Municipal Drainage Services Fee**	**0.0%**
	Other Provincial Taxes	*5.8%*		*Other Provincial Taxes*	*2.1%*
	Other Federal Taxes	*1.9%*		*Other Federal Taxes*	*2.5%*

Source: Statistics Canada Survey of Household Spending (SHS) for Edmonton CSD 2000-2021; Statistics Canada Table 11-10-0028-01; City of Edmonton Tax Bylaws 2000-2021; Forecast by City of Edmonton; Calculations by City of Edmonton. Note: Other provincial taxes include health care premiums (2000 only), insurance premiums tax, emergency 911 levy, excise duties on cannabis returned to the Province, provincial carbon tax (repealed May 30, 2019), and excise taxes on fuel, alcohol, tobacco, and gaming. Other federal taxes include the federal carbon tax, and excise taxes on fuel, alcohol, tobacco, gaming and cannabis.

The City's Waste Utility Fees increased in tax burden, from 0.3% in 2000 to 1.5% in 2021 (Table 4). This is in part to changing service models in 2009, and in part to higher growth rates than most other taxes: from 2000 to 2008, Waste fees increased from 0.3% to 0.6% of the tax burden; when the model switched from a tax-supported service with user fees to a full-cost-recovery utility model in 2009, the burden increased to 1.0%; the growth in fees from 2009 to 2021 resulted in Waste fees increasing in tax burden to 1.5%.

[27] A typical household is defined here as a dual-income earning, owner-occupied household earning the median household income determined in Statistics Canada Table 11-10-0028-01, with primary earner earning 69% of gross household employment income, and the secondary earner earning 31% of gross household employment income. This split was determined by Statistics Canada census data (Tables 98-10-0083-01 and 98-400-X2016106).

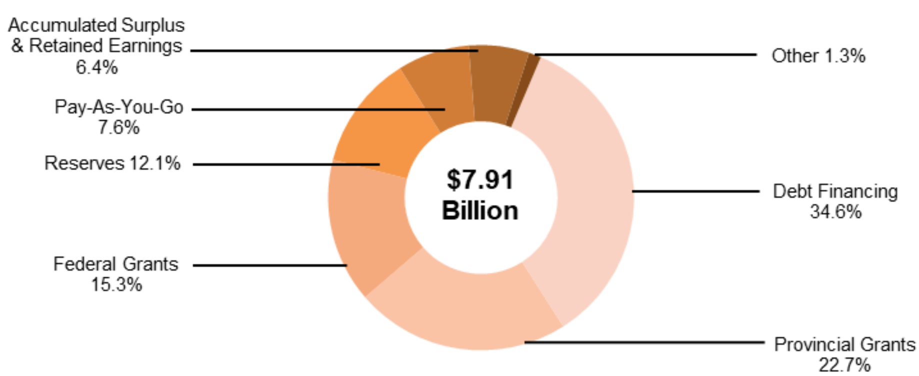
PART III
INFRASTRUCTURE FUNDING CHALLENGES

7. DEPENDENCIES ON OTHER ORDERS OF GOVERNMENT

The City, like many municipalities, has historically been highly reliant on other orders of government to deliver its capital program. The City's Capital Budget determines Edmonton's infrastructure investments, such as the construction of LRT lines, bridges, libraries, and parks.

Figure 5 illustrates the City's reliance on federal and provincial grants in its 2023-2026 Capital Budget: federal grants comprised 15.3% of funding, and provincial grants comprised 22.7%, for a total combined 38% of capital funding. The remaining funding sources were: debt financing (34.6%); reserves (12.1%); pay-as-you-go (7.6%); accumulated surplus and retained earnings (6.4%); and other (1.3%). Capital budgets are produced every four years, and because of the heavy reliance on transfer funding from other orders of government, their funding levels and sources can vary considerably from budget to budget.

Figure 5: Funding Sources for the 2023-2026 City of Edmonton Capital Budget



Source: City of Edmonton 2023-2026 Capital Budget.
Note: Other includes partnership funding, developer financing, Edmonton Police Service PAYG, and Edmonton Public Library PAYG.

Broadly, the municipal infrastructure funding model throughout Canada over the previous half century has been one where municipalities rely heavily on transfer-funding from provincial or federal governments. On the one hand, transfer funds have contributed significantly towards building Canada's municipal infrastructure. On the other, the transfer funding framework has presented several challenges for big cities like Edmonton:

1. **LACK OF FUNDING CERTAINTY:** The transfer-funding framework makes long-term capital planning challenging for the City. This is because both the provincial and federal governments tend not to provide long-term certainty around the size and timing of funds for competitive, project-based funding programs. If the City has no

awareness of the grant revenue it will receive in the medium-to-long term, it cannot effectively implement a long-term capital plan.

2. **CASH FLOW CHALLENGES:** The transfer funding model can create cash flow challenges for the City. In some cases, other orders of government announce their funding intentions without sufficient notice, leaving the City unaware of the timing of funds. This uncertainty creates challenges when financing large capital projects.

3. **CHANGING FEDERAL AND PROVINCIAL PRIORITIES:** A perennial challenge with the transfer funding model is that capital funding is always at risk of fiscal belt-tightening, or changing priorities of higher-order governments. Municipal transfers have historically been one of the first budget items identified for reductions when federal and provincial budgets are constrained.

4. **CHANGES IN GOVERNMENT:** The transfer funding programs of higher-order governments can change with changes in government. Different governments have different policy priorities, and these changes can make long-term capital planning challenging for the City.

5. **CAPITAL FUNDING IS NOT LINKED TO LOCAL ECONOMIC PERFORMANCE:** The amount of grant funding the City receives is not linked to local economic conditions. The City may experience record economic and population growth, with a need for significant capital investment, but not all transfer funding programs account for these factors. In these situations, the City does not receive adequate funding for its capital needs.

6. **GRANTS CAN LACK FLEXIBILITY ON TIME OF USE:** All grant funding has a specific timeframe for when funding must be spent, which varies in length of time for each specific grant program. Grant programs with stricter time limitations on the ability to save or defer grant funds present challenges for the City when establishing a long-term capital plan.

7. **GRANTS CAN COME WITH CONDITIONS:** The provincial and federal governments sometimes impose varying degrees of conditions and stringencies on their capital grants to control and direct how funds are spent, so that municipal policies complement their policies. Unconstrained capital grants are particularly important, as they afford the City flexibility in its capital planning.

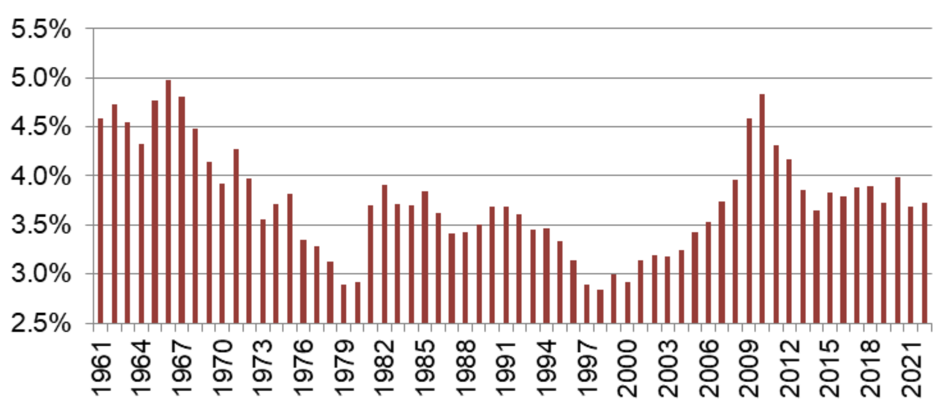
8. INFRASTRUCTURE FUNDING HAS NOT BEEN STABLE

8.1 INFRASTRUCTURE INVESTMENT TRENDS IN CANADA

Despite the vital role of public infrastructure, Canada's infrastructure investment levels have not been stable. While significant investments were made during the 1950s and 1960s, subsequent decades were a time of shifting priorities. In the late 1960s, the federal, provincial, and municipal governments in Canada began an extensive reduction of their public infrastructure investments. As all three orders of government in Canada deferred essential maintenance and postponed new infrastructure investments, Canadian municipalities accumulated an infrastructure deficit. By 2007, this deficit was estimated at $123 billion for existing renewal needs, with an additional $115 billion in new infrastructure needs.[28] In the late 2000s, all three orders of government began increasing their infrastructure investments, though not to levels observed in the 1960s.

Figure 6 illustrates this trend throughout Canada: total government sector investment in public fixed capital formation, measured as a percentage of GDP, peaked at 5% in 1966, but then continuously fell for 15 years reaching levels below 3% in the late 1970s.[29] Investments partially recovered to the 3.5% range from the early 1980s to the mid 1990s, but then fell again, reaching a low of 2.8% in 1998. In the past 15 years, total government investment in public infrastructure increased to the 4% range, though it is still below levels observed in the 1960s.

Figure 6: Canada - General Government Sector - Infrastructure Investment as a % of National GDP (1961-2022)



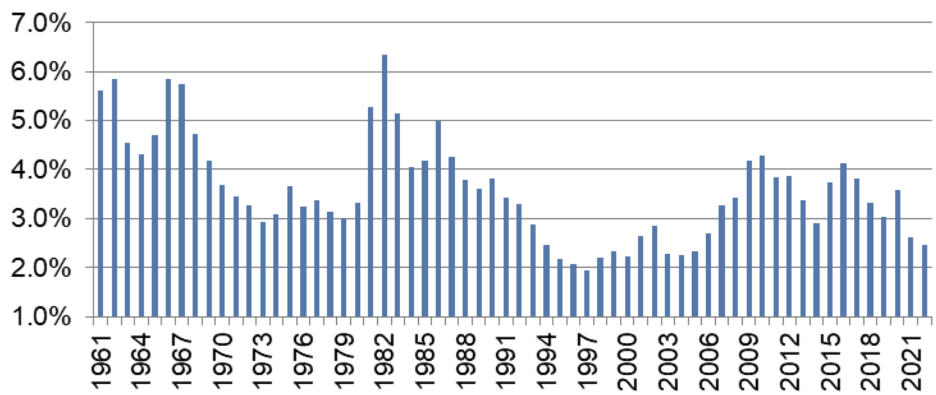
Source: Statistics Canada Table 36-10-0255-01; Statistics Canada Table 36-10-0222-01; Calculations by City of Edmonton.
Note: Public infrastructure investments are measured by government gross fixed capital formation.

[28] Mirza, Saeed. 2007. "Danger Ahead: The Coming Collapse of Canada's Municipal Infrastructure." Federation of Canadian Municipalities.
[29] Fixed capital formation refers to the acquisition of fixed public assets. Public fixed capital formation is measured as a percentage of GDP to determine whether investments in public infrastructure are keeping pace with the rate of economic growth.

A similar trend is observed in Alberta over this same period; the general government sector in Alberta dramatically reduced infrastructure investments as a percentage of GDP beginning in the late 1960s, where it had reached almost 6%, to the 3% range in the 1970s (Figure 7). The reduction in public infrastructure investment in Alberta was paused between 1981 and 1983, where investments returned to levels experienced in the 1960s in response to growth pressures from the 1973-1981 energy boom.

Following this short-lived spike, investment levels declined for 15 years, reaching a low of 2.0% in 1997, and hovered in that range for the latter-half of the 1990s. Investment levels again increased to the 3.7% range from 2007 to 2018. In the past few years, total government infrastructure investments have again been on a downward trend, hitting 2.5% in 2022.

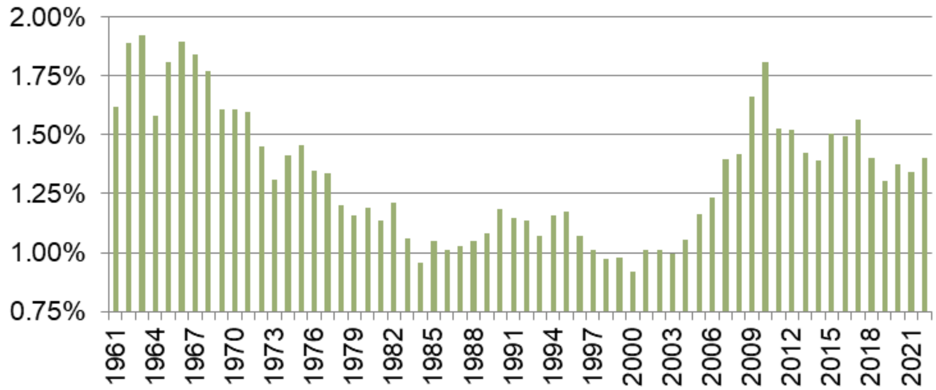
Figure 7: Alberta - General Government Sector - Infrastructure Investment as a % of Provincial GDP (1961-2022)



Source: Statistics Canada Table 36-10-0325-01; Statistics Canada Table 36-10-0222-01; Calculations by City of Edmonton. Note: Public infrastructure investments are measured by government gross fixed capital formation.

The same trend is also seen for Canada's local governments sector. Total local government investment in public infrastructure as a percent of GDP—after peaking at 1.92% in 1963—fell steadily for two decades to below 1% in the mid-1980s (Figure 8). Investment levels remained in the 1 to 1.15% range for the next 30 years, and it wasn't until 2005 that investment levels began to rise. In the past 15 years, local government infrastructure investments have increased to around 1.5%, but have not attained levels observed in the 1960s.

Figure 8: Canada - Local General Government Sector - Infrastructure Investment as a % of National GDP (1961-2022)



Source: Statistics Canada Table 36-10-0222-01; Statistics Canada Table 36-10-0255-01; Statistics Canada Table 36-10-0503-01; Statistics Canada Table 36-10-0578-01; Calculations by City of Edmonton.
Note: Public infrastructure investments are measured by government non-financial investments and acquisitions in fixed capital.

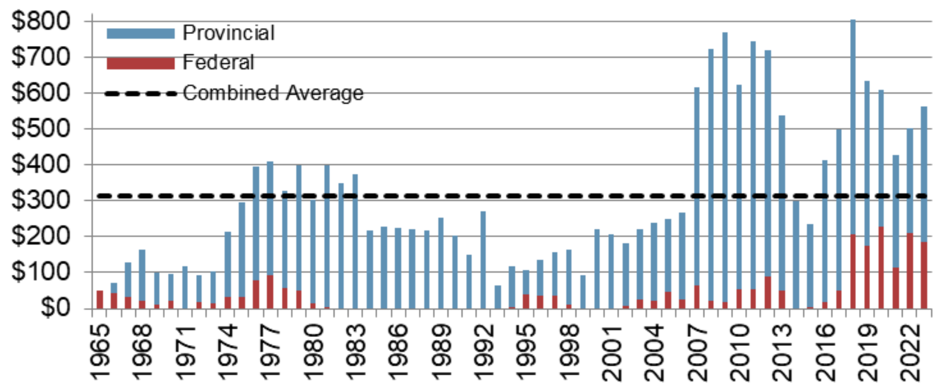
While there has been more investment in public infrastructure in the past 15 years, the scaling back of investments by all three orders of government for 40 years left a considerable deficit in the stock of Canadian urban public infrastructure and decline in the condition of those assets.

8.2 CAPITAL TRANSFER FUNDING TRENDS IN EDMONTON

When examining the total capital transfer funding provided to Edmonton by other orders of government over the previous half century, there is a similar pattern as above, where infrastructure grant funding has not been stable. From 1965 to 2023, the combined annual average inflation-adjusted capital funding to Edmonton from federal and provincial governments was $314 per capita (Figure 9). For most of this history, combined capital transfers have been below the average, with the exception of 1976 to 1983, and from 2007 onward.

Grant funding per capita from the Government of Alberta underwent prolonged reductions for almost two decades following the economic challenges of the early 1980s (Figure 9). During the 1990s, provincial budget pressures saw a further reduction in transfer payments over levels observed in the 1980s. Similarly, there were protracted periods of federal capital grant reductions to Edmonton: from 1981 to 1994, annual grant funding per capita was $0, or close to $0; again, from 1999 to 2002 federal grants per capita were near $0 annually (Figure 9).

Figure 9: Total Federal & Provincial Capital Grant Funding Per Capita for Edmonton, 1965-2023 ($2023)



Source: City of Edmonton Annual Reports; Statistics Canada Table 18-10-0005-01; Statistics Canada Table 17-10-0142-01; Population estimate for 2023 from City of Edmonton; Calculations by City of Edmonton.
Note: Capital grants are reported for the actual amounts received each year.

Total combined capital transfers significantly ramped up beginning in 2007, and have remained at elevated levels since (Figure 9). Provincial grant funding per capita from 2007 to 2023 has been significantly above the historical average. Similarly, federal grant funding per capita has also been at historical highs from 2018 to 2023. Annual combined capital funding to Edmonton over the past 15 years has averaged $559 per capita (2023 inflation adjusted dollars).

From 2019 to 2023, the Alberta government reduced capital funding provided through the provincial Municipal Sustainability Initiative (MSI). Beginning in 2024, the Local Government Fiscal Framework (LGFF), which replaced MSI, provides capital funding to municipalities, but at levels below those prior to 2019. In spite of the MSI reductions from 2019 to 2023, total capital transfer funding to Edmonton has remained at historical highs (Figure 9) as:

1. Provincial project-specific capital transfers were still at historically high levels throughout this period. This includes funding for some of Edmonton's largest capital projects historically undertaken, such as LRT network expansion projects and the Yellowhead Trail Freeway Conversion.

2. Federal capital transfers, which have typically been very low or even zero in many years, ramped up significantly from 2018 onward, averaging $187 per capita from 2018 to 2023.

Reductions to MSI and LGFF, and the impacts to the City's capital program, are discussed below.

8.3 PROVINCIAL REDUCTIONS TO THE MSI AND LGFF PROGRAMS

While total capital funding to Edmonton has remained at historical highs in recent years—due largely to high levels of project-specific funding from the provincial and federal governments (e.g., LRT), and a greater federal involvement in municipal funding—the province's unconstrained capital transfer programs underwent significant reductions since 2019, namely Municipal Sustainability Initiative (MSI) and Local Government Fiscal Framework (LGFF).

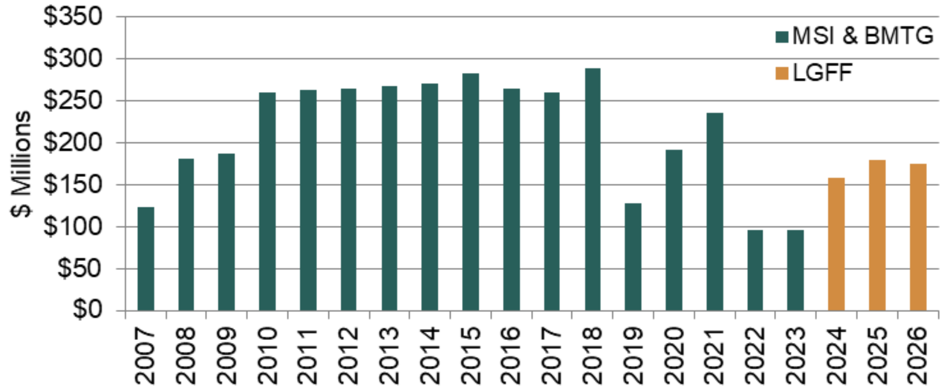
MSI was a provincial grant funding program, with both an operating and capital component, to enhance municipal sustainability and to enable municipalities to meet the demands of growth. The City's MSI transfers have been in the form of capital grants.[30] The MSI program was introduced in 2007, and was originally intended to allocate all funds over a 10-year period. However, the program was repeatedly extended, with an ultimate extension to 2023, and the original intended allocation was spread out over more years. This effectively amounted to reductions in annual capital grants for municipalities.

The MSI program ended in 2023, and was replaced by the LGFF. The LGFF includes a growth calculator pegged to the percentage change in provincial revenues from three years prior, but begins with a relatively low funding baseline in 2024: the total capital funding for all municipalities in Alberta in 2024 is $724.2 million, of which $382 million is allocated to Calgary and Edmonton. The LGFF program, like MSI, is relatively flexible, and can be used to fund most types of growth and renewal capital projects.

Figure 10 depicts both MSI and LGFF funding for Edmonton beginning in 2007, and projected out to 2026; the MSI amounts include the Basic Municipal Transportation Grant (BMTG) from 2011 to 2023, and the City Transportation Fund (CTF) from 2007 to 2010.[31] The City received $123 million in MSI capital transfers in 2007, which increased to between $259 million to $289 million from 2010 to 2018. Provincial cuts to the MSI program saw funding significantly reduced from 2019 to 2023, with the exception of 2021, where the province front-loaded the 2021 to 2023 MSI capital allocation. MSI funding in 2022 and 2023 was $95 million annually: one-third of the funding provided in 2018 (Figure 10).

[30] With the exception of 2007, where the City received an operating grant and affordable housing operating grant under the MSI program.
[31] CTF was introduced in 2000. BMTG replaced the CTF effective April 1, 2011. BMTG was consolidated with the MSI capital program effective April 1, 2014.

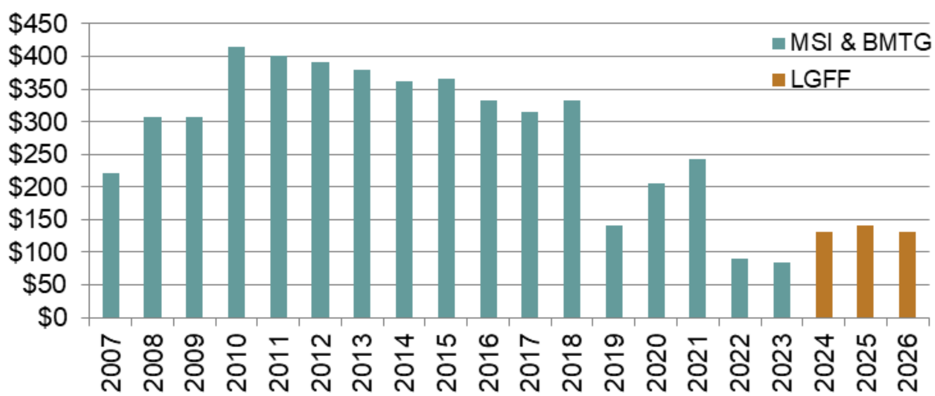
Figure 10: Provincial Capital Funding for Edmonton - MSI and LGFF, 2007-2026 ($Millions)



Source: Government of Alberta - Annual MSI Allocations; Government of Alberta - Annual LGFF Allocations; City Transportation Fund figures from City of Edmonton.
Note: MSI funding includes the Basic Municipal Transportation Grant (BMTG) from 2014-2023, and City Transportation Fund (CTF) from 2007-2013; 2026 LGFF allocation estimate from City of Edmonton.

When examining MSI and LGFF funding on an inflation-adjusted per capita basis, the funding reductions are more pronounced. MSI funding per capita peaked in 2010 at $414, and gradually lowered to $333 in 2018 ($2023 inflation-adjusted dollars; Figure 11). Per-capita MSI funding was $90 in 2022, and reduced to $84 in 2023, an 80% reduction in annual funding compared to the 2010 peak (Figure 11). Similarly, LGFF funding per-capita is projected to average $134 ($130 to $141 range) over 2024 to 2026, 68% below the 2010 peak (Figure 11).

Figure 11: Per Capita Provincial Capital Funding for Edmonton - MSI and LGFF, 2007-2026 ($2023)



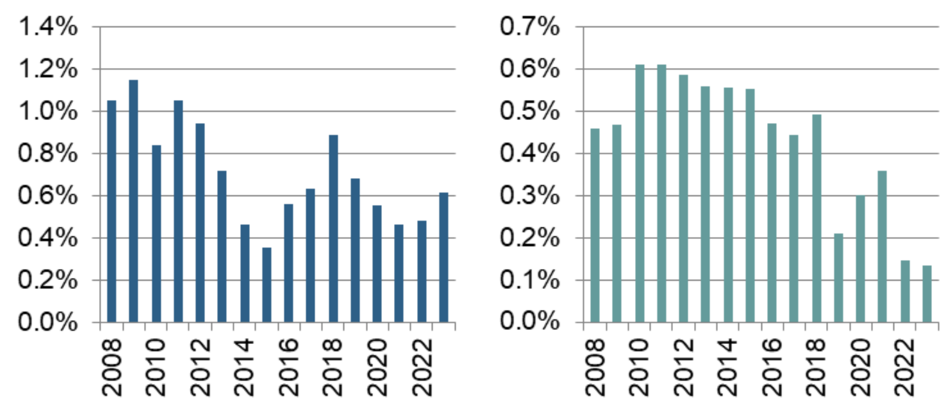
Source: Government of Alberta - Annual MSI Allocations; Government of Alberta - Annual LGFF Allocations; City Transportation Fund figures from City of Edmonton; Statistics Canada Table 18-10-0005-01; Statistics Canada Table 17-10-0142-01; Population estimates for 2023-2026 from City of Edmonton; Inflation estimates for 2024-2026 from City of Edmonton; Calculations by City of Edmonton.
Note: MSI funding includes the Basic Municipal Transportation Grant (BMTG) from 2014-2023, and City Transportation Fund (CTF) from 2007-2013; 2026 LGFF allocation estimate from City of Edmonton.

MSI and LGFF provide unconstrained transfer funding, which is not tied to specific projects, and is available at Council's discretion with limited restrictions. Unconstrained funding can be applied towards a variety of infrastructure needs, including the City's renewal program. Reductions to MSI and LGFF constrain the City's capital program for projects that do not have project-specific funding, and for infrastructure renewal, which tends not to receive project-specific funding from higher-order governments. While certain growth projects are receiving large amounts of funding support, such as the City's various LRT projects, unconstrained funding has been significantly reduced. These reductions contribute to the City's fiscal gap, particularly its ability to fund its capital renewal program.

8.4 CAPITAL TRANSFERS AS A SHARE OF GOVERNMENT SPENDING

Figure 12 sets total provincial capital transfers to Edmonton (left) and MSI transfers (right)[32] as a share of total provincial expenditures, from 2008 to 2023. From 2008 to 2012, the provincial government's budget allocation for total capital grants to the City of Edmonton was 0.8% to 1% (left). In recent years, this roughly halved, to 0.4% to 0.6% (left). From 2008 to 2018, MSI allocations to Edmonton as a share of total spending ranged from 0.45% to 0.6% (right). In 2022 and 2023, MSI allocations were reduced to 0.15% of provincial spending (right).

Figure 12: Provincial Capital Funding to Edmonton as % of Provincial Spending [Total - Left; MSI - Right], 2008-2023



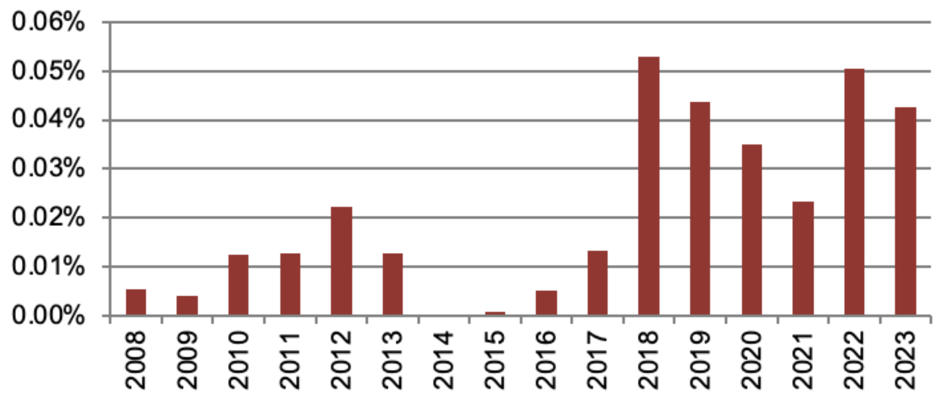
Source: City of Edmonton Annual Reports; Statistics Canada Table 10-10-17-01; 2023 provincial expenditures cited from Government of Alberta 2024-27 Fiscal Plan; Government of Alberta - Annual MSI Allocations; Calculations by City of Edmonton.
Note: MSI funding includes the Basic Municipal Transportation Grant (BMTG).

Figure 13 sets Edmonton's total annual federal capital transfers as a share of the federal government's total annual expenditures, for years 2008 to 2023. Prior to 2018, the federal government did not make significant capital funding contributions directly to municipalities. Annual capital transfers to Edmonton averaged 0.01% of federal spending from 2008 to 2017. From 2018 to 2023, federal capital funding to Edmonton underwent a fourfold

[32] MSI includes BMTG and CTF in these calculations.

increase in federal spending share, averaging 0.04% over that period. To mitigate the economic impacts of COVID-19, the federal government undertook large-scale fiscal stimulus spending in 2020 and 2021. Consequently, total federal spending spiked in those years, lowering Edmonton's capital transfer share.

Figure 13: Federal Capital Funding to Edmonton as % of Federal Spending, 2008-2023



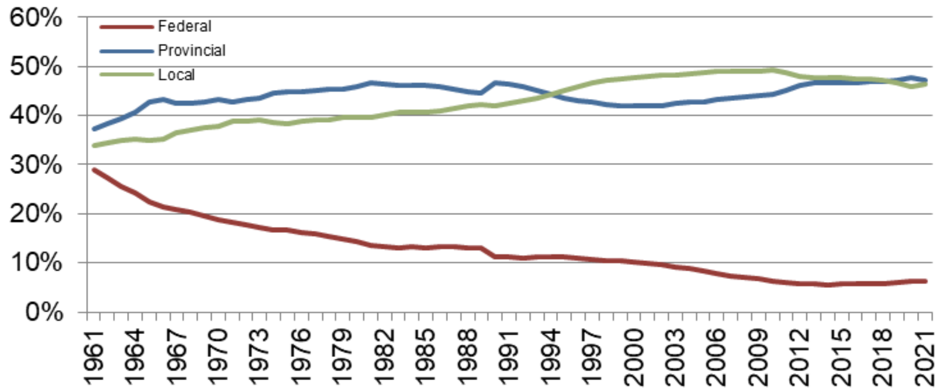
Source: City of Edmonton Annual Reports; Statistics Canada Table 10-10-16-01; 2023 federal expenditures from Government of Canada 2024 Budget; Calculations by City of Edmonton.

9. CAPITAL GROWTH IS OUT OF BALANCE WITH RENEWAL

9.1 CANADA'S INFRASTRUCTURE IS INCREASINGLY MUNICIPAL

In addition to dependencies on other orders of government to advance the City's capital program, coupled with Canada's historical infrastructure investment ups and downs, the share of public infrastructure held by local governments in Canada has significantly increased over the past six decades. In 1961, local public infrastructure was 34% of Canada's total public infrastructure; the local share peaked at 49% in 2010, then lowered slightly to 47% in 2021 amid higher rates of provincial capital investment (Figure 14). The share of public infrastructure owned by provincial and territorial governments increased from 37% in 1961, to 47% in 2021. The share of public infrastructure owned by the federal government has steadily decreased from 29% in 1961, to 6% in 2021.

Figure 14: Share of Public Capital Stock By Government Sector, 1961-2021



Source: Statistics Canada Table 36-10-0580-01; Statistics Canada Table 36-10-0533-01; Statistics Canada Table 36-10-0535-01; Statistics Canada Table 36-10-0536-01; Calculations by City of Edmonton.

Canada's stock of public infrastructure being almost 50% local means cities have a large infrastructure maintenance responsibility. Despite the fact that nearly half of Canadian infrastructure is locally owned, the current transfer-funding framework does not reflect this asset distribution. Municipal budgetary needs in Canada are very capital-intensive relative to the federal and provincial governments. Municipal renewal needs in particular are extensive, given the high share of government infrastructure.

Even with these responsibilities, the City does not have the legislative authority to establish new tax sources to fund its infrastructure renewal program, nor are existing transfer funding programs reflective of the significant renewal responsibilities. Higher-order governments tend to provide larger amounts of capital funding for specific growth projects, rather than unconstrained funding that can also be used for renewal purposes.

9.2 EDMONTON'S INFRASTRUCTURE RENEWAL GAP

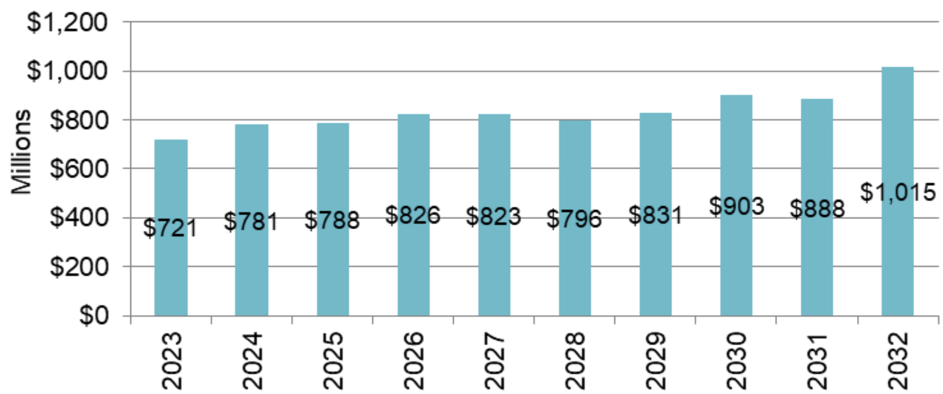
As of year-end 2022, the City had a total asset replacement value[33] of $34.7 billion.[34] The City's large inventory of capital assets means it has extensive renewal responsibilities to keep all its infrastructure in working order. This sizable responsibility demands cost-effective decisions about when and how to maintain, repair, renew and replace the vast network of assets that serve the diverse needs of a steadily growing population. The City's renewal

[33] Replacement value is the cost to replace an asset. This value remains relatively stable through the life of an asset, with adjustment due to market conditions.
[34] Includes: Ancillary Infrastructure (fleet, equipment, information technology hardware [servers, networking, cooling], software [databases, enterprise and corporate applications], barriers, streetlights/signals), Cultural Assets (Art), Facilities (buildings, affordable housing), infrastructure related to the movement of people and goods (roads, bridges, transit/LRT), Open Space (parks, play space, green infrastructure), Service Delivery (fire, police, library, recreation), and Utilities (waste, renewable energy).

responsibilities are typically in excess of the City's revenue-raising capacity, which contributes to its fiscal gap.

The City's total renewal investment requirement over 2023 to 2032 is $8.37 billion, with annual requirements in the range of $721 million in 2023 to $1.015 billion in 2032. Over the 2023 to 2026 capital budget cycle, the required renewal investment is $3.12 billion (Figure 15).[35]

Figure 15: City of Edmonton Annual Renewal Investment Requirement, 2023-2032



Source: City of Edmonton.
Note: Figures reflect strictly renewal needs.

The renewal investment needs shown in Figure 15 reflect strictly renewal needs. In real-world situations, many renewal projects require some complementary and opportunistic growth investments while renewal work is in progress. When including these required growth amounts to the renewal investment—referred to as the ideal renewal investment—the total 2023 to 2026 renewal need becomes $3.58 billion. As of the spring 2024 supplementary capital budget adjustment (SCBA), only 57.5% of the City's ideal renewal need was funded in the current budget cycle.

9.3 CAPITAL GROWTH IS BEYOND CITY'S ABILITY TO MAINTAIN IT

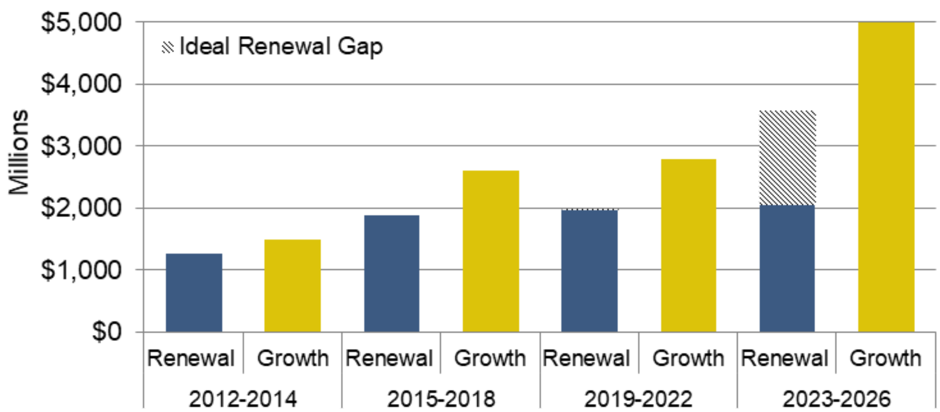
One principle of any long-term capital plan is to optimize investment in municipal infrastructure and ensure all assets are in the right condition to meet intended service levels. With both an aging and growing city, Edmonton faces the challenge of balancing investment choices between infrastructure renewal and growth. As infrastructure ages, more maintenance and rehabilitation is required to ensure performance and to meet residents' needs. At the same time, new growth expands the City's asset base, placing more

[35] Ideal renewal investment calculated as of spring 2024.

requirements on the renewal program, which, as noted above, is insufficiently funded in the current budget cycle.

As shown in Figure 16, the amount of total dollars invested in renewal has grown over the previous three budget cycles, from $1.26 billion over the 2012 to 2014 cycle, to $2.19 billion in the 2023 to 2026 cycle. However, the amount of growth spending has also increased at a much higher rate from $1.50 billion over the 2012 to 2014 cycle to $5.00 billion over the 2023 to 2026 cycle.

Figure 16: Investment in Growth Versus Renewal, 2012-2026



Source: City of Edmonton.
Note: Ideal renewal investment includes all renewal needs plus amounts for some complementary and opportunistic growth investments; the ideal renewal gap is the amount of the City's ideal renewal need that went unfunded.

In the 2019 to 2022 cycle, the ideal renewal investment need was almost fully funded, leaving a small ideal renewal gap. In the 2023 to 2026 cycle, the ideal renewal investment need was only 57.5% funded, leaving a very large ideal renewal gap of $1.52 billion (Figure 16).

There are two reasons the City's renewal needs are not being met: the first is insufficient unconstrained funding from other orders of government, and the second is the overemphasis placed on growth capital:

1. **INSUFFICIENT UNCONSTRAINED FUNDING:** As discussed in Section 8, capital transfer funding is high compared to the historical average, but the majority is project-specific funding. Unconstrained funding, which can be allocated to renewal projects, underwent significant reductions since 2019.

2. **OVEREMPHASIS ON GROWTH CAPITAL:** An overemphasis on growth capital from all three orders of government creates two fiscal problems. Firstly, it diverts funds away

from renewal in any given capital cycle. Second, it expands the City's infrastructure inventory, which grows future renewal requirements, which are already in a deficit due to overfunding growth.

Inadequate levels of capital asset renewal can quickly deteriorate the City's infrastructure condition, and the backlog of renewal and maintenance needs can quickly escalate creating significant future challenges. It is critical to ensure the City's capital renewal needs are being met, particularly under fiscal constraints—in these circumstances, renewal should be prioritized over growth.

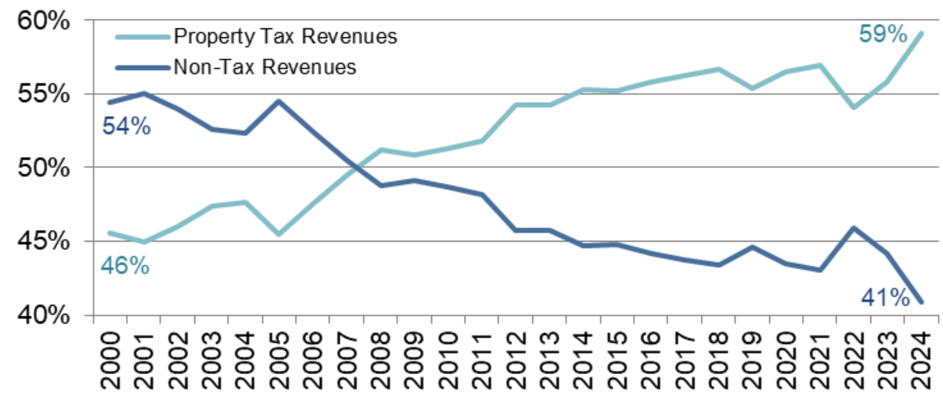
A policy that balances infrastructure growth and renewal could provide financial guidance in periods where capital funds are constrained. Such a policy would provide a principle-based framework for decision-making around tradeoffs, prioritization, sustainability considerations, risk tolerances and reporting metrics.

PART IV
NON-TAX REVENUE CHALLENGES

10. NON-TAX REVENUES HAVE FALLEN BEHIND

In the past two and half decades, the City's heavy reliance on property tax has increased, and non-tax revenues have fallen behind. In 2000, non-tax revenues funded 54% of the City's operating budget, with property tax funding 46% (Figure 17). Property tax as a share of operating revenues has been gradually increasing over this 24 year period, and by 2024 it comprised 59% of operating revenues, with non-tax revenues diminishing in share to 41%.

Figure 17: Property Tax and Non-Tax Revenues as a % of Operating Revenues, 2000-2024



Source: City of Edmonton Operating Budgets.
Note: Approved budget as of Spring 2024 Supplementary Operating Budget Adjustment shown for 2024; Adjusted budget shown for 2023; Actuals shown for 2000 to 2022.

The diminishing budgetary share of non-tax revenues is due to several factors: some outside the City's control, and some a result of decisions and actions taken over many years. While the City is limited in the diversity of revenue tools it can employ, in the past two and half decades it has over relied on property tax, while not sufficiently protecting some of its non-tax revenue streams. Table 5 demonstrates how transit revenues, comprised largely of user fee revenues, and recreation user fee revenues have grown at significantly lower compound annual growth rates (CAGR) than operating expenditures; consequently, this has meant that property tax has needed to grow at a CAGR above expenditure growth to balance the City's budget each year. This trend has contributed significantly to the City's growing reliance on property tax, which has diminished its fiscal viability by reducing revenue diversity.

Table 5: Compound Annual Growth Rate (CAGR) of City Expenditures vs. Select Non-Tax Revenues, 2000-2023

	2000 $Millions	2023 $Millions	23-Year CAGR
Operating Expenditures	$891	$3,404	**6.0%**
Property Tax Revenues	$406	$1,900	**6.9%**
Non-Tax Revenues (Total)	$485	$1,503	**5.0%**
Transit Revenues	$43	$96	**3.6%**
Recreation User Fee Revenues	$10	$29	**4.8%**

Source: City of Edmonton, Calculations by City of Edmonton.
Note: Edmonton property taxes include property taxes, business taxes (phased out in 2011), and payments in lieu of taxes; Transit revenues include fare and non-fare revenues; Recreation user fee revenues include revenues from recreation and leisure centres only, and not revenues from City attractions.

The following sections discuss some of the major factors contributing to the City's non-tax revenue challenges.

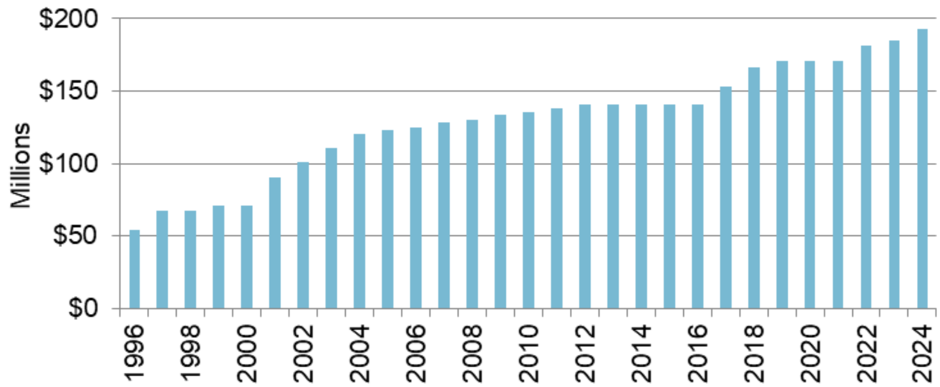
11. CITY SPENDING HAS OUTPACED THE GROWTH OF EPCOR DIVIDENDS

In 1995, the City of Edmonton created EPCOR Utilities Inc. by incorporating its municipal power utility, Edmonton Electric Lighting and Power Company, into a standalone government-owned corporation wholly owned by the City.[36] Part of the rationale of this decision was to capitalize on the deregulation of wholesale and retail power markets in Alberta. In 2009, EPCOR Generation, a division of EPCOR Utilities, transferred its power-generating assets and business to Capital Power, which became a new, independent, and publicly traded company through an Initial Public Offering. In 2017, City Council approved the transfer of the City's Drainage Utility assets and liabilities from the City of Edmonton to EPCOR. Effective September 1, 2017, EPCOR Water Services Inc. began providing drainage services to the City of Edmonton.

EPCOR presently manages water, wastewater, natural gas and electricity distribution systems in Alberta, British Columbia, Ontario, and the American states of Arizona, New Mexico, and Texas. EPCOR is governed independently by a board of directors and pays the City an annual dividend based on its earnings, which has steadily increased over the years. Dividends from EPCOR help to diversify the City's revenue streams. The City applies the dividends towards general revenue in its operating budget, which significantly reduces the City's draw on tax levy. In 1996, the annual dividend paid to the City of Edmonton was $54.3 million (Figure 18). By 2024, the City budgeted a dividend of $193.0 million.

[36] The name EPCOR was created in 2001, and was called Edmonton Power Corporation from 1996 to 2001.

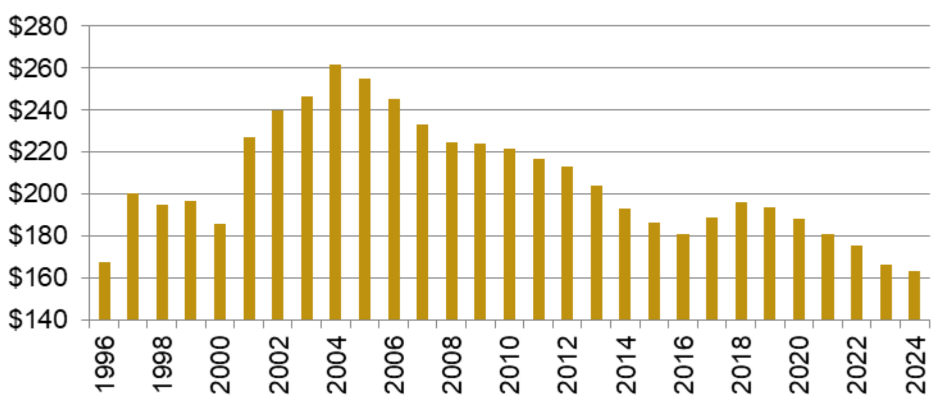
Figure 18 : EPCOR Dividends, 1996-2024



Source: City of Edmonton Operating Budgets.
Note: Approved budget as of Spring 2024 Supplementary Operating Budget Adjustment shown for 2024; Adjusted budget shown for 2023; Actuals shown for 1996 to 2022.

Over the 28-year period from 1996 to 2024, the EPCOR dividend paid annually to the City grew by 3.6 times. However, adjusting for inflation and scaling on a per-capita basis provides a different perspective: from 1996 to 2004, EPCOR dividends per capita grew from $168 to $262; but from 2005 onward, they have generally decreased to $163 in 2024 (Figure 19; 2024 inflation-adjusted dollars).

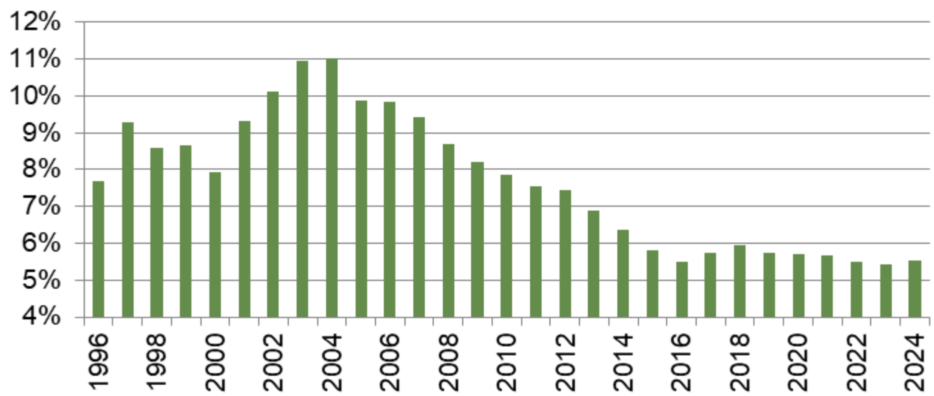
Figure 19: EPCOR Dividends Per Capita, 1996-2024 ($2024)



Source: City of Edmonton Operating Budgets; Statistics Canada Table 18-10-0005-01; Statistics Canada Table 17-10-0142-01; City of Edmonton population estimates applied for 1996-1999; City of Edmonton forecasted population estimates applied for 2023-2024; Calculations by City of Edmonton.
Note: Approved budget as of Spring 2024 Supplementary Operating Budget Adjustment shown for 2024; Adjusted budget shown for 2023; Actuals shown for 1996 to 2022.

The City's operating expenditures have grown at a faster rate than EPCOR dividends. From 1996 to 2024, the City's total annual operating expenditures grew at a compound annual growth rate (CAGR) of 5.9%. Over that same period, EPCOR dividends grew at a CAGR of 4.6%. As a consequence of these differential growth rates, and due to legislative requirements for the City to balance its annual operating budget, EPCOR dividend revenues have fallen as a share of total operating revenues, peaking in 2004 at 11%; but comprising just 5.5% in 2024 (Figure 20). Given the limitations for the City to levy alternative tax tools, this revenue stream offers a diverse revenue source that supplements the City's general revenue, however it may be unrealistic to expect a revenue source to keep pace with City growth.

Figure 20: EPCOR Dividends as a % of Operating Revenues, 1996-2024



Source: City of Edmonton Operating Budgets; Calculations by City of Edmonton.
Note: Approved budget as of Spring 2024 Supplementary Operating Budget Adjustment shown for 2024; Adjusted budget shown for 2023; Actuals shown for 1996 to 2022.

12. INSUFFICIENT GROWTH OF USER FEE REVENUES

12.1 ABOUT USER FEES

A user fee is a fee charged by the City in exchange for use of a municipal service or facility. User fees differ from taxes in that they are incurred only by those who consume the public service, whereas taxes are collected from all property owners regardless of their relative use of municipal goods and services. User fees are not intended to be levied for purposes of generating a government profit, but to recover all or part of the cost of delivering the public service. User fees must also be discretionary, where the consumer can choose whether to use the service and pay the fee, or not. The City services with the most significant user fee revenues are Edmonton Transit Service (ETS), and Community Recreation and Culture (CRC), both of which are discussed in more detail below.

12.1.1 USER FEES AS A COST ALLOCATION TOOL

Many public services are designed with the intent of benefiting society at large. It is appropriate to fund these services through broad-based taxation, thereby allocating the full service costs to the property tax base. In contrast, some public services are designed with the intent of providing greater benefits to the direct consumers of the service. For these services, it is appropriate for the City to distribute some costs to the benefiting consumer. Allocating costs in this way reduces strain on the property tax levy, and equitably distributes public service costs between the community at large (property taxes) and the service user (user fees). Council Policy C624 - Fiscal Policy For Revenue Generation provides a principle-based governing framework to guide decisions on allocating service and infrastructure costs.

12.1.1.1 WHO BENEFITS FROM CITY SERVICES?

A service creates purely private benefits if those benefits accrue only to the individual using the service. A service creates purely public benefits if those benefits accrue to the community at large. Between those two extremes lies a spectrum where benefits accrue to both the service consumer and the community at large to varying degrees. Some City services lie within this spectrum, producing a direct benefit to the consumer of the service, as well as a broader societal or public benefit.

A good example of a service that benefits both direct consumers and the community at large is the City's transit service. When an individual uses transit, the direct private benefit is obvious—they get where they want to go. But there are also several public benefits that arise from that individual's transit trip and transit service in general: traffic congestion (and the productivity losses associated with it) is reduced; vehicular air pollutants and greenhouse gas emissions are reduced; and economic productivity and community connectedness are enhanced by providing a low-cost transportation option.

12.1.1.2 WHO SHOULD PAY FOR CITY SERVICES?

For a City service that produces both public and private benefits, it is appropriate to match the direct user's payments with their direct benefits received, and to match tax-supported public payments with the public benefits received. The blend of user fees and tax support that fund a City service should, ideally, represent the mix of private and public benefits accrued from that service.

By way of example, if the full cost of a single use of a City service was $10, and 50% of the benefits would accrue to the individual, and 50% to the broader public, the user payment for that single use should be $5 and the tax-supported funding $5.[37] For purely private goods and services that create purely private benefits, the individual should pay the full cost (which is the case with consumer goods and services). For purely public goods and services where the benefits accrue wholly to the public, the full cost of the service should be funded through broad-based taxation (such as Fire Rescue Services).

12.1.2 THE RATIONALE FOR USER FEES

There are several reasons for the City to levy user fees. By introducing user fees where they did not previously exist, or by expanding existing user fees, the City can achieve any one or more of the following seven objectives.

1. **EQUITABLY DISTRIBUTE SERVICE COSTS** Where a service or infrastructure asset provides direct benefits to service consumers, it is justified to raise revenues from those consumers to recover, in whole or in part, the cost of the service or asset. Distributing service costs according to the accrual of benefits throughout the community increases social equity for all of society, including the users. By applying user fees, the cost of service delivery can be equitably distributed between the community at large and those who directly benefit from the service.

2. **LIMIT TAX INCREASES** User fees enable the City to deliver services without overburdening the property tax base, and while limiting property tax increases. User fee revenues enable the City to reallocate scarce taxation dollars toward other public priorities and emergent issues. These dollars can then be directed toward achieving the City's goals and objectives, as well as toward the always-present aim to minimize tax increases.

3. **PROVIDE SERVICES BEYOND THE CITY'S FISCAL CAPACITY** All governments are fiscally constrained with limitations on their fiscal capacity. In other words, governments can only raise so much revenue within a given period of time. This means that governments face an overall budget constraint, with limitations on the amount of service that can be delivered. User fees enable governments to expand their service delivery capacity beyond their budget constraint by allocating some portion of a service's costs to the direct users. In essence, user fees enable

[37] Even though aligning private payments to private benefits and public payments to public benefits forms a valuable and equitable framework for distributing service costs, it's important to point out that quantifying these ratios is very much an imperfect science. Private and public benefits are perhaps best used, then, as an overarching lens for interpreting benefit distribution, since it would be very challenging to precisely calculate the dollar value of many benefits.

governments to leverage public dollars with the private dollars of residents who demand the service and are willing to pay for it. This allows for more overall public service, beyond the government's budget constraint.

4. **ENABLE FREEDOM OF CHOICE** User fees enable individuals to make decisions about how to spend their money. This gives them the ability to exercise their own value judgments and choose whether to use the service and pay the user fee, or not. In contrast, City services that are fully tax-supported do not offer this choice; whether or not you use the service, you pay for it through property taxes.

5. **MORE EFFICIENT ALLOCATION OF GOVERNMENT DOLLARS** Unlike some of the City's other revenue sources, user fees are a direct link to consumer preferences and the marketplace. When the City charges a price for a service, it can closely observe market behaviour, which then allows for greater flexibility and control over the amount and quality of service that is delivered.

   User fees are one of the best tools for providing the City with a link between service delivery levels and the value society places on that service. When a public service has no associated user fee or price, it can sometimes create the perception that the service is free, which can lead to excess demand, followed by an oversupply response from the government. In effect, the government's allocation of funds can end up being in excess of society's true value for that service. In certain instances, attaching a user fee to a service acts as a regulator for this possibility. In other words, when the price is at zero and the user has no fee barriers, demand is effectively infinite. Keeping up with infinite demand is a costly proposition for cities to adopt.

6. **REGULATE DEMAND** User fees can enable the City to make pricing decisions that regulate demand. The City has pricing strategies available to it where user fees are adjusted according to the time of day, the season, or when capacity is challenged—when demand for a service far exceeds supply. For example, when services or infrastructure are overly-congested, user fees are a means to reduce congestion by shifting demand toward other lower-cost alternatives, or toward alternative times of use.

   An example of how pricing methods can regulate demand can be seen when a particular service is experiencing congestion, but the City is unable to alleviate the congestion by increasing its supply because of financial or other constraints. When this happens, the City can instead alleviate congestion by charging user fees where there were none before, or by increasing existing user fees. This type of user fee pricing is referred to as congestion or peak-load pricing, and is a means of regulating demand on a congested service so that it provides efficient service without having to increase service or build additional infrastructure. This approach is a means to control and regulate the demand side, rather than the supply side. For governments that are financially constrained, regulating demand through pricing provides a lower-cost solution to congestion, which saves money for all taxpayers in the end.

7. **USE PRICING TO ACHIEVE DESIRED GOALS AND OBJECTIVES** User fee pricing, or pricing in general, has the ability to affect consumer behaviour, where pricing can be used to shift demand toward social outcomes widely accepted as positive.

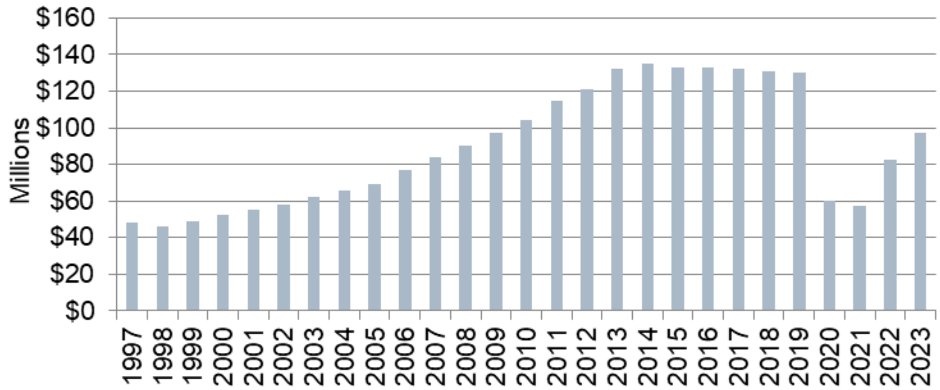
The next two subsections provide a discussion of how the City's user fee revenue model has diminished significantly. Over the previous 10 years, the City has not adequately protected these vital revenue streams, and as a consequence user fee revenues, pricing levels and cost recovery levels have diminished significantly.

12.2 TRANSIT REVENUES HAVE NOT KEPT PACE

Like most cities in North America, ETS operates on a partial cost-recovery operating model, with two own-source revenue streams that offset part of its operating costs: fare revenues and non-fare revenues. Fare revenues are the larger of the two streams, and are generated by the sale of fare products offered by ETS. All of the fare products offered by ETS are user fees. ETS also generates non-fare revenue from several sources, including advertisements, service contracts, partnership agreements, provision for charter bus service and parking fees at LRT stations. Between 2014 and 2018, non-fare revenue averaged $12.3 million per year.

As is shown in Figure 21, ETS own-source revenue, including all fare and non-fare revenues, grew from $48 million in 1997 to $135 million in 2014. From 2015 to 2019, ETS revenues began declining, in spite of relatively high rates of population growth in Edmonton, reaching $130 million in 2019. Due to the impacts of the COVID-19 pandemic (including suspending fares), revenues dropped sharply in 2020 to $60 million, then to $57 million in 2021. ETS revenues have since grown to $97 million in 2023, but have not returned to levels seen prior to COVID-19. Note, since March 1, 2017, the City has received between $4.5 million to $5.8 million annually in transit operating grants from the province related to the Low Income Transit Pass program; the revenues in this analysis include only own-source revenues (fare and non-fare), as operating grant revenue may not be stable, and the analysis focuses on revenue streams within the City's control.

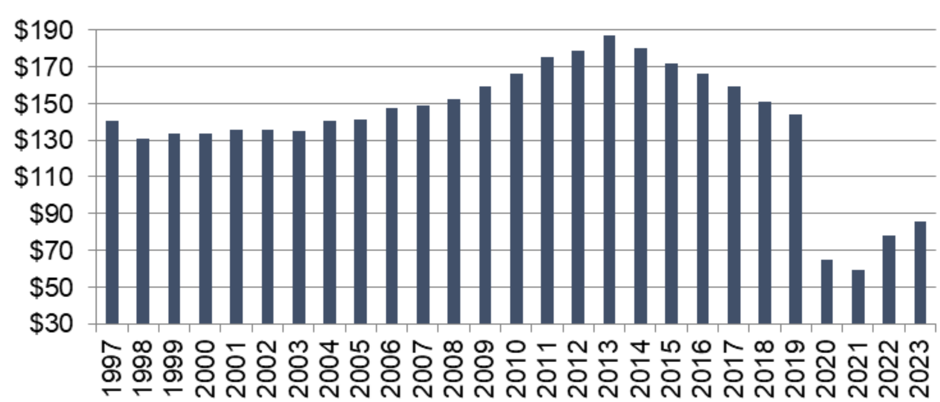
Figure 21: Edmonton Transit Service - Total Fare & Non-Fare Revenues, 1997-2023



Source: City of Edmonton.

When viewing ETS own-source revenues (fare and non-fare) as inflation-adjusted per-capita figures, there is a different trend (Figure 22). ETS revenues per capita, in inflation-adjusted 2023 dollars, were $140 in 1997, lowering to $131 in 1998, and then gradually increasing year-over-year to their peak of $187 in 2013. From 2014 to 2019, revenues per capita underwent fairly steep continuous declines, reaching $144 in 2019—close to levels seen in 1997. The impacts of the COVID-19 pandemic sharply reduced revenues per capita to $65 in 2020, which further fell to $59 in 2021. ETS own-source revenues per capita have since moved gradually upwards to $85 in 2023. Per-capita revenues in 2023 were 54% below peak levels experienced in 2013. While COVID-19 had significant effects on all transit systems across North America, the downward movement of ETS revenues per capita began in 2014. Before any impacts of COVID-19, ETS experienced a 23% reduction in revenues per capita in the six-year period from 2013 to 2019.

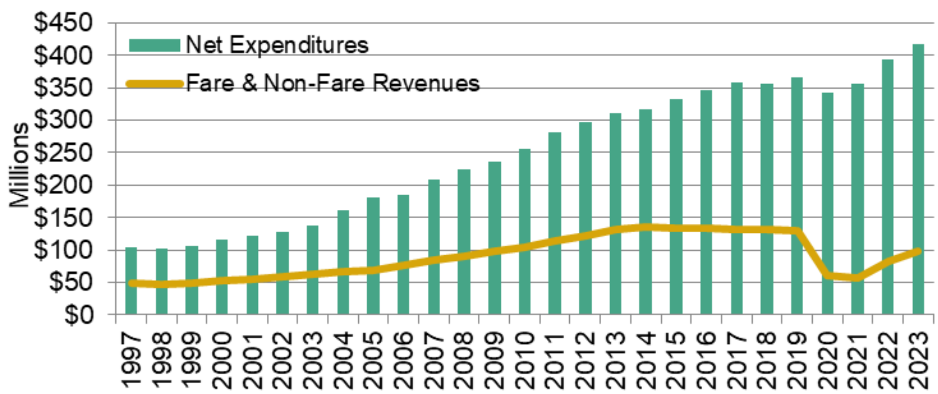
Figure 22: Edmonton Transit Service - Total Fare & Non-Fare Revenues Per Capita, 1997-2023 ($2023)



Source: City of Edmonton; Statistics Canada Table 18-10-0005-01; Statistics Canada Table 17-10-0142-01; City of Edmonton population estimates applied for 1997-1999; City of Edmonton forecasted population estimates applied for 2023; Calculations by City of Edmonton.

Figure 23 compares ETS fare and non-fare revenues with net operating expenditures, which shows a trend of divergence, particularly since 2013—the point when ETS revenues began trending downward. Expenditures have continued to escalate during this time, with a reduction during the COVID-19 pandemic. In the past 11 years, the costs of providing transit have outpaced ETS's revenue generation.

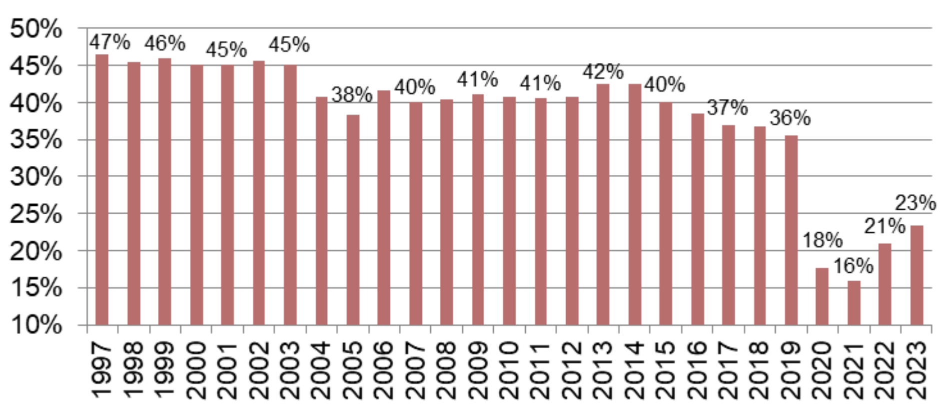
Figure 23: Edmonton Transit Service - Own Source Revenues Compared to Operating Expenditures, 1997-2023



Source: City of Edmonton.

Figure 24 shows the implications of the revenue and expenditure divergence on ETS's cost recovery ratio. The cost recovery ratio is the ratio of ETS own-source revenues (fare and non-fare revenues) to net operating expenditures. Cost recovery levels have generally trended downward since 1997, when it was 47%. The ratio gradually lowered to 45% in 2003, then 38% in 2005. Cost recovery levels then improved until 2013, reaching 42%. From 2014 to 2019 the ratio declined to 36%. The impact of COVID-19 reduced this ratio to 16% in 2021, and they have since only recovered to 23% in 2023.

Figure 24: Edmonton Transit Service Cost Recovery Ratio, 1997-2023



Source: City of Edmonton.

As one of the City's largest non-tax revenue sources, ETS revenues are a critical revenue stream to support service delivery while easing pressure on the tax levy. ETS revenues enable the City to deliver transit service beyond its budget constraint, as the revenues from user fees enables the City to leverage public dollars with the private dollars of residents who demand the service and are willing to pay for it. This enables a higher overall ETS expenditure budget and level of service than if ETS relied only on tax-support. Given the myriad of fiscal pressures facing the City, ETS's revenue trends present a significant fiscal challenge for the City, and contribute towards its fiscal gap.

12.2.1 FARE PRODUCT ANALYSIS

The cost of delivering transit service is continuously rising due to inflationary and growth pressures. As shown above, the growth of transit revenues, which consists largely of fare revenues, has not kept pace with the costs of delivering transit. This divergent trend prompts investigation into transit fare pricing, and whether pricing levels are appropriate in the context of service-delivery costs. When setting transit fares, a number of factors are considered when determining pricing levels, including affordability, cost recovery, policy intentions, inflation and cost of alternative transportation options, among others. This subsection provides an analysis of the four largest transit fare products in relation to consumer inflation and affordability benchmarks (minimum wage rate and first three income deciles) from 1997 to 2024.

Prior to ridership impacts from COVID-19, ETS generated $116.1 million in fare revenues in 2019 (Table 6). The four highest-revenue fare products were Adult Monthly Pass ($30.4 million), Youth Monthly Pass ($19.6 million), Adult Tickets ($18.0 million) and Cash ($12.8 million), which together comprised 70% of all fare revenues.

In 2023, ETS generated $87.4 million in fare revenues (Table 6). The four highest-revenue fare products comprised 55% of all fare revenues, with Adult Monthly Pass generating $16.9 million, Youth Monthly Pass generating $13.5 million, Adult Tickets generating $8.8 million and Cash generating $9.0 million.

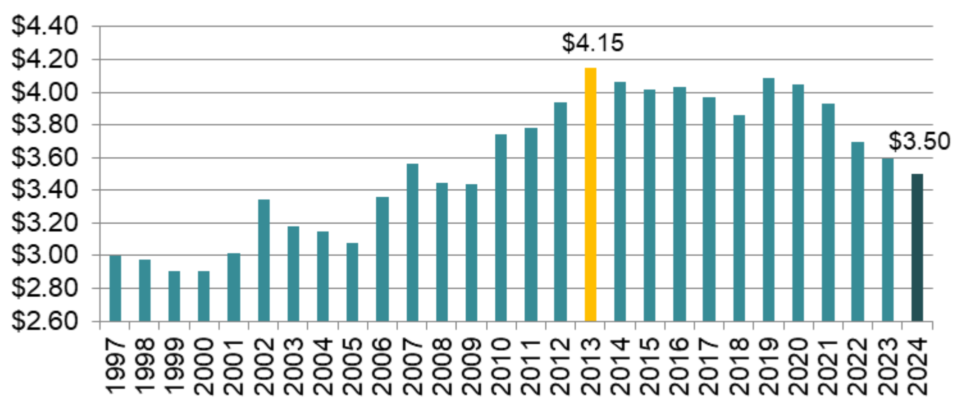
Table 6: Revenue Composition of ETS Fare Products - 2019 Compared to 2023

	2019		2023	
	$Millions	**%**	**$Millions**	**%**
Adult Monthly Pass / Arc Pay-As-You-Go	$30.4	26%	$16.9	19%
Youth Monthly Pass / Arc Pay-As-You-Go	$19.6	17%	$13.5	15%
Adult Tickets	$18.0	16%	$8.8	10%
Cash	$12.8	11%	$9.0	10%
Subtotal	**$80.8**	**70%**	**$48.2**	**55%**
All Other	$35.3	30%	$39.1	45%
Total	**$116.1**	**100%**	**$87.4**	**100%**

Source: City of Edmonton - City Operations Report CO02390 - Ride Transit Program Funding Update - Attachment 1.
Note: Dollar values may not sum to total due to rounding; All Other includes senior monthly pass, youth/senior tickets, Ride Transit pass (adult and youth), day pass, U-Pass, airport pass, senior regular annual pass, senior low income annual pass, and courtesy pass.

An analysis of how pricing levels have changed over time for the four largest fare products is shown below. Adjusting for inflation (2024 dollars), ETS Adult Cash Fares were $3.00 in 1997, rising gradually to their peak level of $4.15 in 2013, and then gradually reducing to $3.50 in 2024 (Figure 25). The cause for this reduction in real price is that Adult Cash Fares have not adjusted in line with inflation for the past 11 years. ETS's Adult Cash Fare is effectively lower in price today than it was 11 years ago. Compensating for this price reduction would require a one-time 19% increase in the Adult Cash Fare.

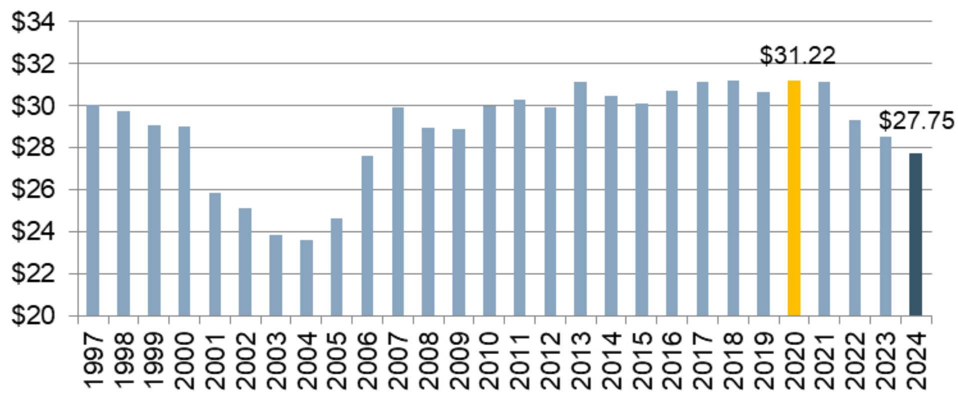
Figure 25: Edmonton Transit Service - Adult Cash Fare, 1997-2024 (Inflation Adjusted $2024)



Source: City of Edmonton; Statistics Canada Table 18-10-0005-01; City of Edmonton forecasted inflation rate applied for 2024; Calculations by City of Edmonton.

ETS's Adult Ticket (10 pack) prices have also declined in recent years when adjusting for inflation (Figure 26). Adult Ticket packs were around the $30 range in the late-90s, declining to around $24 in 2004, then rising again to the $30 range in 2007. Their peak price was $31.22 in 2020, and has since declined to $27.75 in 2024. This fare product would require a one-time 13% increase to bring it back in line with 2020 levels.

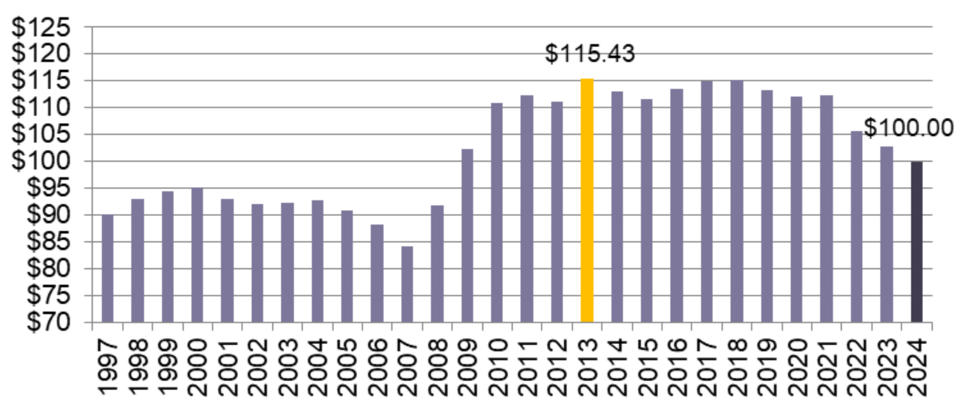
Figure 26: Edmonton Transit Service - Price of Adult Ticket 10 Pack, 1997-2024 (Inflation Adjusted $2024)



Source: City of Edmonton; Statistics Canada Table 18-10-0005-01; City of Edmonton forecasted inflation rate applied for 2024; Calculations by City of Edmonton.

The price of Adult Monthly Passes has also declined in the past 11 years (Figure 27). Adult Monthly Passes were $90 in 1997, and from 2007 to 2010 they saw increases that brought them in the $110 range. They achieved their peak price in 2013 at $115.43, and have since declined to $100 in 2024 due to inadequately compensating for inflation in the past 11 years. Bringing this fare product back in line with 2013 prices would require a one-time 15% price adjustment.

Figure 27: Edmonton Transit Service - Price of Adult Monthly Pass, 1997-2024 (Inflation Adjusted $2024)

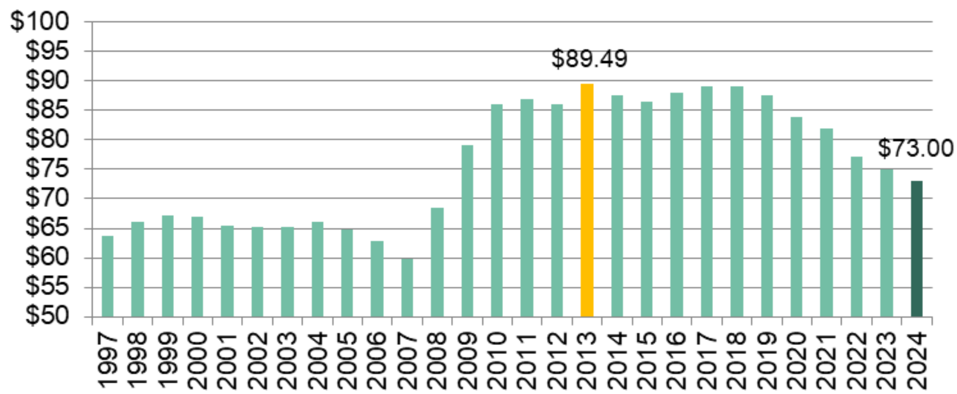


Source: City of Edmonton; Statistics Canada Table 18-10-0005-01; City of Edmonton forecasted inflation rate applied for 2024; Calculations by City of Edmonton.

Youth Monthly Passes have also declined in price, when accounting for inflation (Figure 28). Youth Monthly Passes were around $65 from 1997 to 2005, declining to $60 in 2007, then increasing to $85 in 2010. They remained in the $85 to $89 range from 2010 to 2019, peaking at $89.49 in 2013. The price of this fare product has gradually declined since 2018, to $73 in

2024. Adjusting for the inflationary erosion of this fare product would require a one-time 23% price increase.

Figure 28: Edmonton Transit Service - Price of Youth Monthly Pass, 1997-2024 (Inflation Adjusted $2024)



Source: City of Edmonton; Statistics Canada Table 18-10-0005-01; City of Edmonton forecasted inflation rate applied for 2024; Calculations by City of Edmonton.

The previous figures showed the real price reductions across the four largest ETS fare products, and the required increases to return fare pricing to levels of previous years. However, the preceding figures only consider inflationary adjustments. ETS fares, like most other goods or services, are typically paid for out of a consumer's income. As such, any adjustment to pricing is always mindful of impacts it might have on affordability. Table 7 provides a comparison of inflation-adjusted ETS price changes over the 27-year period from 1997 to 2024, to the changes in income and wage benchmarks associated with lower income groups within the community. These benchmarks can help determine whether ETS fare increases have been equitable and affordable, and whether ETS fare adjustments have been consistent with broader economic growth.

Table 7 shows that in the 27-year period from 1997 to 2024, ETS's inflation-adjusted Adult Cash price increased by 17%, Adult Ticket price decreased by 8%, Youth Monthly Pass price increased by 11% and Adult Monthly Pass price increased by 11%. During that time, Alberta's inflation-adjusted minimum wage increased by 60%. Similarly, median household income of Edmonton's lowest income decile—the lowest 10% of household incomes—increased by 107% between 1996 and 2021 (after adjusting for inflation). The median household income of Edmonton's second lowest income decile (households in the 11% to 20% range of the income distribution) grew by 56%, after adjusting for inflation. The median household income of Edmonton's third income decile (households in the 21% to 30% range of the income distribution) grew by 45%, after adjusting for inflation.

Table 7: Growth Rate of ETS Fare Products Compared to Benchmarks (Inflation-Adjusted $2024)

	Starting Year	Starting Year Value	Ending Year	Ending Year Value	% Change
ETS Fare Products (Inflation-Adjusted 2024 Figures)					
Cash	1997	$3.00	2024	$3.50	**17%**
Adult Tickets	1997	$30.01	2024	$27.75	**-8%**
Adult Monthly Pass / Arc Pay-As-You-Go	1997	$90.03	2024	$100.00	**11%**
Youth Monthly Pass / Arc Pay-As-You-Go	1997	$63.77	2024	$73.00	**14%**
Income & Wage Benchmarks (Inflation-Adjusted 2024 Figures)					
Alberta Minimum Wage	1997	$9.38	2024	$15.00	**60%**
Median Household Income of Lowest Income Decile (0-10%) - Edmonton CMA	1996	$12,701	2021	$26,276	**107%**
Median Household Income of 2nd Income Decile (11-20%) - Edmonton CMA	1996	$29,031	2021	$45,365	**56%**
Median Household Income of 3rd Income Decile (21-30%) - Edmonton CMA	1996	$43,547	2021	$63,332	**45%**

Source: City of Edmonton; Statistics Canada Table 18-10-0005-01; Government of Canada Minimum Wage Database;[38] Statistics Canada Custom Table Derived From Census Data for Census Years 1996, 2001, 2006, 2011, 2016 & 2021; Calculations by City of Edmonton

The inflation-adjusted growth rates for income and minimum wage have far outstripped growth rates for ETS fare products. Furthermore, ETS's Ride Transit Program (RTP) provides highly-subsidized $35 monthly transit passes for individuals and households at or below the low-income cut-offs (LICO) as determined by Statistics Canada. The RTP also provides $50 subsidized monthly transit passes for individuals and families who are between 10% and 25% above LICO. Furthermore, deeply-discounted products are available for seniors, including a free annual pass for low-income seniors below LICO and a $139 annual pass for low-income seniors just above LICO. The four fare products shown in Table 7 are thus more targeted towards middle-income Edmontonians. The conclusion drawn from this analysis suggests that ETS fares have not adjusted in line with broader economic benchmarks in almost three decades. For example, a one-time 40% increase to all fares would still make them proportionately less expensive for the bottom third of Edmonton's household income distribution compared to 1996. Note that the income benchmarks shown in Table 7 cover a 25-year period, due to data limitations, which is shorter than the 27-year period shown for ETS fares; if additional data were available to extend the time horizon to 27 years, the income benchmarks would likely show even higher growth rates, further amplifying the difference between income growth for lower-income households and ETS pricing.

[38] Government of Canada - Minimum Wage Database. https://minwage-salairemin.service.canada.ca/en/since1965.html. Accessed 3 September 2024.

The significant reductions to ETS revenues and ETS fare prices, coupled with escalating operating expenditures, has drastically reduced cost recovery levels. The reductions to ETS's revenues has shifted a significant cost burden to the tax base (77%) and away from service consumers (23%). As discussed in Section 6.5, the tax base is already under significant strain, and the property tax burden is projected to steadily increase in tax share for Edmontonians. The revenue shift away from service consumers and towards the tax base may not conform with the intent of Council Policy C624 Fiscal Policy For Revenue Generation. While some revenue recovery is anticipated (2024 year-end projection forecasts 27% cost recovery), if this revenue shift persists it could also constrain future transit growth and service delivery, as user fees enable an overall larger spending envelope when public dollars are leveraged with the private dollars of service consumers. A heavier reliance on property tax also consigns ETS to the growth limitations of property tax, which can undergo extended durations of low tax tolerance, and where limited growth in tax room must be shared with 70 other services in each year's budget process.

In general, all governments need their revenues to grow in line with economic growth, or they won't be able to keep pace with the costs of delivering public services (discussed in Section 6). The lack of fare price adjustments for transit user fees in line with economic changes—including inflation, and growth of wage rates and incomes of customers—is not sustainable, and has put additional pressure on the tax levy.

12.3 RECREATION USER FEE REVENUES HAVE NOT KEPT PACE

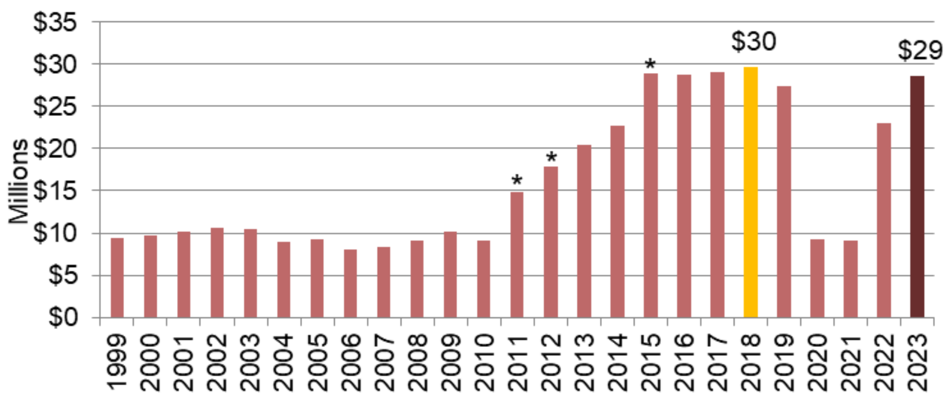
Recreation and leisure centre user fee revenues grew from $9.4 million in 1999 to $28.6 million in 2023 (Figure 29). The City opened four large district community recreation centres to the public in this time period: Terwillegar opened in early 2011, Commonwealth in spring 2012, the Meadows in late 2014 and Clareview in late 2014. These new facilities accommodated greater customer volumes to access recreation services, generating higher user fee revenues for the City, but also higher operating expenditures. Asterisks shown in Figure 29 signify the closest corresponding year in which these facilities came into revenue service, enabling greater consumption of CRC services.[39]

As shown in Figure 29, recreation facility user fee revenues were in the $8 million to $10 million range from 1999 to 2010, then underwent sharp increases from 2011 to 2015. From 2015 to 2019, fee revenues remained relatively stable, in the $29 million range, despite Edmonton experiencing relatively high levels of population growth during this

[39] The Meadows and Clareview Community Recreation Centres opened in November and December 2014, respectively. They are shown as coming into revenue service in 2015, as their opening dates were in late 2014, and corresponding attendance growth would not have been observed until 2015.

period—higher population has the potential to increase demand for recreation facilities, thereby increasing user fee revenues. Due to the impacts of COVID-19 lockdowns, attendance at recreation facilities declined sharply in 2020 and 2021, reducing user fee revenues by roughly 67% from 2019 levels: user fee revenues were $9.3 million in 2020 and $9.0 million in 2021. Recreation facility revenues recovered to pre-COVID-19 levels in 2023, to $28.6 million.

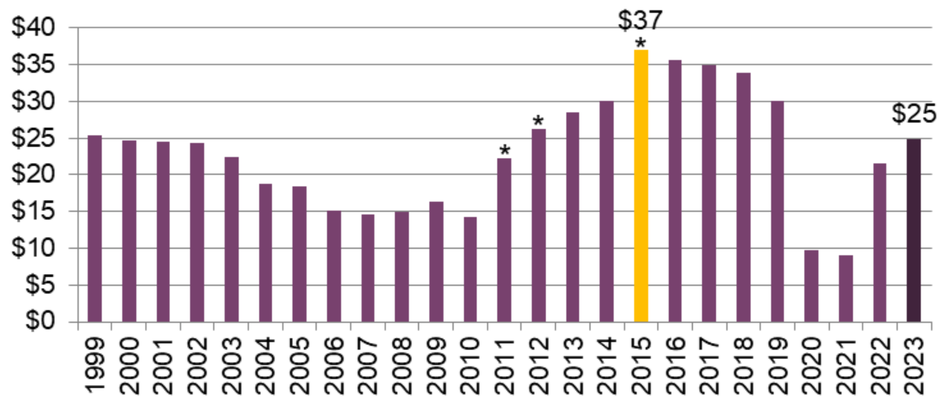
Figure 29: Recreation & Leisure Centre User Fee Revenues, 1999-2023



Source: City of Edmonton.
*Note: User fee revenues exclude golf revenues; * Closest corresponding year with new large district facility openings that enabled greater service consumption volumes.*

When examining inflation-adjusted (2023 dollars) recreation and leisure centre user fee revenues per capita, a different trend emerges (Figure 30). From 1999 to 2010, inflation-adjusted user fee revenues per capita underwent reductions, from $26 per capita in 1999 to $15 per capita in 2010. From 2011 to 2015, this trend showed significant upward movement, more than doubling to $37 in 2015, with the largest single-year increases observed in 2011 (55%), 2012 (17%) and 2015 (23%). These years corresponded with the openings of major district recreation centres (Figure 30). From 2016 to 2019, per-capita revenues showed year-over-year reductions, reaching $30 in 2019. There were sharp declines in per-capita revenues in 2020 ($10) and 2021 ($9) due to COVID-19 impacts, followed by a partial recovery in 2022 ($22) and 2023 ($25). In 2023, inflation-adjusted per-capita user fee revenues were 33% below the 2015 peak.

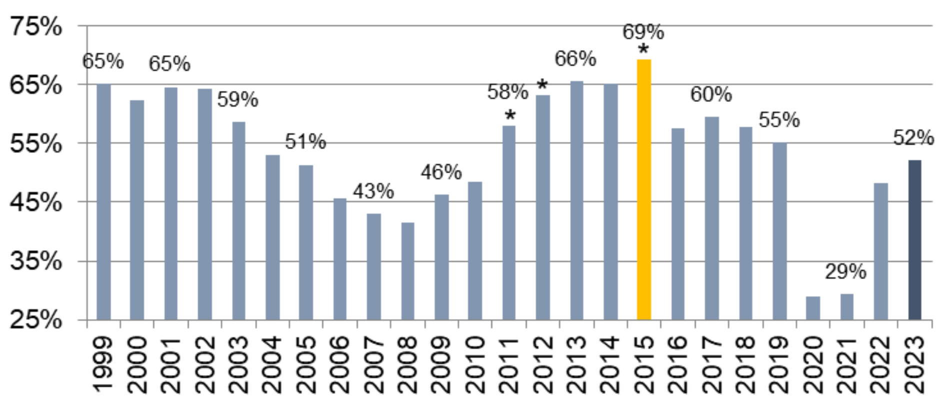
Figure 30: Recreation & Leisure Centre User Fee Revenues Per Capita, 1999-2023 ($2023)



Source: City of Edmonton; Statistics Canada Table 18-10-0005-01; Statistics Canada Table 17-10-0142-01; City of Edmonton Population Estimates applied for 1999 and 2023; Calculations by City of Edmonton.
*Note: User fee revenues exclude golf revenues; * Closest corresponding year with new large district facility openings that enabled greater service consumption volumes.*

Cost recovery rates are measured as recreation facility user fee revenues as a percent of recreation facility operating expenditures. As shown in Figure 31, cost recovery rates fell from 65% in 1999 to 42% in 2008. From 2009 to 2015, cost recovery trended sharply upward, reaching 69% in 2015. From 2016 to 2019, the ratio fell again, reaching 55% in 2019. Cost recovery reached all-time lows during the COVID-19 pandemic due to social distancing mandates, at 29% in 2020 and 2021. The ratio has recovered to 52% in 2023, but is still 25% lower than the 2015 peak.

Figure 31: Recreation & Leisure Centre Cost Recovery Rate, 1999-2023

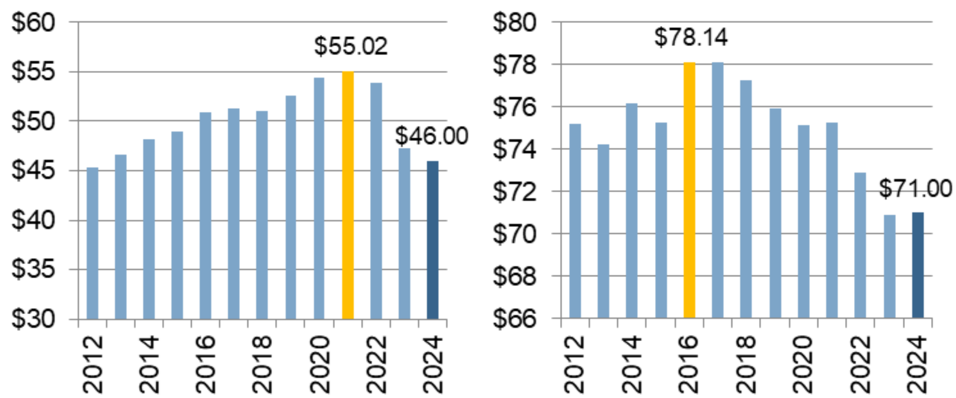


Source: City of Edmonton.
*Note: User fee revenues exclude golf revenues; * Closest corresponding year with new large district facility openings that enabled greater service consumption volumes.*

Examining recreation facility user fee pricing, we see a similar trend as with transit, where inflation-adjusted prices have undergone significant reductions in recent years. Recreation and leisure centres have a large number of pricing categories. For conciseness, analysis is undertaken for six major membership categories: Continuous Monthly Membership for

Adult, Youth/Senior and Family, for both the Value Membership and Benefits Plus tiers. As shown in Figure 32, Adult Continuous Monthly Membership prices for Value Memberships are 16% below 2021 prices, and Benefits Plus prices are 9% below 2016 prices.

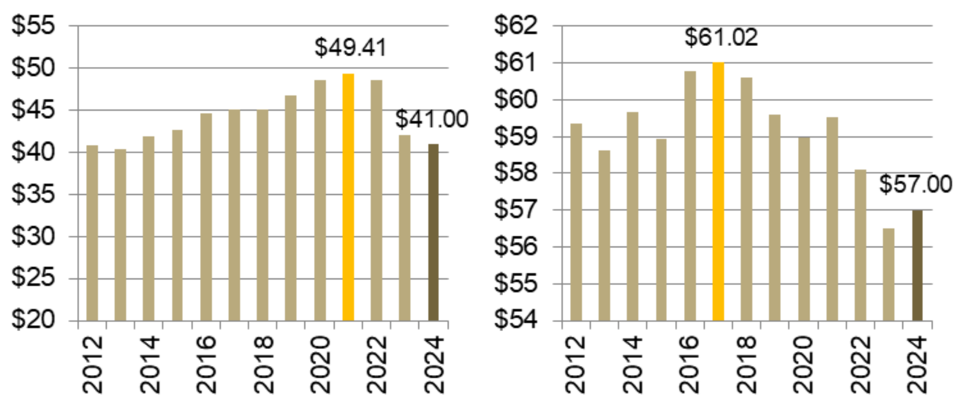
Figure 32: Continuous Monthly Adult Membership [Value - Left; Benefits Plus - Right], 2012-2024 ($2024)



Source: City of Edmonton; Statistics Canada Table 18-10-0005-01; Calculations by City of Edmonton.
Note: In 2023, the Recreation admissions and membership tiers shifted from three into two tiers: the Facility Plus and All Facility tiers were merged to become the Benefits Plus tier, and the Facility tier was renamed the Value Membership tier.

As is shown in Figure 33, Youth/Senior Continuous Monthly Membership prices also underwent significant reductions: the Value Membership tier is 17% below the 2021 price, and the Benefits Plus tier is 7% below the 2017 price

Figure 33: Continuous Monthly Youth/Senior Membership [Value - Left; Benefits Plus - Right], 2012-2024 ($2024)



Source: City of Edmonton; Statistics Canada Table 18-10-0005-01; Calculations by City of Edmonton.
Note: In 2023, the Recreation admissions and membership tiers shifted from three into two tiers: the Facility Plus and All Facility tiers were merged to become the Benefits Plus tier, and the Facility tier was renamed the Value Membership tier.

As is shown in Figure 34, Family Continuous Monthly Membership prices also under significant reductions: the Value Membership tier is 17% below the 2021 price, and the Benefits Plus tier is 12% below the 2017 price.

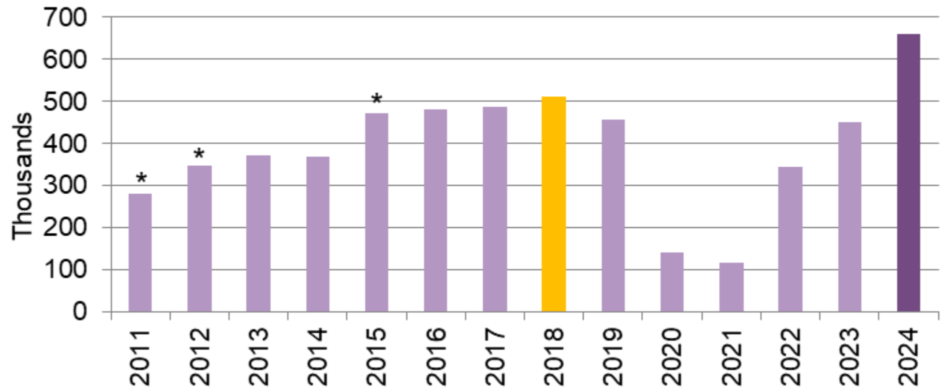
Figure 34: Continuous Monthly Family Membership [Value - Left; Benefits Plus - Right], 2012-2024 ($2024)

Source: City of Edmonton; Statistics Canada Table 18-10-0005-01; Calculations by City of Edmonton.
Note: In 2023, the Recreation admissions and membership tiers shifted from three into two tiers: the Facility Plus and All Facility tiers were merged to become the Benefits Plus tier, and the Facility tier was renamed the Value Membership tier.

Figure 35 shows average monthly attendance at City recreation and leisure centres from 2011 to 2024. Average monthly attendance increased from 279,000 in 2011 to 511,000 in 2018, with the largest increases corresponding to major district facility openings in 2011, 2012, and end of 2014 (Figure 35). Average monthly attendance fell in 2019 to 457,000, despite Edmonton undergoing significant population growth during this period. Attendance fell sharply during the COVID-19 pandemic, to 141,000 in 2020 and 117,000 in 2021, but has recovered since: in 2023, attendance returned to 2019 levels, at 450,000 monthly attendees.

Year-to-date 2024 (January through August) average monthly attendance reached an all-time high, at 659,000, despite no recreation facilities opening around this time. 2024 attendance levels surpass the pre-COVID-19 peak in 2018 by 29%. This significant boost to attendance can likely be attributed to the high rates of population growth in Edmonton that drove additional demand for service. However, at this time, it is unclear what the implications of these attendance increases are on user fee revenues, as Leisure Access Program (LAP) memberships and attendance are rapidly growing in share (discussed more below).

Figure 35: City Leisure & Recreation Centre Average Monthly Attendance, 2011-2024



Source: City of Edmonton.
*Note: User fee revenues exclude golf revenues; * Closest corresponding year with new large district facility openings that enabled greater service consumption volumes; 2024 reflects attendance data from January to August.*

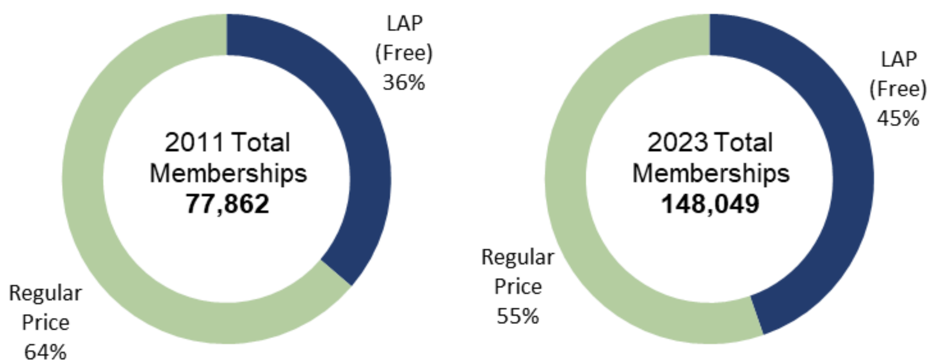
12.3.1 LEISURE ACCESS PROGRAM GROWING IN SHARE

The Leisure Access Program (LAP) allows eligible Edmontonians access to the City of Edmonton recreation facilities, attractions, outdoor pools, indoor arenas and golf courses at no cost to the consumer. The program also provides 75% discounted access to registered programs (three per year for adults/seniors, four per year for each child). Qualifying for the LAP requires applicants to be Edmonton residents, as well as any of the following:

- A recipient of Government of Alberta Income Support or Foundational Learning Assistance;
- A new Permanent Resident who arrived in Canada within the past year (and has not previously been in Canada on a work/study permit);
- A refugee and has a Protection Claimant document issued within the past year;
- A recipient of the Canada Pension Plan (CPP) - Disability Benefit;
- A child Under Government Care;
- Has arrived in Canada through the Canada-Ukraine Authorization for Emergency Travel (CUAET) program within the last year; and
- Has a combined household annual income equal to or below LICO, or up to 10% over LICO (Those with household incomes 11% to 25% above LICO qualify for an LAP membership with deeply-discounted price).

The LAP launched in 1995 with the intent to provide eligible low-income Edmontonians access to participating City of Edmonton recreation facilities and attractions. The LAP program shifted from a reduced-fee program to a free program in 2006. In recent years, enrollment in this program has increased significantly. In 2011, there were 28,236 LAP memberships issued, comprising 36% of total recreation and attractions memberships sold or issued (Figure 36). In 2023, there were 66,132 LAP memberships issued, increasing in share to 45% of total memberships sold or issued.

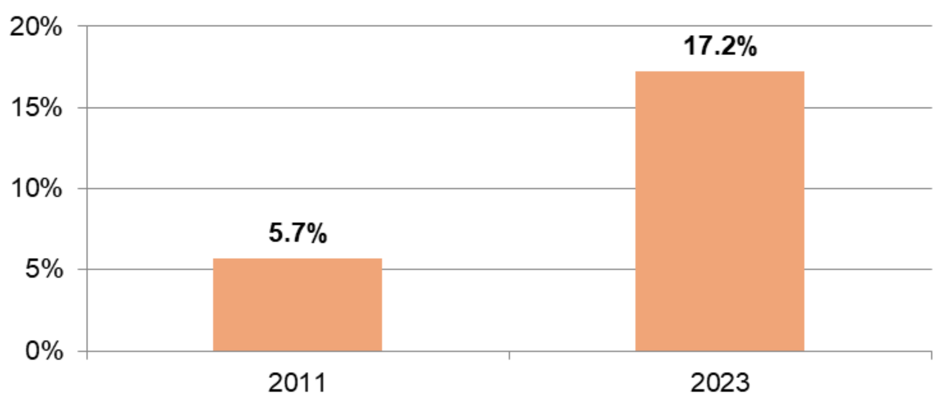
Figure 36: Recreation & Attraction Memberships Sold/Issued - Regular Price vs. LAP, 2011 vs. 2023



Source: City of Edmonton.
Note: Regular price memberships include recreation and attractions memberships.

Attendance by LAP members have also significantly grown as a share of total attendance to recreation centres and attractions (Figure 37). In 2011, LAP members comprised 5.7% of total attendance. By 2023, the LAP attendance share tripled to 17.2%.

Figure 37: Recreation Centres and Attractions - LAP Attendance as % of Total Attendance, 2011 vs. 2023



Source: City of Edmonton.
Note: Regular price memberships include recreation and attractions memberships.

LAP memberships and attendance, which are provided at no or low cost to the consumer, are growing significantly faster than memberships and attendance paying the full price. When LAP memberships are provided at no cost, it does not eliminate the cost of service delivery, but instead allocates that cost to Edmonton's property taxpayers. When usage of the LAP program grows significantly, it drives demand for services without a corresponding growth to user fee revenues. Recreation services and attractions are types of municipal service where clear, direct benefits accrue to the consumers of the service. The revenue shift away from service consumers and towards the tax base may not conform with the intent of Council Policy C624 Fiscal Policy For Revenue Generation. C624 accommodates deeper targeted subsidies for service consumers that have a lower ability to pay, however, the current balance for LAP is 100% on the tax base. With almost half of memberships provided for free, the City is foregoing significant amounts of revenue that could otherwise ensure services are sustainably delivered while easing pressure on the tax levy.

13. DECLINING AUTOMATED ENFORCEMENT REVENUES

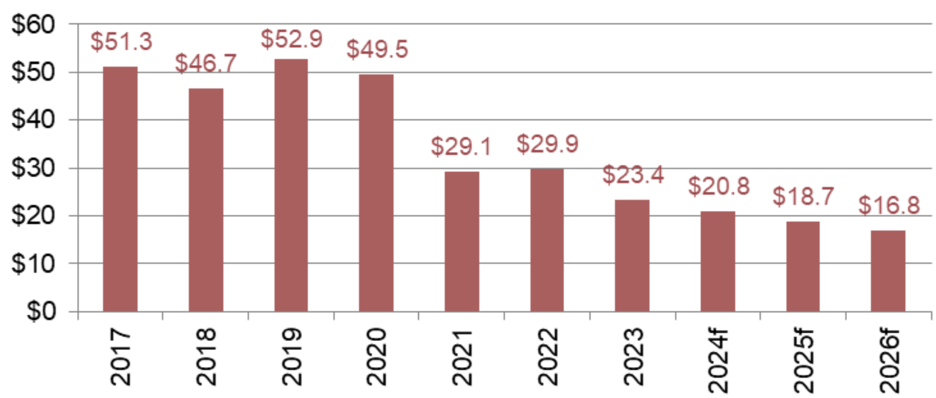
The City uses automated traffic enforcement in combination with other traffic safety programs to make its streets safer for all users. Since Vision Zero was adopted in 2015, traffic-related fatalities have decreased by 25%, serious injuries have decreased by 10%. Automated traffic enforcement in Edmonton includes intersection safety devices and mobile speed enforcement, which issues fines for speed and red light running traffic violations. The Automated Enforcement program collects fine revenues from automated enforcement and distributes the revenues to the Traffic Safety and Automated Enforcement Reserve (TSAER), which in turn funds traffic safety operations and initiatives.

Through City Policy C579B Traffic Safety and Automated Enforcement Reserve, automated enforcement revenue has been dedicated since 2014 to safety improvement programs through the Safe Mobility section within the Parks and Roads Services branch, along with capital expenditures related to Safe Mobility. This reserve was established to transparently demonstrate that automated enforcement revenue is used specifically to promote safe mobility.

In recent years, there have been Government of Alberta policy changes that have impacted TSAER revenues. As of December 1, 2019, the province instituted a moratorium on new automated enforcement equipment, including: installation of new equipment, upgrading of existing equipment, and the addition of new enforcement locations. This policy change prohibits the City from replacing depreciated automated enforcement equipment and providing enforcement services to new locations, which results in the gradual contraction of the Automated Enforcement program. The province also increased its share of revenue retained from all municipal automated traffic enforcement programs in late-2019, from 36.1% to 49.9%. In addition to these policy changes, traffic volume reductions during the COVID-19 pandemic, driver behaviour change, and the loss of existing sites due to major construction projects (e.g. Yellowhead Trail Freeway Conversion and the Valley Line West LRT expansion) have contributed to the sharp decline in revenues in recent years.

Taken together, these factors have significantly diminished the City's TSAER revenues, and they are projected to continue declining sharply over the remainder of the 2023 to 2026 budget cycle (Figure 38). In 2019, prior to provincial government policy changes or COVID-19-impacts, automated enforcement generated $52.9 million. They are projected to decline to $20.8 million in 2024, $18.7 million in 2025 and $16.8 million in 2026. The projected 2026 revenues reflect a 68% reduction compared to 2019.

Figure 38: Automated Enforcement Revenues - 2017-2026 ($Millions)



Source: City of Edmonton Operating Budgets.
Note: Actuals shown for 2017 to 2022; Adjusted budget shown for 2023; Approved budget shown for 2024 to 2026.

The sharp decline in automated enforcement revenues reduces the City's non-tax revenues and contributes to the overall fiscal gap. To maintain service levels for EPS and the Safe Mobility section, City Council approved additional tax levy funding for both services to backfill the TSAER shortfall:

- The TSAER historically provided $22.3 million of annual funding to Edmonton Police Service (EPS). With the collapse in automated enforcement revenues, City Council voted to backfill the $22.3 million TSAER funding shortfall with increased tax levy funding for EPS to ensure policing service levels were maintained. This amounted to a 1.2% tax increase in 2023.
- To fund the Safe Mobility section to the desired level of service in light of revenue reductions, City Council injected $35 million in one time funding into the TSAER for the 2023-2026 budget.

Given tax tolerance constraints, which imposes limits to Council-approved tax increases, these tax levy increases placed additional burden on the tax base, consuming tax room that could have otherwise been levied for other purposes. In December 2024, the provincial government will provide details for additional restrictions for municipalities' deployment of automated enforcement, which are expected to further decrease TSAER revenue.

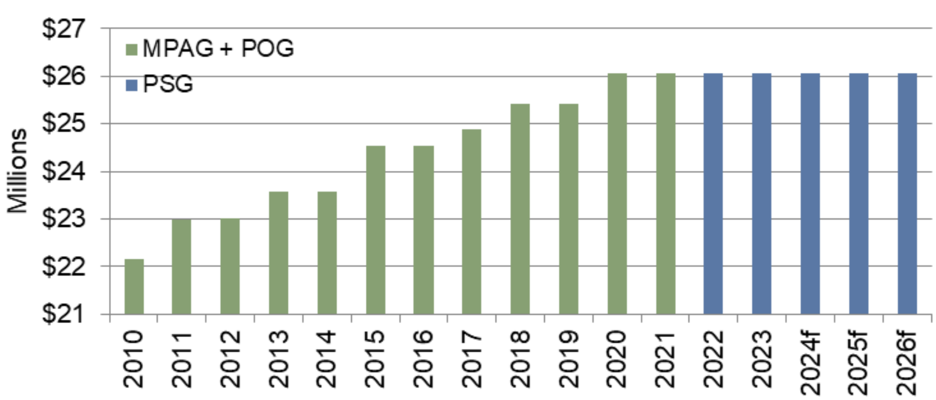
14. GROWTH CALCULATOR REMOVED FROM POLICING GRANT

In 2022, the Government of Alberta combined two operating grant programs that supported policing, the Municipal Policing Assistance Grant (MPAG) and the Police Officer Grant (POG), into a single program: the Policing Support Grant (PSG).

The POG program was introduced in 2008 as an initiative to add 300 police officers across Alberta over a three-year period. Municipalities responsible for providing their own policing—cities, towns and urban service areas with over 5,000 population—were eligible for funding. The program provided a grant to the municipality of $100,000 per position, per year. Edmonton's allocation was $10.5 million annually. The annual allocation did not adjust for inflation or population growth.

The MPAG program was also designed to help municipalities with the costs of policing, and any municipality that paid for its own policing qualified for the program. Unlike POG, MPAG was growth-sensitive and allocated on a per-capita basis, with Edmonton's annual allocation at $16 per capita. This ensured the grant funding grew at the rate of population. However, MPAG did not adjust for inflation, so the $16 per capita annual allocation saw its purchasing power erode gradually with time.

Figure 39: Policing Operating Grant Revenues, 2010-2026 ($Millions)



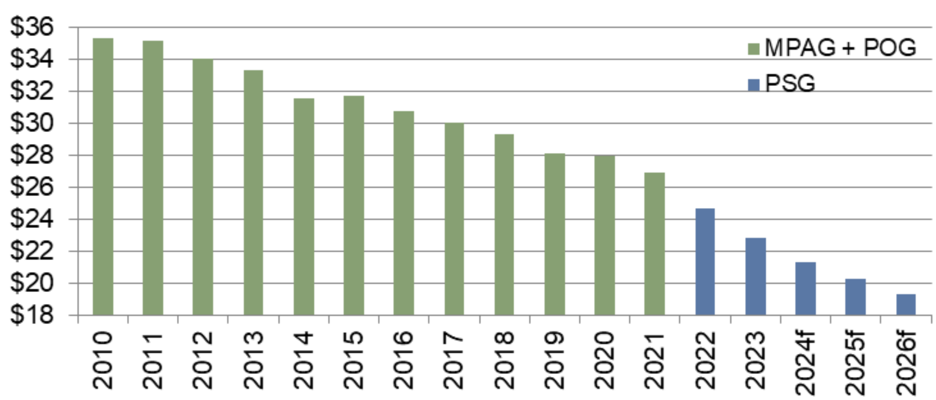
Source: City of Edmonton.
Note: MPAG is Municipal Policing Assistance Grant; POG is Police Officer Grant; PSG is Policing Support Grant; City forecasts applied for 2024-2026 PSG grant revenues.

When PSG was introduced in 2022, Edmonton's allocation was set at the sum of its 2021 allocation of MPAG and POG: $26,055,568 (Figure 39). Edmonton's allocation of PSG was held at this level in 2023, and current City projections indicate that it will likely be held at this level for the duration of the 2023 to 2026 budget cycle.

If MPAG were still in place today, Edmonton's 2024 allocation would be approximately $18.9 million. The combined 2024 funding from MPAG and POG would be $29.4 million, $3.3 million higher than the 2024 PSG funding. Annual operating transfer funding programs that do not adjust for inflation and population are effectively funding cuts, as inflation erodes the purchasing power of those funds, and population growth diminishes how far those funds can stretch.

Figure 40 demonstrates how Edmonton's policing grants have diminished when presented as inflation-adjusted, per-capita funding. In the 12-year period from 2010 to 2021, the sum of MPAG and POG grants declined from $35 per capita to $27 per capita. With the introduction of PSG, which removed the population growth-sensitive formula that was within MPAG, per-capita funding slid more precipitously, to $23 per capita in 2023. The PSG funding allocation in 2023 represents a 35% reduction in inflation-adjusted, per capita funding compared to 2010 figures. City projections of PSG funding indicate that inflation-adjusted per capita annual transfers will erode to $19 in 2026 (Figure 40).

Figure 40: Policing Operating Grant Revenues Per Capita, 2010-2026 ($2024)

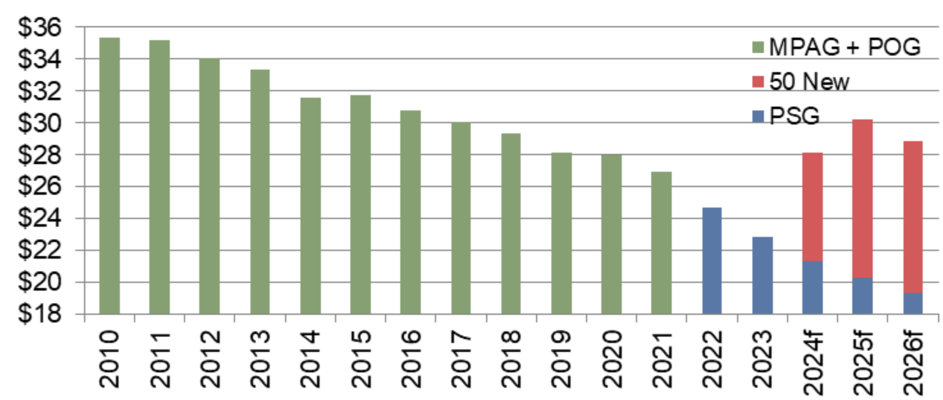


Source: City of Edmonton; Statistics Canada Table 17-10-0142-01; Statistics Canada Table 18-10-0005-01; City of Edmonton forecasted population estimates applied for 2023-2026; City of Edmonton forecasted inflation rates applied for 2024-2026.
Note: MPAG is Municipal Policing Assistance Grant; POG is Police Officer Grant; PSG is Policing Support Grant; City forecasts applied for 2024-2026 PSG grant revenues.

In 2023, the Government of Alberta announced funding for 50 new police officers in Edmonton and Calgary. $8.35 million of funding was provided to EPS for 2024, including $4.5 million for 25 police officers and $3.85 million to support infrastructure and recruiting. Funding for 2025 has not yet been determined, nor has an agreement been signed as of September 2024, though the portion allocated for police officers is anticipated to increase to

$9 million to support 50 officers, for a total of $12.85 million. Figure 41 shows inflation-adjusted per capita policing grant funding, including forecasted funding for the 50 new officers. Because funding agreements are not yet in place, future funding amounts shown in Figure 41 are the City's best estimates. As is shown, the new grant increases inflation-adjusted per-capita funding to $28 in 2024 and $30 in 2025, though these amounts do not reach those seen in 2010. It is not clear whether this funding program will become longstanding, or if it will be indexed to inflation and population growth. If it is not indexed, it will decrease in proportional value over time, similar to MPAG, POG, and PSG.

Figure 41: Policing Operating Grant Revenues Per Capita, Including 50 New Officer Grant, 2010-2026 ($2024)



Source: City of Edmonton; Statistics Canada Table 17-10-0142-01; Statistics Canada Table 18-10-0005-01; City of Edmonton forecasted population estimates applied for 2023-2026; City of Edmonton forecasted inflation rates applied for 2024-2026.
Note: MPAG is Municipal Policing Assistance Grant; POG is Police Officer Grant; PSG is Policing Support Grant; 50 New is the funding for 50 new police officers; City forecasts applied for 2024-2026 PSG grant revenues; City forecast applied for 50 New.

15. COST ALLOCATION TOOLS NOT BEING FULLY UTILIZED

As discussed in Section 4, property tax has significantly grown in share of operating revenues, from 46% in 2000 to 59% in 2024. While the City is constrained in the diversity of revenue tools it can employ, the cost allocation tools available to it have not been fully utilized. Cost allocation is where some amount of the cost to provide a service or infrastructure asset is distributed purposefully within the community, and not by default on the tax levy.

When conducting cost allocation, one thing the City must consider when determining who should pay for specific City services is who benefits from those City services. For some services and infrastructure assets, allocating all associated costs to the overall tax levy is appropriate, particularly if the service provides broad benefits to the community at large (e.g., emergency services). However, the City also provides services and infrastructure that give direct or greater benefit to certain parties, such as direct consumers of a service, certain stakeholders, or benefiting properties (e.g. transit service). For these services, it can be appropriate for the City to distribute some costs to benefiting parties. Allocating costs in this way can equitably distribute services costs, and can reduce strain on the property tax levy. Council Policy C624 - Fiscal Policy For Revenue Generation provides a principle-based governing framework to guide decisions on allocating service and infrastructure costs.

One cost allocation tool that has not been fully utilized is off-site levies. Off-site levies can be levied on developments to finance all or part of the cost of certain capital projects defined under Section 648 of the MGA. The Government of Alberta expanded off-site levy powers in 2017 to include community recreation facilities, fire halls, police stations, and libraries. City Charter Regulations grant Edmonton and Calgary additional flexibility to define the infrastructure for which an off-site levy will be imposed, beyond those listed in the MGA.[40]

Off-site levies allocate some portion of capital costs onto development activities. They are appropriate when infrastructure assets are considered to be necessary for, or of greater benefit to, a specific area than to the whole city. Off-site levies are more viable in developing areas at this time due to the consistent rate and large volume of development. Off-site levies are implemented through bylaw, and the fee is imposed at time of subdivision or development permit. Off-site levies can be implemented as a financial levy on developers or the City can enter into an agreement where the developer constructs the project at their own expense, then contributes the asset to the City upon completion.[41] When using off-site levies, consideration should be given for economic, land development and housing market impacts.

Cost allocation through development charges is common for big cities in Canada. For example, Toronto uses development charges to fund roads, transit, community centres, and fire and police facilities. Calgary uses off-site levies in greenfield areas for infrastructure including roads, fire halls, libraries, police stations, recreation centres and transit,[42] and have historically used the tool for interchanges. The only off-site levies currently used in Edmonton are Arterial Roadway Assessments (ARAs), established in 2000, and the Fire Hall Levy, established in 2022. The City also uses other development charges, including Permanent Area Contributions (PACs) for funding and cost sharing major drainage infrastructure, and the Sanitary Servicing Strategy Fund (SSSF) for funding sanitary trunk sewers.

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[40] *City of Edmonton Charter, 2018 Regulation*, Alberta Regulation 39/2018.
[41] Certain assets are contributed to EPCOR, such as drainage infrastructure.
[42] These infrastructure assets are explicitly authorized in Section 648 of the MGA, except transit, which is now authorized through the establishment of the City Charter.

The City's limited use of off-site levies, compared to other big Canadian cities, means that many new facilities and capital projects that service new subdivisions, such as recreation centres, have historically been funded using: 1) tax-supported current revenues for capital project financing (e.g. pay-as-you-go), 2) unconstrained capital grants, or 3) tax-supported debt. Going forward, this approach will likely prove difficult: unconstrained provincial capital grants have undergone reductions since 2019 (Section 8), the City is approaching its tax-supported debt servicing limits, which constrain debt use (Section 34), and there has been significant pressure on the property tax levy in recent years (Section 6).

As a cost allocation tool, off-site levies can be used to implement a "benefiter-pays" approach to growth infrastructure. Greater use of off-site levies would reduce strain on the tax levy, however, expanding use of this tool may be challenging. Efforts to streamline processes and reduce policy and regulatory barriers to incentivize and speed up construction are a priority for all levels of government and industry to maintain affordability . There has also been recent messaging around freezing development charges as a precondition to receive Housing Accelerator funding. It will be necessary to work with stakeholders to understand the cost of growth in the future growth area, and to develop solutions that address the City's need to grow in a financially-efficient way. This could include an expanded use of off-site levies, the development of different funding models, or the rationalization/reduction of service levels and capital design requirements that have escalated in the past 15 years, driving up capital costs (discussed more in Sections 30 and 31).

PART V
TAX BASE PRESSURES

16. FISCAL DISPARITY ACROSS THE EDMONTON REGION

16.1 PROFILE OF EDMONTON METROPOLITAN REGION BOARD MEMBERS

The Edmonton Census Metropolitan Area (CMA)[43] consists of 34 census subdivisions (municipality, or equivalent), with an estimated population of 1,514,212 as of July 1, 2022.[44] All Edmonton CMA municipalities with a population of 5,000 or greater are also members of the Edmonton Metropolitan Region Board (EMRB), comprising 13 municipalities with a total population of 1,494,491 (98.7% of the CMA population). The EMRB's 13 member municipalities include: six cities, three towns, three municipal districts, and one specialized municipality, Strathcona County, which includes the large hamlet of Sherwood Park, that is recognized as an urban service area. Edmonton has 72.8% of the EMRB population (Table 8). The remaining 12 EMRB municipalities together have 27.2% of the population.

Table 8: Population of Edmonton Metropolitan Region Board Municipalities (as of July 1, 2022)

#	Municipality	Municipal Status	Population	% of EMRB
1	Beaumont	City	21,918	1.5%
2	Devon	Town	6,689	0.4%
3	**Edmonton**	**City**	**1,087,803**	**72.8%**
4	Fort Saskatchewan	City	28,045	1.9%
5	Leduc	City	35,398	2.4%
6	Leduc County	Municipal District	14,547	1.0%
7	Morinville	Town	10,498	0.7%
8	Parkland County	Municipal District	34,487	2.3%
9	Spruce Grove	City	40,842	2.7%
10	St. Albert	City	70,422	4.7%
11	Stony Plain	Town	18,567	1.2%
12	Strathcona County	Specialized Municipality	104,330	7.0%
13	Sturgeon County	Municipal District	20,945	1.4%
Total EMRB Population			**1,494,491**	**100.0%**

Source: Government of Alberta Treasury Board and Finance - Municipal Population Estimates.

[43] Census metropolitan areas (CMAs) are administrative divisions, as delineated by Statistics Canada. A CMA is formed by one or more adjacent municipalities centred on a population centre (known as the core). A CMA must have a total population of at least 100,000, of which 50,000 or more must live in the core. To be included in the CMA, other adjacent municipalities must have a high degree of integration with the core, as measured by commuting flows derived from data on place of work from the previous Census Program.
[44] Source: Alberta Treasury Board and Finance.

16.2 EDMONTON HAS GREATER EXPENDITURE RESPONSIBILITIES

Edmonton is the centre-city and economic heart of its metropolitan region. The region functions in most capacities as a singular entity—commerce, investments, people, employment, transportation, and social issues flow across its municipal borders with few barriers. Economically, the region functions as a singular urban economy. However, from a municipal governance perspective, municipalities in the region operate independently of each other, with many local governments based on historical settlement patterns, rather than planning.

Because the Edmonton Region functions as an interconnected economy, when one large partner (the City of Edmonton) provides regional infrastructure such as freeways, arterial road capacity, social supports, or large cultural infrastructure, smaller municipalities face fewer comparative obligations. This creates inequity as the City bears a disproportionate cost of regional infrastructure and surrounding municipalities have fewer obligations to create infrastructure, relying instead on proximity to the centre city (this topic is discussed in more detail in section 24).

The expenditure responsibilities of big cities are also significantly higher than small cities, towns and counties. To provide two examples, the City's two largest services, police and transit, comprised 28% of its 2024 operating budget.[45] Many EMRB municipalities do not provide transit service, and the ones that do have significantly smaller, less-complex and less-costly systems than Edmonton. Edmonton is also the only municipality in the region with a standalone police service, wholly responsible for its own policing costs.[46] The remaining EMRB municipalities have either: 1) RCMP contracts, which are cost-shared with the federal government, or 2) fall under a Provincial Police Service Agreement (PPSA), which is cost-shared with the provincial government.[47] When municipalities have standalone police services they are required to bear the full cost of the service; the province provides operating grants for policing to Edmonton, but these grants are discretionary, and not built-in cost-sharing structures like with RCMP contracts and PPSAs (see Section 14 for a discussion on how policing grants have varied historically). The City also takes on additional policing costs using the tiered policing model of using community peace officers who supplement and augment the role of EPS. In addition to these factors, big city policing costs are considerably higher than those in smaller cities, towns and counties.

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[45] City of Edmonton 2024 Approved Operating Budget, as of Spring 2024 Supplementary Operating Budget Adjustment.

[46] EPS receives operating grants from the province, including PSG and the new grant for 50 police officers, which is in development. However, these grants are at the discretion of the province, and are not enshrined as with RCMP contracts or PPSAs.

[47] Under PPSAs, the province establishes a contract for RCMP services with the federal government.

When one municipality in a region has greater expenditure responsibilities, a greater tax burden gets apportioned to its tax base, which can drive up its tax rates relative to neighbouring municipalities, making it less attractive for development. Access to big city infrastructure and services allows peripheral municipalities to lower their overall service and infrastructure obligations and, in turn, keep their tax rates relatively low. Lower tax rates strengthen their competitive position for attracting commercial and industrial development, incentivizing businesses to establish in the lower-tax jurisdictions, while benefiting from the urban services and economic attributes supported by the large centre city—such as access to global markets and a higher concentration of skilled workers.

Conversely, municipalities that less successfully grow their overall tax bases are forced to impose higher tax rates to deliver as competitive an array of services as neighbours that have higher tax bases. Municipalities with higher tax rates then become less attractive for businesses to locate or expand in, exacerbating the problem. Over time, this creates fiscal disparity—when tax rates and tax bases vary across municipalities of the same metropolitan area. The realization of this challenge within the Edmonton metropolitan region is discussed below.

16.3 THE IMPORTANCE OF THE NON-RESIDENTIAL TAX BASE

In general, throughout most of Canada and the United States, the non-residential sector pays significantly higher property taxes than the residential sector.[48] Higher property taxation of non-residential properties in Canada is generally done in one of three ways:[49]

1. By assessing non-residential properties at higher values than residential properties with the same tax rate applied to both property types (e.g., Winnipeg);
2. By levying higher tax rates on non-residential properties (e.g., Calgary and Edmonton); or
3. Both of the above (e.g., Saskatoon and Regina).

Concurrently, the residential sector receives proportionately more direct benefit from municipal services than the non-residential sector.[50,51,52] A fairly recent study in the City of Vancouver concluded that the non-residential sector paid $2.42 in taxes for every $1 of

[48] Bird, Richard M., and Enid Slack. 2004 *International Handbook on Land and Property Taxation*. UK: Edward Elgar.
[49] Jordan, Mike. 2021. "Business Property Taxation by Cities: What We Know, What We Don't, and What We Should." City of Saskatoon, Discussion Paper.
[50] Mintz, Jack, and Tom Roberts. 2006. "Running on Empty: A Proposal to Improve City Finances." C.D. Howe Institute Commentary, No, 226.
[51] Kitchen, Harry, and Enid Slack. 2012. "Property Taxes and Competitiveness in British Columbia." A report prepared for the BC Expert Panel on Business Tax Competitiveness.
[52] Bird, Richard M., and Enid Slack. 2004 *International Handbook on Land and Property Taxation*. UK: Edward Elgar.

benefit received, whereas the residential sector paid $0.56 for each $1 of benefit.[53] Under this tax model, businesses effectively subsidize the provision of services to residents, as businesses pay for more than they consume and residents pay for less than they consume.

One shortcoming of the Vancouver study is that it only examines the direct consumption of services. While it is true that municipal services tend to be largely directed toward the residential sector and resident population, there are also indirect benefits gained by the non-residential sector, such as: enhanced quality of life, improved public safety, and access to high-quality infrastructure, all of which are important factors for attracting skilled workers to a city. Municipal services that help attract and retain skilled workers are a benefit to businesses, but are not captured in direct consumption calculations. Even considering these indirect benefits, businesses would not likely be paying a proportionate share of taxes relative to total benefits received. Rather, the acknowledgement of indirect benefits implies that the ratio cited above—$2.42 of taxes paid for each $1 of benefit—is better interpreted as an upper bound.[54] The C.D. Howe Institute also argues that businesses do not differentially benefit from services as the tax rates often imply.[55]

Regardless of the extent that non-residential properties accrue indirect benefits, from a fiscal perspective, residential properties drive City expenditure budgets to a far greater degree than non-residential properties: an additional 100,000 residents in Edmonton whose place of employment is outside city boundaries will drive City expenditure budgets significantly. In contrast, an additional 100,000 people who are employed in Edmonton, but reside in the region, will have a far smaller impact on service delivery and the City's expenditure budget. The relationship between growth and service expenditures is far more pronounced with residential properties. Note that businesses located outside Edmonton's boundaries also indirectly benefit from City services and investments.

This feature of relatively low service costs coupled with higher tax rates makes non-residential properties highly desirable for municipalities. In a multi-municipal metropolitan region like Edmonton's, this causes competition for commercial and industrial tax base.[56] Failing to capture a sufficient proportion of regional non-residential growth will impair the City's fiscal sustainability, reducing its capacity for maintaining services and

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[53] MMK Consulting. 2007. "Consumption of Tax-Supported Municipal Services." Vancouver; Cited in City of Vancouver Property Tax Policy Review Commission - Final Report. 2007; As noted in the Report of the Vancouver Property Tax Policy Review Commission, the MMK study only considers direct benefit from municipal services, and does not estimate indirect benefits from service, such as perceived levels of safety, availability of park/recreation systems, and provision of infrastructure, all of which are factors in attracting skilled labour to a community.
[54] Ibid.
[55] Mintz, Jack, and Tom Roberts. 2006. "Running on Empty: A Proposal to Improve City Finances." C.D. Howe Institute Commentary, No, 226.
[56] Lightbody, James. 1997. "The Comparative Costs of Governing Alberta's Metropolitan Areas." Western Centre for Economic Research. Number 48.

infrastructure. Despite the sense of competition, a weakened Edmonton would weaken the entire region.

16.3.1 ARGUMENTS SUPPORTING HIGHER NON-RESIDENTIAL TAX RATES

There are competing perspectives on the rationale for non-residential properties bearing a higher tax burden. One of the reasons for the difference in tax burden pertains to the income-generating purpose of most non-residential properties, which is based on the following four principles:

1. **TAX DEDUCTION POTENTIAL** For businesses, property tax is considered an expense that can be deducted from before-tax income. A residential homeowner, on the other hand, cannot deduct property taxes from personal income, and has to pay property taxes with after-tax income.

2. **TRANSFERABILITY** Businesses produce goods and services, with various costs (including property tax) factored into the final price. Under certain market conditions, businesses can pass that cost through to their customers. For a residential homeowner, the tax remains with the homeowner and cannot be transferred.

3. **INCOME-PRODUCING POTENTIAL** Because income potential is present, property tax costs are offset by the business's revenue streams.

4. **ABILITY TO PAY** The ability to pay principle is a concept of tax fairness that suggests that people with higher income or wealth should pay taxes at higher rates.

16.3.2 ARGUMENTS AGAINST HIGHER NON-RESIDENTIAL TAX RATES

As with all topics related to taxation, there are no absolute arguments in favor of one taxation model. Arguments against the income-generating rationale for higher non-residential taxes are as follows:

1. **PRICE-TAKING FIRMS CANNOT TRANSFER COSTS** Many businesses are “price takers,” meaning they must accept prevailing market prices, and are unable to dictate the final market price of their good or service. Businesses operating in highly competitive markets are typically price takers. For these businesses, increases in non-residential taxes cannot be transferred to customers, as the business has no

influence over the end price of their good or service. These businesses must absorb any property tax increases.

2. **MANY RESIDENTIAL PROPERTIES ARE ALSO INCOME-PRODUCING** Differential tax rates applied on non-residential properties under the justification of income generation are argued to be inconsistent, as many residential properties are also income-producing, but are not subject to higher taxes. According to the 2021 Census of Canada, 36.4% of Edmonton dwellings were rented.[57] This is up from 35.7% in 2016.[58] This means that over one-third of all residential dwellings in Edmonton are rental income-producing. The City historically applied a 15% residential tax rate differential to a subset of rental properties where four or more units were on an individual title. This tax policy was to acknowledge the income-producing feature of rental properties. City Council voted to phase out the 15% tax rate differential over five years, beginning in 2024[59]. Federal funding under the Housing Accelerator Fund is linked to continuing the approved phase out of the 15% tax rate differential.

3. **NO LINKAGE TO INCOME** Unlike corporate income tax, non-residential property taxes are owed regardless of whether the business generated a profit. It is common for businesses to operate at a financial loss, though in these cases, they are still required to pay the full property tax amounts owing. While the City collects income data from some non-residential property types (such as the retail, office and hotel inventories), it does not have comprehensive data on all non-residential property types. Similarly, the City does not track the income of various businesses leasing within non-residential properties, meaning it cannot differentiate between profitable and unprofitable businesses. While assessed values do adjust based on the marketability of a property type, this is performed using mass appraisal and is not specific to a particular business or property.[60]

4. **BENEFITS PRINCIPLE DOES NOT HOLD** The benefits principle contrasts the ability to pay principle, and suggests that the tax burden should be distributed in accordance with the benefits taxpayers receive from public services. However, the public finance literature suggests that non-residential properties do not directly benefit in line with what they pay.

[57] Statistics Canada, 2021 Census of Population.
[58] Statistics Canada, 2016 Census of Population.
[59] The continued implementation of this prior policy decision was included as one of eleven in the City of Edmonton's Housing Accelerator Fund action plan. The City of Edmonton is contractually obligated to complete the deliverables in this plan or risk receipt of Housing Accelerator funding.
[60] More information on mass appraisal and approaches to valuing property can be found in the City of Edmonton's property assessment methodology guides.

16.4 TAX BASE DISPARITY

Table 9 summarizes the tax base composition of EMRB municipalities as a whole, showing the total assessment value by assessment class in 2022. All 13 member municipalities had a combined assessment value of $302.6 billion in 2022, of which $215.4 billion (71%) was residential and $87.2 billion (29%) was non-residential and M&E.[61]

From an economic perspective, the residential and non-residential tax bases are interdependent; the residential sector provides housing for the population, and non-residential sector provides buildings and structures that support employment and the production of goods and services.[62] As noted above, because the Edmonton metropolitan region is effectively one interconnected urban economy, the assessment valuation split between residential (71%) and non-residential (29%) provides a point-in-time snapshot of the real property composition of the metropolitan economy (Table 9).

Table 9: Composition of EMRB Assessment Base, 2022

	EMRB		EDMONTON		REST OF REGION	
Assessment Class	**Assessment Base**	**%**	**Assessment Base**	**%**	**Assessment Base**	**%**
Residential & Farmland Subtotal	**215,380,515,532**	**71%**	**147,137,648,668**	**78%**	**68,242,866,864**	**60%**
Residential	215,066,302,921	71%	147,069,621,737	78%	67,996,681,184	60%
Farmland	314,212,611	0.1%	68,026,931	0.0%	246,185,680	0.2%
Non-Residential & M&E Subtotal	**87,210,190,151**	**29%**	**41,754,489,481**	**22%**	**45,455,700,670**	**40%**
Non-Residential	67,910,937,647	22%	40,883,637,167	22%	27,027,300,480	24%
M&E*	19,299,252,504	6%	870,852,314	0.5%	18,428,400,190	16%
Total Assessment	**302,590,705,683**	**100%**	**188,892,138,149**	**100%**	**113,698,567,534**	**100%**

Source: Government of Alberta Municipal Affairs - Equalized Assessment Report, 2024.
*Note: Percentage columns may not sum to 100% due to rounding; M&E refers to Machinery and Equipment; *Edmonton does not tax machinery and equipment; Property inspections for machinery and equipment are not conducted in Edmonton when updating the assessment roll, consequently, Edmonton's M&E assessment base may be underestimated.*

Edmonton's tax base composition significantly deviates in assessment class share from the EMRB total (Table 9). Edmonton had a total assessment value of $188.9 billion in 2022, of which $147.1 billion (78%) was residential, and $41.8 billion (22%) was non-residential and

[61] Non-Residential and Machinery and Equipment are different assessment classes, as per section 297 of the Municipal Government Act. However, municipalities are required to apply the same tax rate to both classes, as per Section 354 (3.1) of the Municipal Government Act and Section 3(1) of Alberta Regulation 202/2017 Matters Relating to Assessment subclasses Regulation. For this reason, they are grouped together in this analysis.
[62] Non-residential properties also include public sector buildings, used as part of public service delivery.

M&E. Compared to the region, Edmonton's tax base biases significantly towards residential properties.

Table 9 also shows the tax base composition of the remaining 12 EMRB municipalities, excluding Edmonton. The rest of the region had a tax base composition that biases heavily towards non-residential properties and M&E, with $68.2 billion (60%) in residential assessment and $45.5 billion (40%) in non-residential and M&E assessment. In 2022, these 12 municipalities comprised only 27.2% of the metropolitan area population, but had more combined non-residential and M&E assessment than Edmonton, with $45.5 billion of assessment, compared to $41.8 billion for Edmonton.

Table 10, below, lists the shares of EMRB population and assessment base for each member municipality. In 2022, Edmonton accounted for 72.8% of the total EMRB population, but only 62.4% of the region's assessment base, which is disproportionately low compared to its population share. Edmonton's share of assessment base for residential and farmland (68.3%), non-residential (60.2%), and M&E (4.5%) are all disproportionately low for its population size. When combining non-residential with M&E, Edmonton's share of regional assessment was 47.9%. Note that Edmonton does not tax M&E, so does not conduct property inspections on M&E property. Consequently, Edmonton's M&E assessment base may be underestimated.

In contrast, in 2022 many of the other EMRB municipalities had a high assessment base relative to their population share, particularly for the non-residential and M&E classes (Table 10). Strathcona County, for example, comprised only 7% of the region's population, but had 20.1% of the non-res and M&E tax base. Similarly, Leduc County, Parkland County, and Sturgeon County all had non-res and M&E tax base shares that are multiples higher than their population share. Edmonton's low share of non-residential properties is critically important, given the unique role they play in funding City services.

Edmonton's 68.3% share of EMRB residential assessment is noteworthy, as Edmonton has 72.8% of the population (Table 10). This implies that Edmonton's average residential property value is below the EMRB average value, whereas the rest of the region's average residential value is above the EMRB average value. Put another way, the average value of a residential property in Edmonton is below average, while the average value of a residential property in the ring surrounding Edmonton is above average. This presents fiscal challenges for the City, as the property taxation model is predicated on valuation. Lower residential values create a relatively smaller residential base for the City, which reduces its fiscal capacity. Because there is a relationship (albeit an imperfect correlation, discussed in Section

5) between property values and ability to pay, a lower per-capita residential tax base suggests a lower tax tolerance threshold compared to surrounding municipalities. Should this worsen, it could present long-term fiscal sustainability challenges for the City that diminish its revenue-generation capacity.

Table 10: Share of Population Compared to Share of Assessment Base - EMRB Member Municipalities, 2022

#	Municipality	Pop.	Res & Farmland	Non-Res	M&E	Non-Res & M&E	Total Assess.
1	Beaumont*	1.5%	1.6%	0.4%	0.0%	0.3%	1.2%
2	Devon*	0.4%	0.4%	0.2%	0.0%	0.2%	0.3%
3	**Edmonton**	**72.8%**	**68.3%**	**60.2%**	**4.5%**	**47.9%**	**62.4%**
4	Fort Saskatchewan*	1.9%	1.9%	2.0%	9.9%	3.7%	2.4%
5	Leduc	2.4%	2.2%	3.2%	0.5%	2.6%	2.3%
6	Leduc County*	1.0%	1.5%	8.8%	0.9%	7.1%	3.1%
7	Morinville*	0.7%	0.6%	0.3%	0.0%	0.2%	0.5%
8	Parkland County*	2.3%	3.3%	6.3%	1.7%	5.3%	3.8%
9	Spruce Grove	2.7%	2.6%	1.8%	0.1%	1.4%	2.3%
10	St. Albert	4.7%	5.5%	3.0%	0.1%	2.4%	4.6%
11	Stony Plain*	1.2%	1.2%	0.8%	0.0%	0.6%	1.0%
12	Strathcona County*	7.0%	9.0%	9.5%	57.1%	20.1%	12.2%
13	Sturgeon County*	1.4%	2.0%	3.6%	25.2%	8.4%	3.8%
	Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Government of Alberta Municipal Affairs - Equalized Assessment Report, 2024; Government of Alberta Treasury Board and Finance - Municipal Population Estimates; Calculations by City of Edmonton.
*Note: * Indicates municipalities that tax machinery & equipment*

Table 11, below, provides a comparison of assessment base per capita for all EMRB member municipalities in 2022. The reason for comparing tax base per capita is that population is one of the primary drivers of municipal expenditures: a municipality with a larger population will generally have greater expenditure needs than a smaller municipality. A per capita representation provides proportionality to the total tax base figures. Table 11 shows that the assessment base per capita varies considerably across municipalities, particularly in the non-residential and M&E classes.

Edmonton's assessment per capita is below average for all assessment classes (Table 11). Edmonton's residential and farmland assessment is $135,261 per capita, which is 15% below the regional average of $158,970. Edmonton's non-residential tax base is particularly low, at $37,584 per capita, which is less than half of the EMRB average of $76,631 (51% below average). When adding in M&E to non-residential (as they are taxed at the same rate), this disparity becomes more pronounced: Edmonton's non-residential and M&E tax base per capita was $38,384, amounting to one-third of the region's average value (65% below average). Edmonton's total assessment per capita ($173,646) is also 35% below the EMRB average ($268,805), and is far below Fort Saskatchewan ($263,766), Leduc County ($643,011), Parkland County ($337,701), Strathcona County ($353,269) and Sturgeon County ($553,322).

Table 11: Assessment Base Per Capita - EMRB Member Municipalities, 2022

#	Municipality	Res & Farmland	Non-Res	M&E	Non-Res & M&E	Total Assess.
1	Beaumont*	$156,031	$11,425	$6	$11,431	$167,462
2	Devon*	$124,227	$19,574	$47	$19,620	$143,848
3	**Edmonton**	**$135,261**	**$37,584**	**$801**	**$38,384**	**$173,646**
4	Fort Saskatchewan*	$147,575	$47,930	$68,260	$116,190	$263,766
5	Leduc	$132,580	$60,807	$2,493	$63,300	$195,880
6	Leduc County*	$219,091	$412,449	$11,471	$423,920	$643,011
7	Morinville*	$115,243	$17,590	$233	$17,823	$133,067
8	Parkland County*	$204,778	$123,212	$9,711	$132,923	$337,701
9	Spruce Grove	$138,830	$29,639	$476	$30,115	$168,945
10	St. Albert	$169,008	$29,202	$373	$29,575	$198,583
11	Stony Plain*	$134,130	$27,797	$39	$27,836	$161,966
12	Strathcona County*	$185,564	$62,161	$105,544	$167,705	$353,269
13	Sturgeon County*	$204,290	$116,840	$232,193	$349,033	$553,322
	Average	**$158,970**	**$76,631**	**$33,204**	**$109,835**	**$268,805**

Source: Government of Alberta Municipal Affairs - Equalized Assessment Report, 2024; Government of Alberta Treasury Board and Finance - Municipal Population Estimates; Calculations by City of Edmonton.
*Note: * Indicates municipalities that tax machinery & equipment*

16.5 TAX RATE DISPARITY

Table 12 shows the residential and non-residential mill rates for all EMRB member municipalities in 2022.[63] Mill rates are the property tax rate for each $1,000 of assessment. While mill rates are impacted by municipal spending, they are also importantly impacted by total assessment: higher assessed values require lower rates to achieve the same revenue outcome. This is important in the Edmonton context after viewing the previous tables.

In 2022, Edmonton's mill rates were above the EMRB average for both residential and non-residential classes (Table 12). This differential presents a competitive disadvantage for Edmonton with respect to its tax rates, as it can disincentivize property investment in Edmonton in favor of lower-tax neighbouring jurisdictions. Edmonton's residential mill rate

[63] The City of Edmonton applies the same tax rate for residential and farmland classes. Section 354 (3.1) of the *Municipal Government Act* and Section 3(1) of Alberta Regulation 202/2017 *Matters Relating to Assessment Subclasses Regulation* requires municipalities to apply the same tax rate for non-residential and M&E classes.

was modestly higher than the average of all remaining EMRB municipalities, at 1.2 times the average. However, Edmonton's non-residential mill rate was significantly higher than all others, at 2.3 times the average of all remaining EMRB municipalities (Table 12).

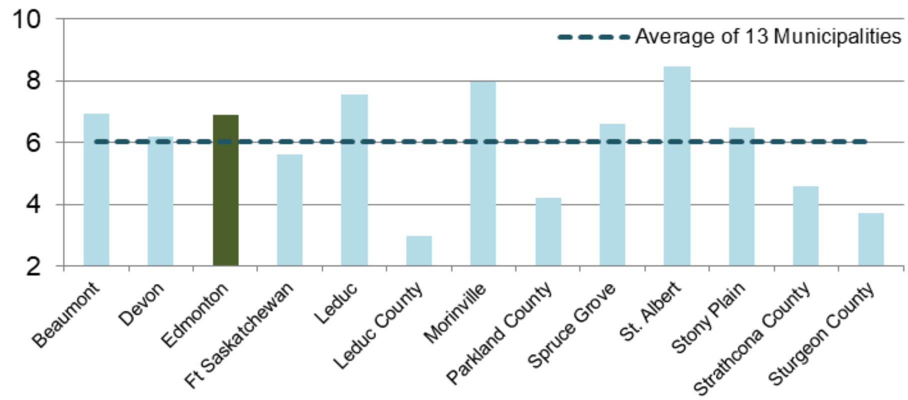
Table 12: Comparison of 2022 Mill Rates - EMRB Member Municipalities

#	Municipality	Res & Farmland Mill Rate	Non-Res & M&E Mill Rate
1	Beaumont*	6.91843	9.68580
2	Devon*	6.19770	9.07240
3	**Edmonton**	**6.90720**	**21.07860**
4	Fort Saskatchewan*	5.62809	10.09477
5	Leduc	7.55200	9.38000
6	Leduc County*	2.97000	6.50000
7	Morinville*	7.96972	8.76654
8	Parkland County*	4.21330	8.42660
9	Spruce Grove	6.59000	9.62140
10	St. Albert	8.46821	12.07518
11	Stony Plain*	6.47680	8.15640
12	Strathcona County*	4.60200	10.10880
13	Sturgeon County*	3.71050	10.46590
	Average Rate of All Municipalities Less Edmonton	**5.94140**	**9.36282**
	Edmonton's Mill Rate Compared to Average	**1.2X Higher**	**2.3X Higher**

Source: Government of Alberta Municipal Affairs - Municipal Financial and Statistical Data, 2022.
*Note: Tax rates are shown as mill rates, which are the taxes paid per $1,000 of assessment; * Indicates municipalities that tax machinery & equipment.*

Figure 42 depicts the residential mill rates across EMRB member municipalities in 2022. Edmonton's residential rate (6.91) was above average (1.2 times the average), but was not excessively out of line with the other municipalities. St. Albert had the highest residential rate (8.47), and Leduc County had the lowest rate (2.97).

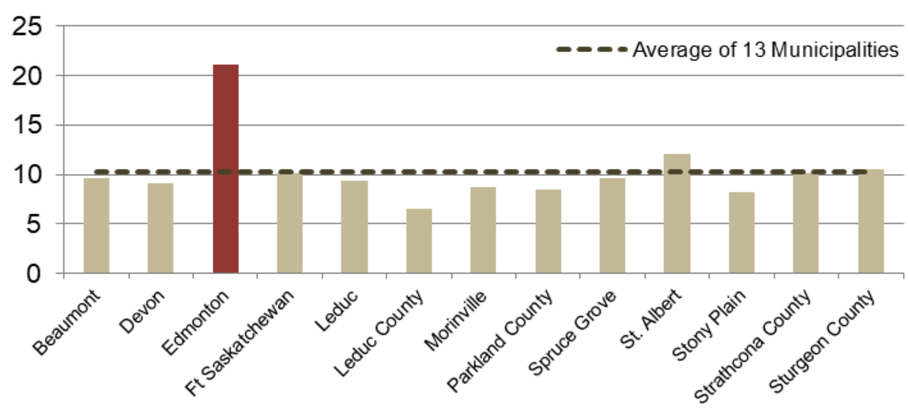
Figure 42: Residential Mill Rates of EMRB Member Municipalities, 2022



Source: Government of Alberta Municipal Affairs - Municipal Financial and Statistical Data, 2022.
Note: Tax rates are shown as mill rates, which are the taxes paid per $1,000 of assessment.

Figure 43 depicts the non-residential mill rates across EMRB member municipalities in 2022. This figure highlights Edmonton's non-res rate differential, which far exceeds the rates of all other EMRB municipalities. Most other municipalities had a non-res rate in the 8.00 to 10.50 range. Leduc County was also an outlier, with the lowest rate in the region at 6.50.

Figure 43: Non-Residential Mill Rates of EMRB Member Municipalities, 2022



Source: Government of Alberta Municipal Affairs - Municipal Financial and Statistical Data, 2022.
Note: Tax rates are shown as mill rates, which are the taxes paid per $1,000 of assessment.

16.6 IMPLICATIONS OF FISCAL DISPARITY

Fiscal disparity occurs when tax rates and tax bases vary across municipalities of the same metropolitan area. As shown in the preceding analysis, there is significant fiscal disparity in the Edmonton region. The most critical takeaways from this analysis are that Edmonton's non-residential tax base per capita ($37,584) is 51% below the region's average ($76,631). When adding in M&E assessment, which the City does not tax, nor does it expend resources to re-assess, the City's tax base per capita ($38,384) is 65% below the region's average ($109,835).

Because Edmonton has greater expenditure responsibilities than smaller regional municipalities, this has meant that tax rates on Edmonton's non-residential properties have been significantly higher than neighbouring municipalities to compensate for the City's relatively low tax base, at 2.3 times the average regional rate. These comparatively high tax rates weaken the City's competitive position for attracting non-residential development. The analysis indicates that businesses have disproportionately located in the region, while still benefiting from the urban services and economic attributes supported by the large centre city, such as access to global markets and a high concentration of skilled workers.

This section provided a point-in-time analysis of fiscal disparity. The next section analyzes how these circumstances have worsened over time.

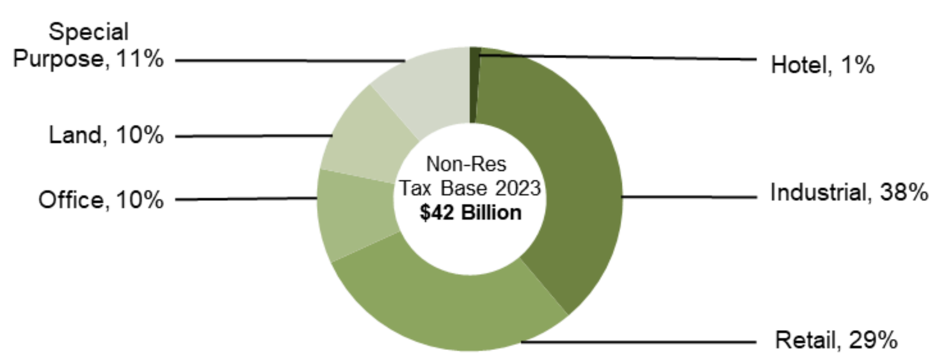
17. NON-RES TAX BASE - DECLINING REGIONAL SHARE

17.1 CONTEXT SETTING

17.1.1 PROFILE OF EDMONTON'S NON-RESIDENTIAL TAX BASE

In 2023, Edmonton's non-residential tax base was valued at $42 billion, comprising 38% industrial, 29% retail, 10% office, 10% land, 1% hotel and 11% special purpose (Figure 44). Special purpose properties include such properties as automobile dealerships, stadiums, coliseums, golf courses, casinos, some railway properties, and various industrial or research facilities.

Figure 44: City of Edmonton's Taxable Non-Residential Assessment Base, 2023



Source: City of Edmonton.
Note: Figures do not sum to 100% due to rounding.

17.1.2 MANY BUSINESSES ARE NOT PLACE-BOUND WITHIN EDMONTON

A business is place-bound when the location is imperative to its operations. For example, a mineral mining business is place-bound to where the mining facility is located. Similarly, a grocery store serving a neighbourhood is place-bound to within reasonable proximity of that neighbourhood. In contrast, a non-place-bound firm has locational flexibility. For example, a knowledge-based technology firm could be non-place bound, with locational options in a variety of urban centres of developed economies.

Within metropolitan Edmonton, many firms are place-bound to the region for a variety of business and economic factors, but are not place-bound within Edmonton's municipal boundaries. Non-place bound firms are a large part of the metropolitan area's non-residential tax base. All else equal, non-place bound firms may locate within the region where costs are lower, and building intentions may occur in municipalities with lower property taxes, development costs and land costs.

17.1.3 THE IMPACT OF NON-RESIDENTIAL TAXES ON LOCATIONAL CHOICE

When it comes to inter-metropolitan locational decisions—for example, a firm choosing between Toronto CMA or Edmonton CMA—the available evidence suggests that property tax rate differentials are relatively unimportant to business location decisions.[64] When making this locational choice, other business factors weigh more heavily on decision making, such as market characteristics, growth potential, market access, costs and availability of skilled labour, among others.

Once a firm identifies a metropolitan market to do business in, property tax rate differentials play a role in intra-metropolitan locational decisions—for example, choosing which municipality in the Edmonton CMA to establish itself.[65] Access to high-quality freeways, such as Anthony Henday Drive, and abundant land supply make this choice readily available. In other words, differences in property tax rates are unlikely to significantly influence a business's locational choice between the metropolitan areas of Edmonton, Vancouver, Toronto or Halifax. However, once a business decides to locate in metropolitan Edmonton, property taxes are likely to play a role in locational choice within the greater Edmonton area, particularly when they are not place-bound to a specific area of the region. In Edmonton's context, there are many other neighbouring municipalities to choose from, all of which

[64] Kitchen, Harry, and Enid Slack. 2012. "Property Taxes and Competitiveness in British Columbia." A report prepared for the BC Expert Panel on Business Tax Competitiveness.
[65] Ibid.

benefit from the same broad economic attributes Edmonton offers, such as access to global markets and a highly-skilled workforce.

In many metropolitan regions, other attributes may weigh more heavily on locational choice than property tax rates: for example, it may be important to locate within the region's central business district (CBD), regardless of whether property taxes are higher than in neighbouring municipalities. For some city regions, the centre city possesses unique attributes that cater to the local market in ways that smaller surrounding municipalities cannot. For example, Toronto has a large financial sector, and large financial firms typically locate in the city's CBD.

In metropolitan Edmonton's case, however, in the past 30 years, the majority of non-residential development has not been in the CBD, but in business and industrial parks. This development pattern further strengthens the competitive advantage of the municipalities surrounding Edmonton, as most can provide the land to absorb growth of this development format.

17.1.4 IMPACT OF NON-RESIDENTIAL TAXES ON CAPITAL INVESTMENT

Recent research on the impacts of property taxes on business investment in Canada suggests that non-residential property taxes can impose economic costs on business investment and location decisions. For businesses, real estate properties are an input factor required for the production of goods and services, effectively making them capital. It is argued in the public finance literature that property taxes on businesses are a capital tax, borne by owners of capital in the economy (businesses can also pay property taxes through their lease, if they are not the property owner). In this view, like other taxes on capital, non-residential property tax can disincentivize investment and create location distortions.[66, 67] The School of Public Policy has argued that excessive property taxation of business properties increases the marginal effective tax rate on capital, which discourages investment in structures, and reduces the competitiveness of the business sector.[68]

The marginal effective tax rate (METR) is a widely accepted composite measure of the burden business taxation places on new investment. It is used to measure tax

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[66] Jordan, Mike. 2021. "Business Property Taxation by Cities: What We Know, What We Don't, and What We Should." City of Saskatoon, Discussion Paper.
[67] Found, Adam. 2014. *Essays in Municipal Finance*. University of Toronto, PhD Thesis.
[68] Dahlby, Bev. 2012. "Reforming the Tax Mix in Canada." University of Calgary, The School of Public Policy, SPP Research Papers, Vol. 5, Issue 14.

competitiveness by consolidating all taxes on business into one measure. The Department of Finance Canada describes the METR as follows:[69]

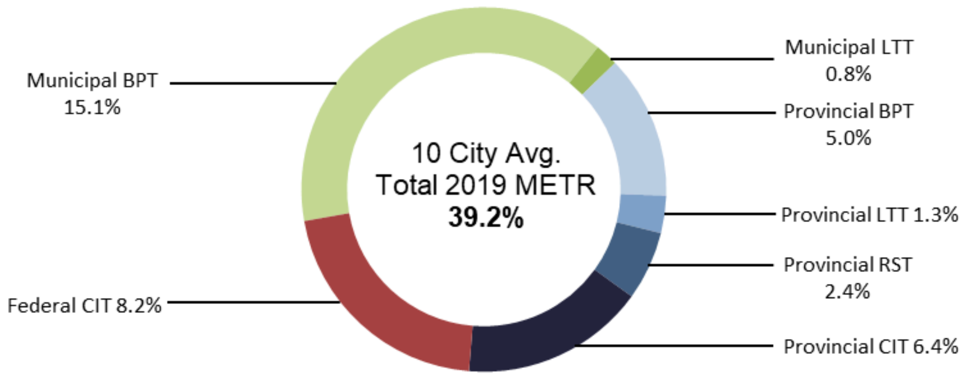
> "*The Marginal Effective Tax Rate (METR) is an estimate of the level of taxation on a new business investment, accounting for all levels of taxation, as well as investment tax credits, and capital cost allowances. It is one of the main metrics for comparing the level of taxation on new business investment between countries. Maintaining a competitive METR is important for Canada's attractiveness as an investment destination*."

A comprehensive study by Adam Found indicates that business property taxes contribute substantially to the METR, and that capital investment in commercial buildings and structures are highly sensitive to property tax.[70] The C.D. Howe Institute states that the higher the METR, the greater the investment loss and overall economic harm: if the cost of investing in a particular Canadian jurisdiction is too high, that jurisdiction's stock of capital (buildings and structures) will be smaller than it otherwise would be.[71] Another study by Dahlby, Ferede and Khanal found that in Alberta, between 1998 and 2017, a 10% increase in non-residential property tax resulted in a 7% drop in business investment in buildings and structures.[72]

The C.D. Howe Institute has shown that across Canadian cities, property taxes on business properties are the largest contributor towards the METR (Figure 45): when taking the average of the largest city of each province, the METR on general corporate capital investment was 39.2%, and municipal property taxes on business properties constituted the largest component, at 15.1%.[73] The second highest contribution to METR was federal corporate income tax (CIT), which was 8.2% (Figure 45).

[69] Department of Finance Canada - Tax Fairness For Every Generation. https://www.canada.ca/en/department-finance/news/2024/04/tax-fairness-for-every-generation.html. Accessed 1 September 2024.
[70] Found, Adam. 2014. *Essays in Municipal Finance*. University of Toronto, PhD Thesis.
[71] Ibid.
[72] Dahbly, Bev, et al. 2021. "The Impact of Property Taxation on Business Investment in Alberta." University of Calgary: The School of Public Policy Publications, SPP Research Paper, Volume 14:8.
[73] Found, Adam, and Peter Tomlinson. 2020. "Business Tax Burdens in Canada's Major Cities: The 2019 Report Card." C.D. Howe Institute, Fiscal and Tax Policy - E-Brief.

Figure 45: Composition of METR on General Corporate Capital Investment in Canada, 2019



Source: C.D. Howe Institute.
Note: Abbreviations used are corporate income tax (CIT), retail sales tax (RST), land transfer tax (LTT) and business property tax (BPT); average of 10 cities includes Vancouver, Calgary, Saskatoon, Winnipeg, Toronto, Montreal, Moncton, Halifax, Charlottetown and St. John's.

Note that the C.D. Howe analysis did not include Edmonton, but did include Calgary. In Alberta, there is no municipal land transfer tax (LTT), provincial LTT or provincial retail sales tax (RST). Due to similarities in tax policy, Calgary is the most comparable municipality to Edmonton, which had a total METR of 38.4%, of which municipal property taxes on businesses contributed to half, at 19.2% of METR. The remaining business taxes levied in Alberta contributed the remaining 19.2% of Calgary's METR: with federal CIT at 8.4%, provincial CIT at 6.2% and provincial business property taxes (BPT) at 4.6%.

In the economics literature, taxes are said to be efficient when they do not require businesses to distort their economic decisions in order to comply with the tax.[74] The Canadian public finance literature increasingly suggests that non-residential property taxes are likely not efficient, as they distort investment levels as well as investment locations. Furthermore, municipal non-residential property taxes are also shown to be the largest component of the marginal effective tax rate on businesses in Canada, larger than both federal and provincial corporate income taxes.

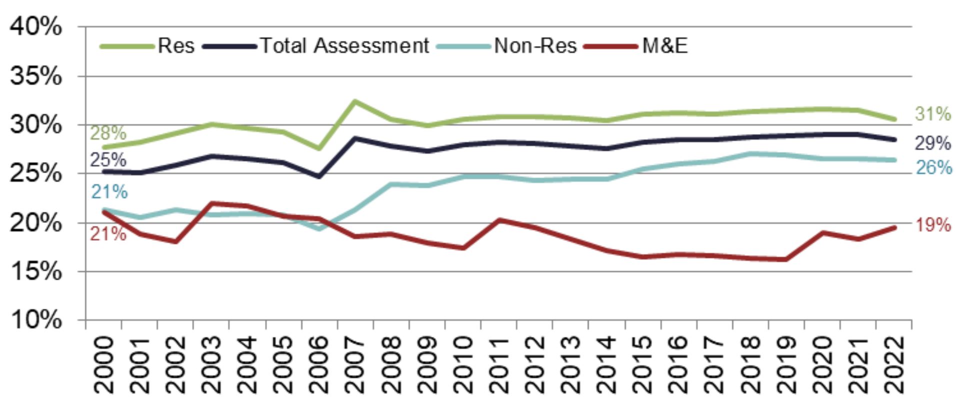
In Edmonton's context, differentials in non-residential property tax rates across the region have likely contributed toward the City's fiscal disparity discussed in the previous section. If municipal property taxes are the most significant contributor towards the METR, and non-residential tax rates differ significantly in the Edmonton region, it is reasonable to infer that the tax rate differentials are influencing locational choice in the region. The following subsections analyze where business properties have chosen to invest in the Edmonton region, along with the implications on the City's tax base.

[74] Jordan, Mike. 2021. "Business Property Taxation by Cities: What We Know, What We Don't, and What We Should." City of Saskatoon, Discussion Paper.

17.2 EDMONTON REGION'S TAX BASE IN A PROVINCE-WIDE CONTEXT

The total tax base of all 13 EMRB municipalities as a share of Alberta's total property assessment has shown moderate growth, increasing from 25% in 2000 to 29% in 2022 (Figure 46). Over this period, metropolitan Edmonton's residential tax base also increased from 28% to 31%, non-residential tax base increased from 21% to 26%, and the M&E tax base decreased slightly from 21% to 19%. These trends are consistent with ongoing urbanization trends in Alberta, where a growing share of people, economic activity, and associated properties are located within metropolitan areas—in 2022, the EMRB population comprised 32.3% of Alberta's population.[75] These trends signify that the Edmonton region, on whole, has gradually grown its share of provincial property tax base, suggesting that construction of new properties within the region has occurred at a steady rate. Note that the growth in share of the non-residential tax base also suggests that non-residential property construction within the region has occurred at a steady rate.

Figure 46: Total EMRB Assessment Base as % of Alberta Assessment Base, 2000-2022



Source: Government of Alberta Municipal Affairs - Equalized Assessment Report, 2002-2024; Calculations by City of Edmonton.

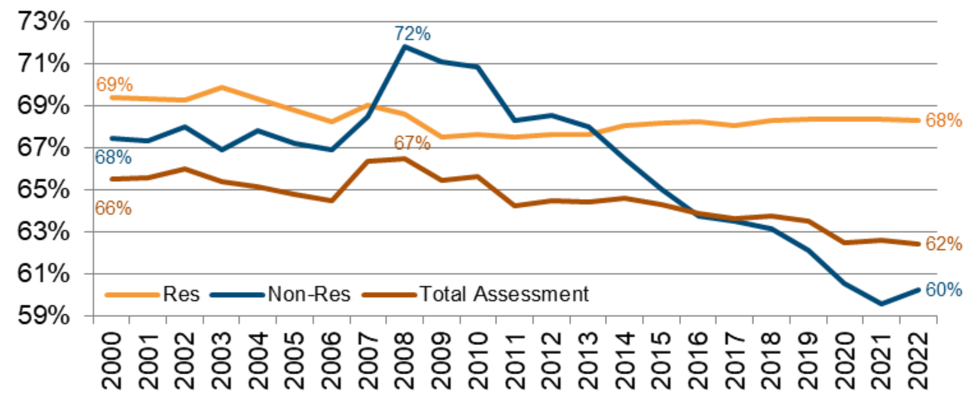
17.3 EDMONTON'S DECLINING NON-RESIDENTIAL ASSESSMENT SHARE

In contrast to the broad upward movement of the Edmonton region in relation to Alberta's total property tax base, shown above, when examining the tax base distribution across EMRB municipalities over time, a different trend is revealed. Over the 14-year period from 2008 to 2022, Edmonton's non-residential assessment base declined from 72% of the EMRB non-residential base, to 60% (Figure 47).

[75] Source: Government of Alberta Treasury Board and Finance - Population Estimates.

During that same period, Edmonton's residential tax base declined slightly from 69% of the region's residential base in 2000, to 68% in 2022 (Figure 47); during that period, Edmonton's population share increased from 72.3% in 2001 to 72.8% in 2022.[76] This divergence in population and residential assessment value suggests that residential properties above the region's average value are disproportionately constructed in the ring outside City boundaries, and properties below average are constructed within City boundaries. The rapid decline in non-residential assessment share also pulled Edmonton's total assessment share down, from 67% in 2008 to 62% in 2022.

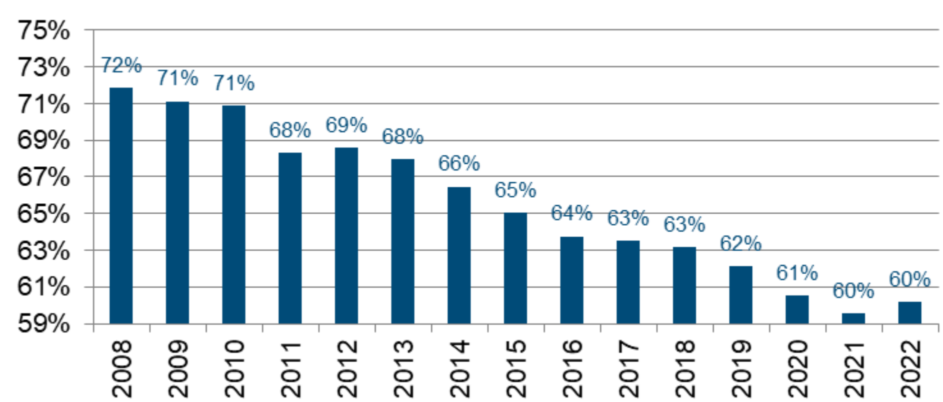
Figure 47: Edmonton's Assessment as % of EMRB Assessment, 2000-2022



Source: Government of Alberta Municipal Affairs - Equalized Assessment Report, 2002-2024; Calculations by City of Edmonton.

Figure 48 shows the same declining trend more closely: Edmonton's non-residential assessment value as a share of EMRB non-residential assessment declined rapidly from 2008 to 2022. The share hit its low in 2021, at 59.6% of regional non-residential tax base.

Figure 48: Edmonton's Non-Res Assessment as % of EMRB Non-Res Assessment, 2010-2024 (Rounded)



Source: Government of Alberta Municipal Affairs - Equalized Assessment Report, 2002-2024; Calculations by City of Edmonton.

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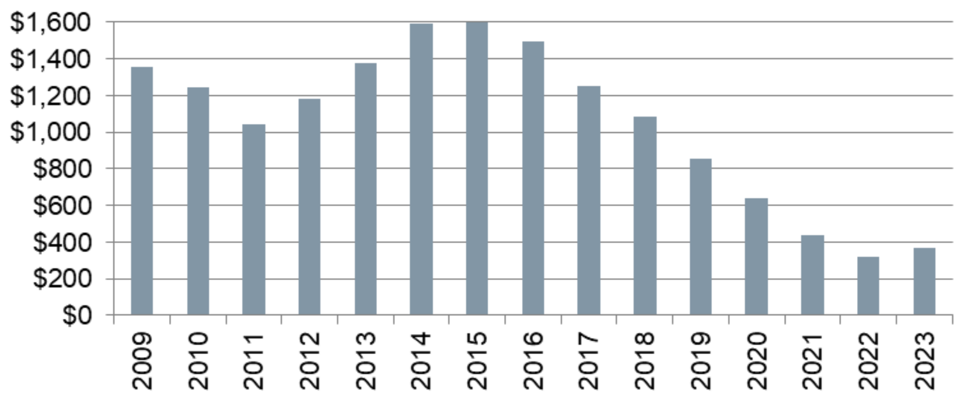
[76] Source: Government of Alberta Treasury Board and Finance - Municipal Population Estimates; Statistics Canada Table 17-10-0142-01.

17.4 DECLINING NON-RESIDENTIAL REAL GROWTH IN EDMONTON

Determining the causes of Edmonton's declining regional non-residential tax base share prompts investigation into real growth trends. Real growth refers to newly constructed properties and improvements to existing properties, and is a measure of how much new construction value is incrementally added to the tax base each year. Inflation-adjusted annual non-residential real growth has declined by 77% in recent years, from $1,600 per capita in 2015 to $365 in 2023 (Figure 49). However, because metropolitan Edmonton's share of Alberta's total tax base has continued to trend upward during this time, this implies that real growth has occurred in metropolitan Edmonton, but it is happening disproportionately in the municipalities outside Edmonton's boundaries.

Figure 49: Edmonton's Non-Residential Real Growth Per Capita - 3-Year Smoothing, 2009-2023 ($2023)

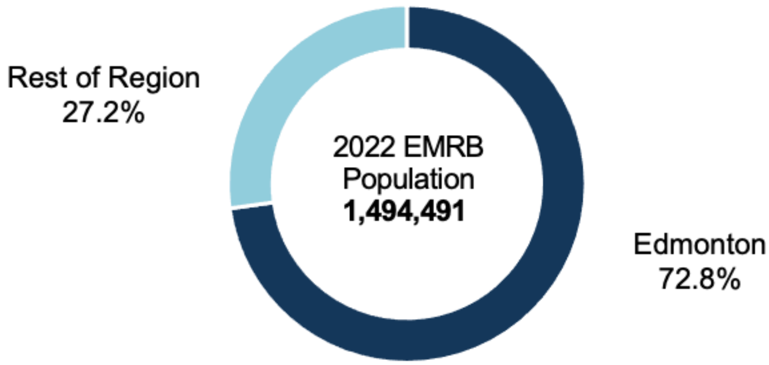


Source: City of Edmonton; Government of Alberta Treasury Board and Finance - Municipal Population Estimates; Statistics Canada Table 17-10-0142-01; Statistics Canada Table 18-10-0005-01; 2023 Population estimate by City of Edmonton; Calculations by City of Edmonton.
Note: Data is smoothed over 3 years to reduce short-term volatility.

17.5 CITY ABSORPTION OF REGIONAL REAL GROWTH HAS BEEN LOW

As is shown in Figure 50, the total population of all 13 EMRB member municipalities in 2022 was 1,494,491. Of this population, Edmonton comprised 72.8%, whereas the remaining 12 EMRB member municipalities accounted for the other 27.2%.

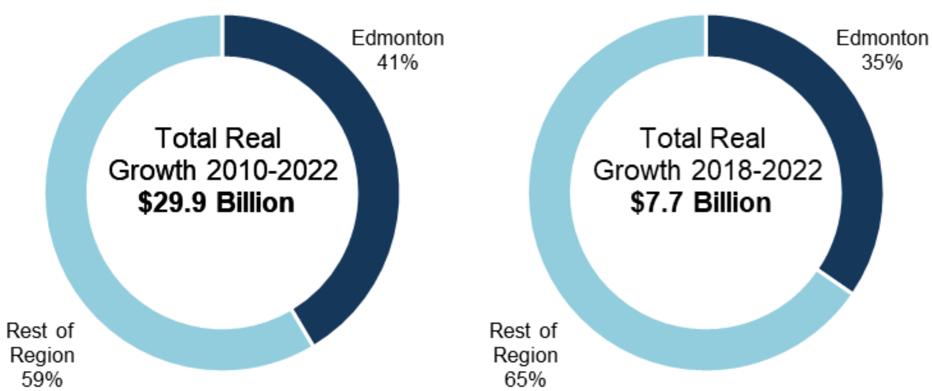
Figure 50: Edmonton's Share of EMRB Population in 2022



Source: Government of Alberta Treasury Board and Finance - Municipal Population Estimates; Calculations by City of Edmonton.

Figure 51 shows the estimated total value of non-residential real growth in the Edmonton region over the 2010 to 2022 period. There was an estimated $29.9 billion in real growth over this period, of which the City absorbed only 41%, whereas surrounding municipalities absorbed 59% (inflation-adjusted 2022 dollars). This absorption share is in stark contrast with Edmonton's population share, shown above. There was also a downward trend in this absorption: in the more recent five years, from 2018 to 2022, there was an estimated $7.7 billion of real growth; the City only absorbed 35% of this, whereas the remaining 65% was absorbed in surrounding municipalities.

Figure 51: Estimated Non-Res Real Growth in EMRB Municipalities, 2010-2022 [left] and 2018-2022 [right] ($2022)

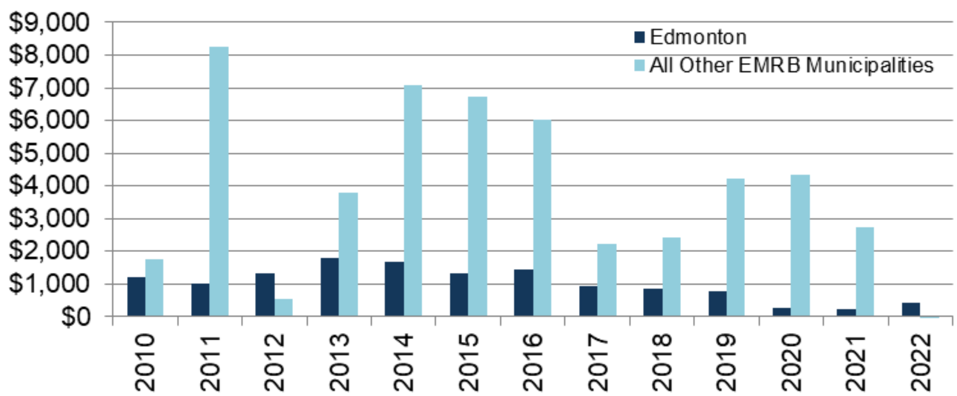


Source: Government of Alberta Municipal Affairs - Equalized Assessment Report, 2012-2024; Statistics Canada Table 18-10-0005-01; Calculations by City of Edmonton.
Note: Real growth figures are estimated by City of Edmonton.

The City's low absorption of non-residential real growth presents a critical fiscal challenge, as the size of the City's tax base ultimately determines its fiscal capacity—its ability to generate revenues. Though, tax base alone is only half of the equation. Revenue generation potential from the tax base is more relevant in context of the City's expenditure responsibilities. Ideal real growth absorption should be somewhat proximate to the City's population share (72.8%), as population ultimately drives the City's expenditure responsibilities.

Figure 52 shows inflation-adjusted per-capita real growth of the non-residential tax base. When scaling on a per-capita basis, the difference becomes even more magnified. From 2010 to 2022, the 12 municipalities surrounding Edmonton absorbed 3.5 times more non-residential real growth per capita than Edmonton.

Figure 52: Estimated Per Capita Non-Residential Real Growth in EMRB Municipalities, 2010-2022 ($2022)



Source: Government of Alberta Municipal Affairs - Equalized Assessment Report, 2012-2024; Government of Alberta Treasury Board and Finance - Municipal Population Estimates; Statistics Canada Table 17-10-0142-01; Statistics Canada Table 18-10-0005-01; Calculations by City of Edmonton.
Note: Real growth figures are estimated by City of Edmonton.

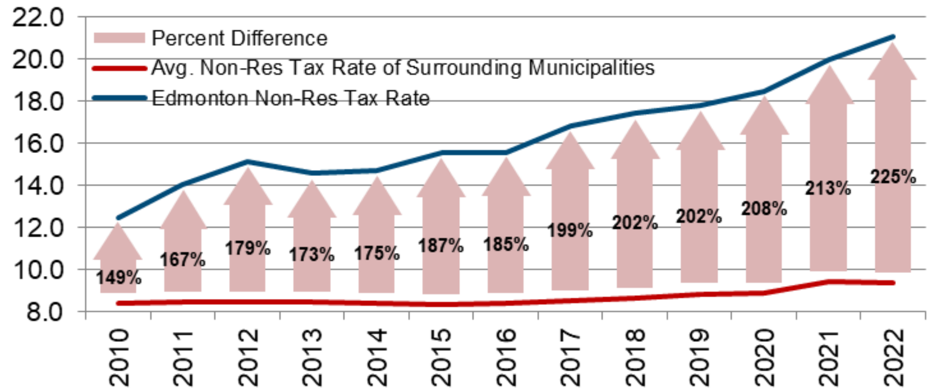
17.6 EDMONTON'S NON-RESIDENTIAL TAX RATE RISING ABOVE AVERAGE

Insufficient growth of the City's non-residential tax base can create a series of knock-on effects:

1. As Edmonton's population continues to grow, the City's expenditure budget will also continue to grow, which will cause the tax levy to grow.
2. However, due to the City's non-residential tax base growing insufficiently, and out of step with growth of its population and residential sector, the growing tax levy will be apportioned to relatively fewer non-residential properties.
3. This has the effect of driving up Edmonton's non-residential tax rates.
4. As the City's non-residential tax rates pull apart from the region's average rates, it could further incentivize private sector non-residential development in surrounding municipalities. Should this happen, surrounding municipalities would absorb greater levels of non-residential real growth.
5. The cycle then repeats.

Figure 53 demonstrates how this series of events had the effect of pulling Edmonton's non-residential tax rates away from the region's average rates. In 2010, Edmonton's non-residential tax rate was 149% higher than the regional average; by 2022, Edmonton's rate was 225% higher than the regional average.

Figure 53: Non-Res Mill Rate - Edmonton Compared to Average Rate of Surrounding Municipalities, 2010-2022



Source: Government of Alberta Municipal Affairs - Municipal Financial and Statistical Data, 2010-2022.
Note: Tax rates are shown as mill rates, which are the taxes paid per $1,000 of assessment.

17.7 MANAGING THE TAX RATE RATIO

One approach to improving competitiveness for absorbing non-residential real growth in a multi-municipal regional context is to manage the tax rate ratio. Tax rate ratio is the ratio of the tax rate on the non-residential assessment class compared to the tax rate on the residential assessment class. In 2024, Edmonton's non-residential-to-residential tax rate ratio was 2.96 to 1. Section 358 of the MGA prohibits Alberta municipalities from having a tax rate ratio above 5 to 1.

Other Canadian cities have established policies to reduce their tax rate ratio to improve business competitiveness and attract more non-residential development. In 1998, Saskatoon adopted a resolution to set the tax ratio at 1.75 to 1. At the time the ratio was 2.11 to 1.[77] This resolution took effect in 2001, and aimed to achieve the 1.75 to 1 ratio by 2010. In 2017, Saskatoon passed another resolution to further reduce the ratio to 1.59 to 1. As of 2023, Saskatoon's tax rate ratio was 1.59 to 1.

In late 2005, Toronto City Council approved a property tax policy "Enhancing Toronto's Business Climate - It's Everybody's Business" to improve the business climate in the City. In 2006, Toronto City Council implemented the policy of limiting municipal tax rate increases

[77] Jordan, Mike. 2021. "Business Property Taxation by Cities: What We Know, What We Don't, and What We Should." City of Saskatoon, Discussion Paper.

within the Commercial, Industrial, and Multi-Residential tax classes to one-third of the residential tax rate increase (i.e. a 3% residential tax increase would result in a 1% non-residential tax rate increase). This measure was designed to reduce the tax ratio to 2.5 to 1 over 15 years (2020). The plan also provided for an accelerated reduction in tax rates for small businesses, with a ratio target of 2.5 times the residential rate by 2015. The small business target tax ratio of 2.5 was achieved in 2015 through graduated tax rates, according to the plan, and has further decreased since then. Since 2017, Toronto City Council adopted a commercial class tax rate increase of one-half of the residential tax rate increase (versus one-third in previous years). These actions resulted in slowing down Toronto's tax ratio reduction plan for the commercial and industrial property classes, which were initially targeted for 2020. In 2023, the commercial ratio was projected at 2.49, achieving the goal set out in 2006.[78] The industrial ratio is targeted to reach the 2.5 target in 2024.[79] In 2017, The Government of Ontario legislated a freeze of municipal tax burdens for the multi-residential property tax class, where the tax ratio is above 2.0 in a municipality.

18. CHANGING MARKET TRENDS & GROWTH OF E-COMMERCE

18.1 A SHIFT TO HYBRID WORK & THE TAX RATE IMPACT

Real growth trends have importantly been identified as a reason for Edmonton's increasingly uncompetitive non-residential tax rate within the region. However, another macro-economic factor has worked against Edmonton's tax rate competitiveness: the increase in hybrid work and the consequent decline in demand for office space, especially since the COVID-19 pandemic. Office space is generally centralized in downtown Edmonton, and Edmonton holds a larger share of this property type within the EMRB. As hybrid work became more commonplace, businesses began reducing their office footprint. Vacancies increased, rental rates dropped and the general value of office space declined.

This trend is visible in Edmonton's non-residential inventory. As shown in Figure 54, Edmonton's office inventory constituted 21% of its non-residential assessment value in 2010; in 2024, it reduced to 10%. Figure 47, shown in the previous section, also shows how the high point for Edmonton's share of regional non-residential assessment coincided with the market boom that came to an end in 2008. Because Edmonton held the majority of office space within the region, the decline in office space value disproportionately increased Edmonton's non-residential tax rate, which has exacerbated the difference between Edmonton's and the surrounding region's tax rates.

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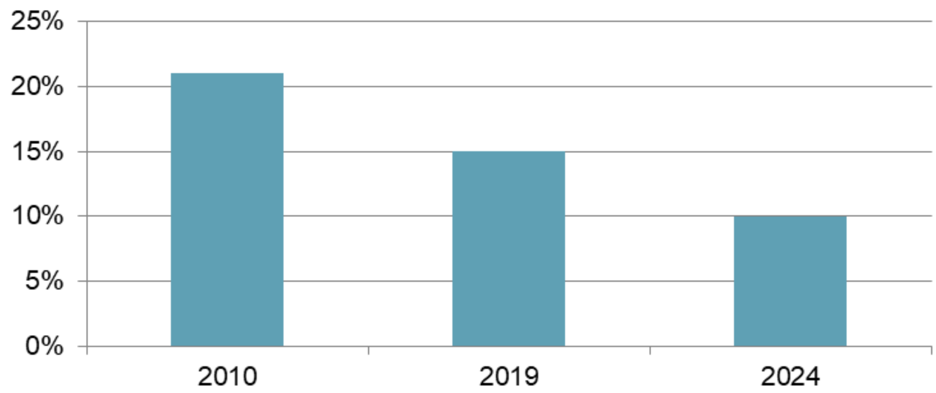
[78] City of Toronto - Appendix A: 2023 Property Tax Rates and Related Matters. toronto.ca/legdocs/mmis/2023/cc/bgrd/backgroundfile-234150.pdf. Accessed 4 September 2024.
[79] Ibid.

Figure 54: Edmonton's Office Inventory as a Share of Non-Residential Assessment Base, 2010, 2019 & 2024

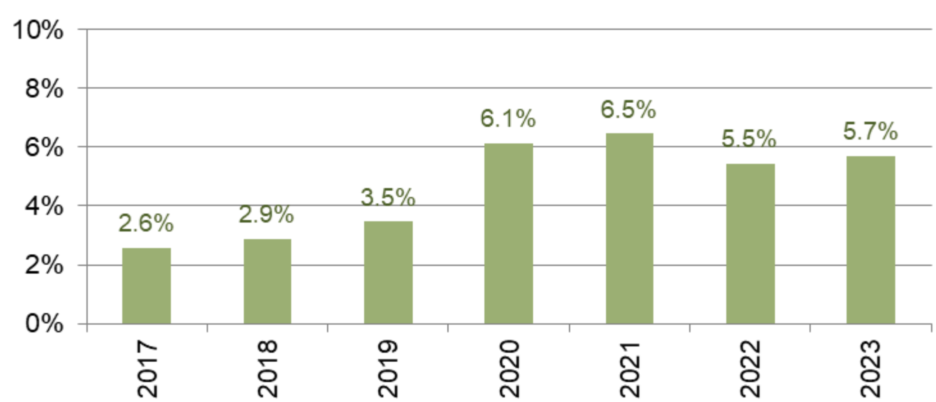


Source: City of Edmonton.

18.2 THE GROWTH OF E-COMMERCE

E-commerce (electronic commerce) is the buying and selling of goods and services on the internet. Retail e-commerce markets are growing in Canada at a rapid rate. From 2017 to 2023, retail e-commerce more than doubled its share of total retail sales in Canada, from 2.6% in 2017 to 5.7% in 2023 (Figure 55). Retail e-commerce peaked in 2020 and 2021 at 6.1% and 6.5%, respectively, due to COVID-19 lockdowns that shifted consumer behaviour toward online shopping. The rates of e-commerce reduced to 5.5% in 2022 as COVID-19 lockdowns eased, but it has nonetheless remained on an upward trajectory since. This data only reflects online sales made by domestic retailers; if online sales from foreign-based retailers were included in this dataset, it would likely show significantly higher rates of retail e-commerce.

Figure 55: Canada's Retail E-Commerce as % of Total Retail Sales, 2017-2023



Source: Statistics Canada Table 20-10-0056-01, Calculations by City of Edmonton.
Note: Retail e-commerce sales only include online sales made by Canadian-based retailers; purchases made by Canadian consumers from foreign-based retailers are excluded.

The rise of e-commerce has in many respects been beneficial to consumers, retailers, and the economy at large. The federal and provincial governments have also benefited from this, as their tax tools give them broad revenue exposure to the economic growth of e-commerce—specifically, personal income taxes, corporate income taxes, and sales taxes. The City of Edmonton, in contrast, relies primarily on property taxation, which does not have the same broad exposure to e-commerce activities.

Property taxation is an ad valorem[80] tax on real property.[81] E-commerce does not typically have the same real property requirements as traditional brick and mortar retail. Consequently, as e-commerce activities continue to grow in Edmonton, the City will not experience a commensurate increase in non-residential tax base. Edmonton's regional context makes this doubly challenging for the City, as the limited growth of taxable real property that has occurred in the Edmonton region from the rise of e-commerce—such as warehouses, fulfillment centres, and distribution centres—has often occurred in the municipalities surrounding Edmonton. For example, Amazon, the world's largest multinational e-commerce firm, has built several large facilities in the Edmonton area in the previous decade, all of which are located in the lower-tax counties surrounding Edmonton.

Retail e-commerce is anticipated to continue growing at a rapid rate. As the e-commerce share of total retail sales continues to grow, this will hamper the growth of Edmonton's non-residential tax base. As was shown in Figure 44, retail is the second largest property type within the City's non-residential tax base, comprising 29% of taxable non-residential assessment. As e-commerce continues to proliferate, brick and mortar retail growth will slow, and real growth of the non-residential tax base will also slow, placing additional burden on all other taxable properties.

The City does not have the legislative authority to levy alternative taxes that would link revenues with e-commerce activities. Without modernizations and reforms to the MGA, the City's fiscal capacity will continue to erode as a result of this economic shift, which will further contribute to the City's fiscal gap.

19. EDMONTON HAS A LARGE SHARE OF EXEMPT PROPERTIES

In Alberta, rules around property tax exemption are governed by the *Municipal Government Act* (MGA) and its associated regulation, the *Community Organization Property Tax Exemption*

[80] Latin for "according to value."
[81] Includes Machinery & Equipment.

Regulation (COPTER), as well as other legislation.[82] Exemptions are a form of tax policy that exclude specific property types from sharing in the overall property tax levy. Section 362 in the MGA makes any property held by the provincial or federal government exempt from municipal taxation.

Edmonton has significantly more tax exempt assessment than most other Albertan municipalities, including Calgary, as it houses a large proportion of exemptable properties. This is due to Edmonton being a large city, a capital city with a high concentration of provincial government buildings, and a healthcare and post-secondary education hub. Schools, universities, health care facilities, provincial holdings, libraries, cemeteries, religious assemblies, senior's facilities and various non-profits are all exempt under provincial legislation. Most properties exempt from taxation in Edmonton are non-residential properties, which effectively reduces the City's non-residential tax base.

When an exemption to a property or group of properties is granted, the City's overall expenditure budget remains unaffected, as does its total tax levy requirements. Property tax exemptions are thus a redistribution of the tax burden: when some property owners are not required to contribute to the tax levy, others are called upon to contribute more. This effectively means the remaining tax base covers the municipal infrastructure and service costs from which the exempt properties benefit, creating distributive inequities across the overall property tax base.

Exempt properties, like most other taxable properties, benefit from municipal services and infrastructure, but do not contribute towards the cost of delivering those services. A university building, for example, accrues the same benefits from municipal services as a commercial office building, whereas the former is exempt and the latter is taxable.

Table 13 shows a breakdown of the total exemptions by category. The municipal tax amount is shown, using Edmonton's 2023 municipal tax rates, for illustrative purposes only. If exempt properties were taxable, the City's total taxable assessment would increase, thereby decreasing tax rates and distributing the tax burden across a wider base. Omitting City-owned properties from the analysis, if all other exempt properties were taxable, the City's tax base would increase by $16.9 billion, which would generate approximately $312 million annually in property taxes. To put this into perspective, the City's non-residential tax base experienced $8.6 billion of real growth in the 10-year period from 2014 to 2023 (2024

[82] *Community Organization Property Tax Exemption Regulation,* Alberta Regulation 281/1998.

inflation-adjusted dollars).[83] Applying a crude calculation, this volume of exempt assessment would be roughly equivalent to two decades of non-residential real growth.

Table 13: Inventory of Exempt Properties

Category	Count	Exempt Assessment	Municipal Tax Amount*
Universities	111	$4,020,608,492	$77.4M
All Other Schools	438	$3,178,100,789	$66.2M
Hospitals/Alberta Health Services	132	$3,021,062,378	$59.7M
Provincial/Federal	**902**	**$2,156,063,310**	**$41.6M**
Non-Profits (COPTER)	1,237	$1,583,504,034	$29.8M
Religious	656	$986,812,591	$20.3M
Alberta Social Housing	167	$669,851,470	$5.5M
Libraries	18	$200,567,928	$4.2M
Private Member's Acts**	15	$151,258,000	$3.1M
Local Authority Board***	49	$106,426,466	$1.9M
Farm Buildings	133	$20,827,220	$0.1M
Other	928	$959,468,252	$6.3M
City	8,482	$5,934,671,335	$105.1M
Total Inventory	**13,268**	**$22,989,222,265**	**$421.2M**
Total Inventory Excluding City Properties	**4,768**	**$16,853,983,002**	**$311.9M**

Source: City of Edmonton.
*Note: Assessment values for some exempt properties may be understated; The Total Inventory Excluding City Properties subtotal excludes the Libraries and City categories; *Municipal tax amounts are shown for illustrative purposes only; **Exemptions passed through the Private Member's Act in the Legislature; ***Exemptions created by the Local Authority Board prior to the introduction of the Municipal Government Act and associated exemption regulations.*

The exempt properties shown in Table 13 contribute toward service costs, but do not pay property tax. Consequently, the remaining tax base shoulders this share of the tax burden, which consumes additional tax room for the tax-paying properties. Non-exempt properties essentially over-pay taxes to compensate for exempt properties, limiting their ability to absorb tax increases, which constrains the City's revenue-raising capacity. This contributes to the City's fiscal gap.

The category of "Provincial/Federal" exempt buildings shown in Table 13 typically pay the City a grant in lieu of property tax to compensate for municipal service costs. However, these properties comprise only a small portion of the total exemption inventory. Education and health facilities held by other orders of government comprise a much larger share of the exemption inventory, but are not eligible for grant payments in lieu of taxes. Grants in lieu of

[83] Real growth refers to new construction that adds value to a property. This can take the form of a new building or an improvement to a pre-existing property.

taxes are discussed in more detail in Section 20. The scope of exempt properties is also growing as affordable housing properties, which concentrate in Edmonton, are likely to be fully exempted starting in 2025. While current estimates place this at around a $3 million tax shift, such changes continue to chip away at the remaining tax base.

City Council has some tax exemption and relief authorities under sections 364 and 347 of the MGA. The City must exercise due caution on how it pursues exemption policies. When providing a tax exemption to one property owner, the City is, in effect, asking all other taxpayers to subsidize the one receiving the break. Given the myriad of fiscal pressures facing the City, as outlined in this report, significant use of exemption powers would further burden the tax base. The properties left shouldering the tax burden would have less tax room available for general tax increases, constraining City budgetary growth which would contribute to the overall fiscal gap.

20. GRANTS IN LIEU OF TAX ARE NOT STABLE

Properties owned by higher-order governments are technically exempt from taxation. Section 125 of the *Constitution Act, 1867* exempts the federal and provincial governments from paying any tax on its lands or property. Section 362 of the *Municipal Government Act* exempts provincial and federal governments from paying property tax to any Alberta municipality.[84] The City cannot levy property taxes on properties owned or held by the federal and provincial governments.

It has nonetheless been a long-standing practice of both the federal and provincial governments to compensate municipalities by paying a grant in lieu of property taxes on some of the properties they own. The Government of Alberta's Municipal Affairs website states:

> "*This payment acknowledges that the province benefits from municipal services provided to these properties, such as roadwork, snow clearing, transit, and emergency services*."[85]

Similarly, the Government of Canada's payments in lieu of taxes for federal property website states: "We make payments in lieu of taxes to recognize the services we receive from municipal governments and to pay our share of the costs to municipalities where our property is located. However, in light of our constitutional exemption from taxation, these

[84] If Section 362 of the MGA was removed, Section 125 of the *Constitution Act* would still prohibit the City from taxing other orders of government.
[85] Government of Alberta - Municipal Affairs, Grants in Place of Taxes Program. https://www.alberta.ca/grants-in-place-of-taxes-program. Accessed 6 July 2024.

payments are made at the discretion of the Minister of Public Services and Procurement or the heads of Crown corporations."[86]

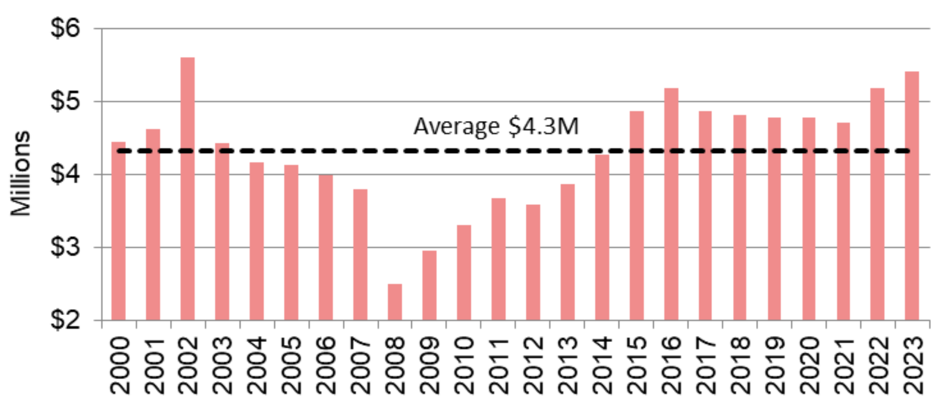
Provincial grants are known as "Grants in Place of Taxes" (GIPOT), and federal grants are known as "Payment in Lieu of Taxes" (PILT). Both GIPOT and PILT are discretionary grant programs, and are not tax payments. The federal and provincial governments can increase, decrease or eliminate these grant funding amounts at their own discretion.

The federal government's total amount of PILT made to property taxing authorities across Canada was $570.6 million for the 2022 tax year, of which Edmonton's payment was $5 million (0.9% of total). The provincial government's total GIPOT payment made to property taxing authorities across Alberta was $30 million for the 2022-23 budget year, of which Edmonton's payment was $19.9 million (66% of total).

20.1 FEDERAL PILT HAS NOT BEEN STABLE

The total inflation-adjusted PILT from the federal government has fluctuated throughout the years, averaging $4.3 million annually from 2000 to 2023 (Figure 56). PILT to Edmonton was below average from 2004 to 2013. These fluctuations are based on the market value assessment of federal properties, but the federal government generally pays the City the full amounts billed, equivalent to 100% of the taxes that would be levied on federal properties if they were taxable.[87]

Figure 56: Inflation-Adjusted Federal Payments in Lieu of Taxes (PILT), 2000-2023 ($2023)



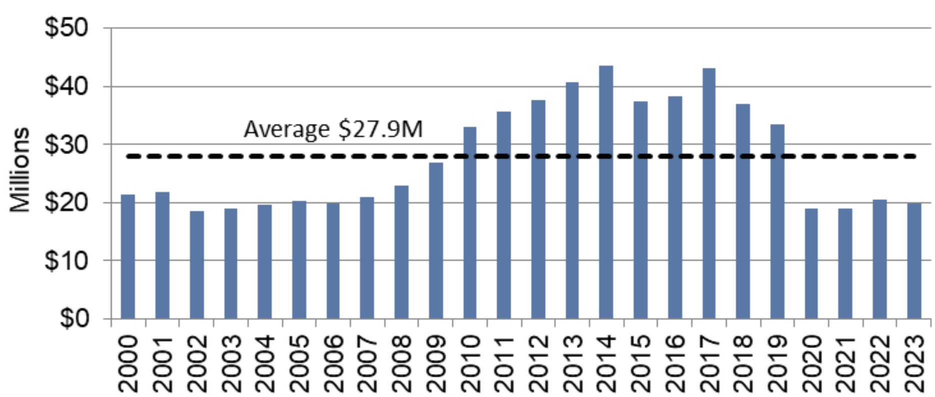
Source: City of Edmonton; Statistics Canada Table 18-10-0005-01; Calculations by City of Edmonton.

[86] Government of Canada - Understanding payments in lieu of taxes. https://www.canada.ca/en/public-services-procurement/services/infrastructure-buildings/payments-lieu-taxes-federal-properties/understanding-payments-lieu-taxes.html#s2. Accessed 28 August 2024.
[87] The federal government pays the provincial government in lieu for the education tax portion that federal properties would incur if taxable.

20.2 PROVINCIAL REDUCTIONS TO GIPOT

The total inflation-adjusted provincial GIPOT paid to the City has also fluctuated over the years, averaging $27.9 million per year from 2000 to 2023. (Figure 57). GIPOT payments were above the average from 2010 to 2019, ranging from $33 to $43.5 million, but have been around $20 million per year for most other years (2023 inflation-adjusted dollars). Historical fluctuations prior to 2020 were based purely on the market value change of government properties, and the province historically always paid grants at 100% of the property tax amount. From 2019 to 2020, the Government of Alberta reduced its GIPOT payments by 50% to levels observed from 2000 to 2008 (Figure 57). As per the Government of Alberta's Municipal Affairs website: "the recent GIPOT funding reduction was necessary to help the government reduce operating spending, while still providing a portion of the grant to contribute to the cost of municipal services provided to government properties."

Figure 57: Inflation-Adjusted Provincial Grants in Place of Taxes (GIPOT) to Edmonton, 2000-2023 ($2023)



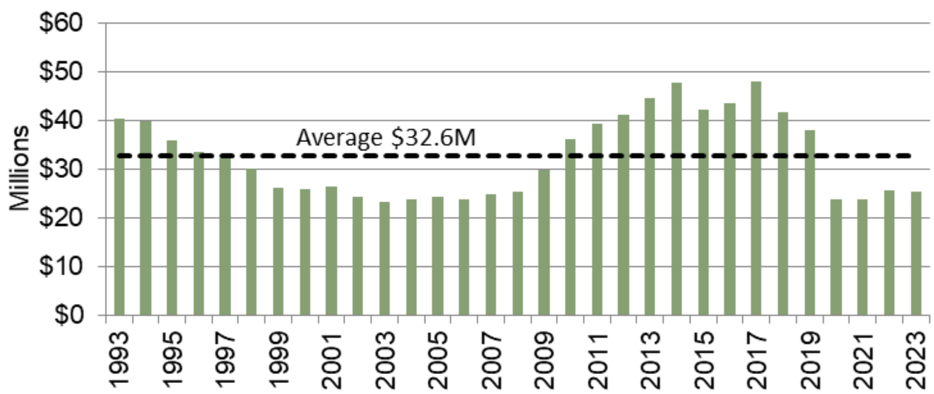
Source: City of Edmonton; Statistics Canada Table 18-10-0005-01; Calculations by City of Edmonton.

The reduction to GIPOT was particularly impactful to Edmonton, as two-thirds of the total grant program accrue to the City, owing to Edmonton being the provincial capital city and having a large number of provincial buildings. The cuts to GIPOT resulted in an average annual operating revenue loss of $13.2 million. In 2024, the loss was closer to $15.5 million.

20.3 LONG-TERM REVENUE TREND

Due to data limitations, payments in lieu broken out by PILT and GIPOT are not available prior to 2000. However, inflation-adjusted total payments in lieu from both orders of government are shown dating back to 1993 in Figure 58. Total payments in lieu have fluctuated throughout the years, averaging $32.6 million annually from 1993 to 2023 (inflation-adjusted dollars). Prior to 2019, fluctuations were a result of market value assessments of government buildings. However, beyond 2019 the reductions were largely due to provincial reductions to GIPOT.

Figure 58: Inflation-Adjusted Total Payments in Lieu From Both Orders of Government, 1993-2023 ($2023)



Source: City of Edmonton; Statistics Canada Table 18-10-0005-01; Calculations by City of Edmonton.
Note: Actuals reflected for 1995-2023; Adjusted budget reflected for 1993-1994.

The reduction in GIPOT contributes to the City's fiscal gap. The City increased the tax levy to compensate for the recent reductions, which increased the tax burden on all non-exempt properties (discussed in Section 19). If government buildings were taxable and not subject to discretionary grant programs that have the potential to change according to the budgetary constraints of other orders of government, City revenues would be more stable.

21. PHASE OUT OF OTHER RESIDENTIAL TAX DIFFERENTIAL

Section 297 of the *Municipal Government Act* permits councils to divide the residential assessment class into subclasses on any basis it considers appropriate. The City historically used these powers to create an Other Residential subclass, which contained apartment-style properties where four or more units existed on an individual title. Notably, this subclass did not include residential condominiums, or other residential properties, because these units are individually titled. The Other Residential subclass generally captured primary rental apartment buildings. In 2023, there was $15.6 billion of taxable assessment in the Other Residential subclass, which generated $125.7 million in municipal taxes.

On the basis that these properties were income-producing with tax deduction potential, the City historically levied a higher tax rate, with rate differentials between 15% and 43% above the residential rate (see Section 16.3.1). Between 2007 and 2023, the rate differential was 15%.

In 2023, City Council approved the gradual phase out of the 15% tax rate differential on the Other Residential subclass. The tax differential will be phased out over five years, beginning in 2024, with the difference transferred to residential taxpayers to cover the revenue shortfall through an additional 1.6% tax increase over 5 years, in addition to any general tax increases approved by Council for those years. Other Residential properties will experience an 11.7% tax decrease over this same time period.

The policy intent behind eliminating the tax differential was to incentivize the investment and development of multi-family rental apartment buildings, with the aim of increasing housing supply and increasing residential densities within Edmonton. This does, however, shift tax burden towards residential properties. At present, the non-residential tax base is not growing adequately (discussed in Section 17), and residential taxpayers will have tolerance thresholds for absorbing tax increases. Compounding shifts of tax burden to the residential class consumes limited tax room over the next 5 years on the residential class, constraining the City’s tax levy and budgetary growth over this period (discussed in Section 6.5). This shift in tax burden and the impacts it has on residential tax tolerance contributes to the City’s fiscal gap.

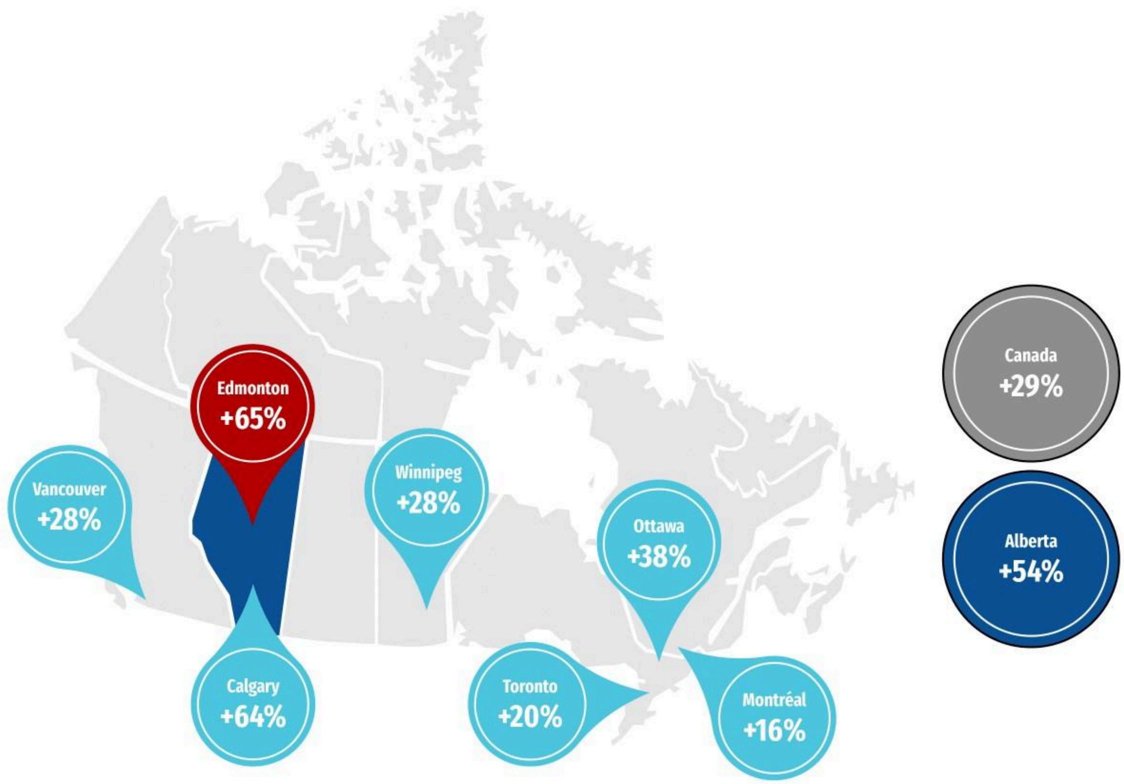
PART VI
EXPENDITURE PRESSURES

22. EDMONTON'S POPULATION IS THE FASTEST GROWING

Edmonton has been the fastest-growing large city in Canada since the turn of the century. From 2001 to 2023, Edmonton's population grew by 65%, from 0.7 million to 1.1 million (Figure 59). The only other large Canadian city that experienced these high levels of population growth was Calgary, which grew by 64% over that same period, from 0.9 million to 1.5 million. During that time, Alberta grew by 54%, from 3.1 million to 4.7 million. In contrast, Canada as a whole grew by 29% from 2001 to 2023, from 31.0 million to 40.1 million.

When compared to other large Canadian cities, Edmonton's growth rate was significantly higher. From 2001 to 2023, Vancouver grew by 28%, Winnipeg grew by 28%, Toronto grew by 20%, Ottawa grew by 38%, and Montréal grew by 16% (Figure 59). Edmonton's population growth rate was more than 2.2 times the national growth rate, and was significantly higher than all other large Canadian cities, with the exception of Calgary.

Figure 59: Population Growth of Canada's Large Cities, 2001-2023



Source: Statistics Canada Table 17-10-0142-01, Statistics Canada Table 17-10-0155-01; Calculations by City of Edmonton.

The fiscal pressure placed on the City of Edmonton from rapid, above-average population growth for extended lengths of time is immense. Population growth is one of the biggest drivers of the City's expenditure budget. To maintain service levels, population growth requires the City to provide more police officers, more fire stations, more fire fighters, more buses, more bus garages, more roads, more recreation facilities, and so on. Virtually all aspects of the City's expenditure budget grows in response to population pressures. When population growth occurs at rapid levels, as in Edmonton's case, budgetary pressures become amplified over short periods of time. The City's population forecast indicates that Edmonton's population was almost 1.2 million as of July 1, 2024.[88] This translates to 200,000 new people in seven years, of whom 100,000 were added over the last two.

Natural increase (births minus deaths) has contributed to population growth in Edmonton CMA, but net migration has been a larger part of the story. An estimated 71% of overall population change between 2001 and 2023 was from net inflows of domestic and international migrants.[89] Domestic migration includes migration from other parts of Alberta (intraprovincial) and other parts of the country (interprovincial). Over 2001 to 2023, net international migration accounted for 43% of overall population change, whereas domestic migration accounted for 28%.

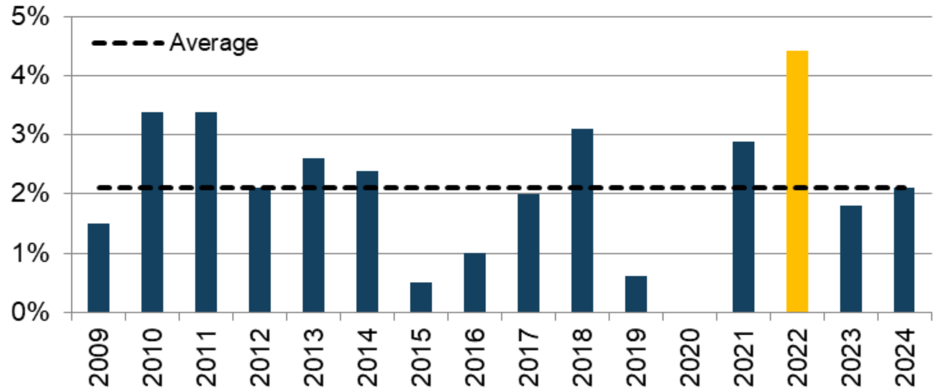
23. THE CITY EXPERIENCED A HIGH-INFLATION PERIOD

Inflation is the general rise in prices of goods and services in an economy over a period of time. The Consumer Price Index (CPI) is the generally accepted measure of inflation for the average consumer. The City, however, purchases a considerably different range of goods and services than the average consumer. The City estimates inflationary pressures on its operating expenditures using its Municipal Price Index (MPI), which better represents the mix of goods and services purchased by the City.

Like other municipalities, along with the household and business sectors, the City experienced high inflation emerging from the COVID-19 pandemic. Annual average MPI inflation from 2009 through 2023 was 2.1% (Figure 60). MPI inflation is projected to average 2.1% in 2024. As is shown in Figure 60, MPI inflation was 4.4% in 2022, more than double the 15-year historical average.

[88] City of Edmonton Summer 2024 Economic Forecast.
[89] Due to limited data availability on the components of population change at the Edmonton CSD level, estimates at the Edmonton CMA level are provided here.

Figure 60: City of Edmonton Municipal Price Inflation, 2009-2024



Source: City of Edmonton.
Note: The 2024 MPI rate is a forecast; Estimates for MPI inflation from 2019-2023 are preliminary and subject to revision due to unsettled labour contracts with the Edmonton Fire Fighters Union.

The relatively high inflation experienced by the City in 2022 placed immense pressure on its expenditure budget. A 4.4% inflation rate on expenditures significantly drove up City operating costs, reducing the City's purchasing power within a relatively short time period. At the same time, the City has to consider the impacts of high inflation on taxpayers, as their tolerance for tax increases are also reduced in periods of high inflation, forcing the City onto a narrower fiscal path to continue delivering high-quality services, while being able to respond to emergent issues.

Sudden and high inflation can directly and indirectly create financial challenges for the City. The extent of direct impacts largely depend on which expenditure categories are affected, how much prices have risen, how long inflationary pressures last, and whether pressures can be managed within the City's existing budget—for example, absorbing inflation through budget capacity in other areas, or delaying or avoiding purchases. Indirect impacts can be more difficult to track, as sudden and high inflation can result in cost-reducing directives that could have long-term implications on service delivery.

24. REGIONAL DEMAND PRESSURES ON CITY SERVICES

Edmonton is the economic heart of the region, integrating numerous surrounding municipalities into an interconnected metropolitan city region that allows a seamless flow of people and business activity in and out of Edmonton. However, the region's multi-municipal structure presents fiscal inequities for the City of Edmonton.

Edmonton is much larger than its surrounding municipalities, which affords it significantly greater spending power. For example, the City can more readily service an additional bus to its fleet, whereas a municipality of 20,000 population will experience significantly greater proportional budget impacts from servicing that same additional bus. The budgetary advantages due to size enables the City to provide more diverse services and larger-scale infrastructure, which also serves the region.

When people and businesses from surrounding municipalities rely on these services and infrastructure, an unintended free rider problem is created. A “free rider” benefits from resources, goods, and services, without paying for their full costs. City services and infrastructure are utilized by residents and businesses of Edmonton’s surrounding municipalities, but the City is not able to capture revenues from these users, as property tax is limited to properties within Edmonton’s boundaries. The City of Edmonton effectively provides various services and infrastructure projects for a Census Metropolitan Area population of 1,563,600, while only generating property tax from its resident population of 1,128,800.[90] The non-residential properties located outside Edmonton’s boundaries also benefit from the services that Edmonton provides without paying property taxes in Edmonton.

The following subsections provide a few examples of the free rider effect. These examples are not an exhaustive list, but are meant to provide context around this issue, and how it drives City expenditures relative to its revenue-raising capacity, contributing to its fiscal gap.

24.1 ROAD NETWORK

As of year-end 2022, the City had a total asset replacement value of $34.7 billion. The largest asset category was roads and related infrastructure, with an asset replacement value of $14.2 billion, 41% of all City infrastructure.[91] The average annual renewal requirements over 2024 to 2032 to maintain the City’s road network is $296.5 million. Additionally, the annual operating expenditures required to service Edmonton’s roadway network in 2023, including bridge and road maintenance, snow and ice control, street cleaning, traffic control, on-street parking and traffic safety was $165.6 million.

Vehicle Kilometer Traveled (VKT) is a widely used indicator in transportation planning that measures the level of roadway use. VKT is estimated by multiplying the lengths of roadway segments with the amount of vehicles traveling on them. The City of Edmonton estimates

[90] Population estimates as of July 1, 2023. Source: Statistics Canada Table 17-10-0148-01; Statistics Canada Table 17-10-0155-01.
[91] Road-related infrastructure includes bridges and traffic signals.

that 68% of per-capita VKT on City roadways[92] is driven by Edmonton residents, while 32% is driven by regional residents.[93]

Traffic also flows from Edmonton into surrounding municipalities. The City of Edmonton estimates that 9.1% of per-capita VKT on regional roadways is from Edmonton residents, while 90.9% of per-capita VKT on regional roadways is from regional residents. These figures demonstrate a disproportionate use of City roadways by regional residents. The City provides a road network capacity that accommodates the demands of the Edmonton metropolitan area population, but generates property tax to support these services only from Edmonton-based properties.

It could be argued that there is an overprovision of road network infrastructure by the City of Edmonton to accommodate a broader metropolitan population: in order to accommodate the VKTs of regional road users, the City's road network is oversized by 47%.[94] Put another way, if Edmonton did not have a large regional population, its road network would be significantly smaller, with lower operating and renewal costs.

24.2 FREEWAYS & EXPRESSWAYS

The City also builds and maintains freeways and expressways that serve a regional clientele. For example, the City is funding 50% ($500 million) of the Yellowhead Trail Freeway Conversion project, which services much of the Edmonton region; the remaining 50% is funded equally by the provincial and federal governments. The operations and maintenance of Whitemud Drive is also borne by the City, though these assets are intended to serve personal traffic and goods movement for the entire region.

24.3 REGIONAL DEMAND PRESSURES ON POLICING RESOURCES

As of July 1, 2023, Edmonton had an estimated population of 1,128,800, whereas the municipalities surrounding Edmonton had an estimated population of 434,800; the latter

[92] City roadways include all roadways within the City of Edmonton's municipal boundaries, with the exception of Anthony Henday Drive (AHD) and other provincial highways within the City's boundary such as QEII between 41st Avenue SW and AHD, Manning Drive/Highway 15 between northeast AHD and 33rd Street NE, and Highway 28A between Manning Dr/Highway 15 and Highway 37.

[93] The VKT estimates and proportion by City and region residents on all City and region roadways (excluding Anthony Henday Drive and other provincial highways within the City's boundary) are for personal travel demand only. Commercial vehicular demand (for goods and service delivery) and residents from outside Edmonton CMA traveling on the City and region roadways (e.g., external traffic from outside the CMA area) are not included. These VKT estimates were conducted using the City of Edmonton Regional Travel Model. This model is a state-of-the-art urban travel forecasting model, which predicts daily fall weekday travel patterns in the Edmonton region (defined as the Edmonton Census Metropolitan Area by Statistics Canada), loadings on the transportation networks, and network performance. Model run: 2022 Base_01Sep2023.

[94] 47% is calculated as the increase required by 68% of users to fund 100% of the service (1.47 x 68% = 100%).

constitutes Edmonton's non-resident regional population.[95] As with other large metropolitan areas, the regional population spends a fair amount of time in the centre city (Edmonton), but declares their residence elsewhere in the region. This additional population works, shops, visits and socializes in the city of Edmonton. EPS resources become strained with the additional responsibility of protecting and administering enforcement services for this larger population, who are not contributing towards Edmonton's policing costs through their property taxes. This drives policing costs in Edmonton, without commensurate revenue generation opportunities, ultimately contributing to the City's fiscal gap.

24.4 MAJOR CULTURAL COMMITMENTS THAT SERVE A REGIONAL CLIENTELE

Edmonton's size affords it budgetary advantages in the provision of major cultural programming and infrastructure. The City makes a number of commitments to large-scale cultural facilities and events, such as: large sporting stadiums, art galleries, symphony halls, museums, Olympic-sized pools, indoor soccer fields, golf courses, major theatre, large-scale festivals, major events, historical parks, indoor botanical gardens and many other services, all of which are beyond the scope and capacity of smaller municipalities to provide to the same extent. These facilities and events attract and serve residents and businesses across the entire Edmonton region. Yet, for the majority of these events and facilities, the costs are borne by the City of Edmonton, its residents and businesses.

24.5 RECREATION & ATTRACTION FACILITIES

In 2023 there were over 8.5 million total visits at City recreation and attractions facilities, including daily admissions, booking, rentals and registered program attendance. Generally, Community Recreation and Culture does not collect demographic information from many types of attendees, such as walk-in admissions and space rentals; though some users who sign up for regular programs or access provide some information about their residence. Of these individual users who sign up for regular programs, roughly 14,000 of 223,000 were from outside Edmonton based on postal code data. Note these figures are rough estimates as verification would require line-by-line analysis to confirm accuracy of the self-reported information.

The cost of delivering recreation services is covered in part from user fees and in part from tax support. Regional attendees pay the user fee, but do not pay property taxes in Edmonton. The City's share of services provided to people living inside or outside municipal

[95] Source: Statistics Canada Table 17-10-0148-01; Statistics Canada Table 17-10-0155-01.

boundaries is difficult to estimate, as Edmontonians use parks and recreation facilities in surrounding jurisdictions as well.

24.6 TRANSIT

Like recreation services, transit services are not full-cost-recovery operations. Public transit operates by generating part of its revenue through user fees, with the remaining funded through general revenue, which is largely comprised of property tax (more information is provided in Section 12, “Insufficient Growth of User Fee Revenue”). Based on a combination of regional Arc data and monthly rider survey data, an estimated 11% of ETS riders live in regional municipalities surrounding Edmonton. The majority of these riders are students who use regional transit services and ETS to travel to post-secondary institutions in Edmonton, followed by commuters travelling to work locations in Edmonton. These riders pay transit user fees to the City, but pay their property taxes elsewhere.

24.7 SOCIAL SERVICES

Within the metropolitan region, Edmonton has a concentration of social services that are meant to provide a spectrum of support to individuals and families, including emergency shelters, transitional housing and basic needs services. This means the City is shouldering a disproportionate burden of the costs of social services relative to other municipalities in the region. Edmonton’s hospitals, universities and non-profit charities also support the wider Edmonton region (as well as Northern Alberta more broadly), but all these properties are tax exempt, meaning the City still provides infrastructure and services to these facilities without the corresponding tax uplift. This presents another free rider effect for the City, as the whole region benefits from the social return of these support services, but the cost of service provision is borne by Edmonton.

25. MUNICIPAL RESPONSIBILITIES ARE EXPANDING

25.1 GOVERNMENT RESPONSIBILITIES DEFINED IN THE CONSTITUTION ACT

Canada has two orders of government from a constitutional perspective: federal and provincial. Municipalities exercise authorities granted to them by and on behalf of provincial governments. The Constitution is the supreme law of Canada, taking precedence over all other laws, and outlines the country’s system of government. Sections 91 and 92 of the Constitution Act establish powers for the federal and provincial governments (Table 14). Each order of government has unique areas of authority, as defined in the Act: for example, the federal government has exclusive authority over national defence, whereas provincial governments have exclusive authority over hospitals. Section 92(A) of the Act sets out provincial authorities respecting non-renewable natural resources, forestry resources and electrical energy. Section 93 of the Act sets out provincial authorities respecting education.

Table 14: Legislative Authorities of Each Order of Government as Established in the Constitution Act

Legislative Authority of the Federal Government (Section 91)	Legislative Authority of Provincial Governments (Section 92)
1A. The public debt and property[96] 2. Regulation of trade and commerce 2A. Unemployment insurance[97] 3. Raising money by any system of taxation 4. Borrowing money on the public credit 5. Postal service 6. The census and statistics 7. Military, naval service, and defence 8. Fixing of salaries of federal employee 9. Beacons, buoys, lighthouses, and Sable Island 10. Navigation and shipping 11. Quarantine and marine hospitals 12. Sea coast and inland fisheries 13. Ferries between a province and any foreign country, or between two provinces 14. Currency and coinage 15. Banking and the issue of paper money 16. Savings banks 17. Weights and measures 18. Bills of exchange and promissory notes 19. Interest 20. Legal tender 21. Bankruptcy and insolvency. 22. Patents of invention/discover 23. Copyrights 24. Indians* and Reserves 25. Naturalization and aliens 26. Marriage and divorce 27. Criminal law 28. Penitentiaries (when sentences exceed 2 years) 29. Everything else not under provincial authority	1. Repealed[98] 2. Direct taxation within the province 3. Borrowing money on the sole credit of the province 4. Establishing provincial government offices, and the appointment and payment of provincial government employees 5. Management/sale of provincial public lands, including timber/wood 6. Penitentiaries (when sentences are less than 2 years) 7. Hospitals, asylums, and charities (other than marine hospitals) 8. **Municipal institutions in the province** 9. Shop, saloon, tavern, auctioneer, and other licences in order to raise revenue for provincial, local, or municipal purposes 10. Local works other than: ships, railways, canals, telegraphs, and other works connecting provinces or extending beyond the limits of the province; or anything the federal government deems to be for the general advantage of Canada or two or more provinces 11. Incorporation of provincial companies 12. Solemnization of marriage 13. Property and civil rights in the province 14. Administration of justice in the province 15. Imposition of fines/penalties/imprisonment for enforcing provincial laws 16. **Generally all matters of a merely local or private nature in the province.**

Source: Consolidated Constitution Acts 1867 to 1982, Sections 91 and 92.
*Note: The consolidated Acts contain the text of the Constitution Act, 1867 (formerly the British North America Act, 1867), together with amendments made to it since its enactment, and the text of the Canada Act 1982 and the Constitution Act, 1982, as amended since its enactment; Bold text added for emphasis; *Term used in the Constitution Act.*

Section 92 of the Act consigns municipal governments as subordinates of provinces (Table 14). Municipal governments are only granted authorities through provincial statute, and do not have their authorities established in the Canadian Constitution. Because municipal governments are legally subordinate to provincial governments, their authorities

[96] The original class 1 was re-numbered by the *British North America (No. 2) Act, 1949*, 13 Geo. VI, c. 81 (U.K.), as class 1A.
[97] Added by the *Constitution Act, 1940*, 3-4 Geo. VI, c. 36 (U.K.).
[98] Class 1 was repealed by the *Constitution Act, 1982*. As enacted, it read as follows: “The Amendment from Time to Time, notwithstanding anything in this Act, of the Constitution of the Province, except as regards the Office of Lieutenant Governor.”

and revenue-raising powers are only those that are specifically granted via provincial legislation. Local governments in Canada are therefore commonly referred to as "creatures of the province."

25.2 EVOLUTION OF GOVERNMENT IN CANADA

Evolving social and economic conditions have meant that the roles and responsibilities of governments in Canada have drastically evolved since the time of the *Constitution Act, 1867*. Government roles and responsibilities have evolved in three key ways:[99]

1. **EXPANDED SERVICE OFFERINGS** Governments in Canada provide more public services today than those listed in the 1867 Constitution. Examples include: environmental protection, social insurance programs, economic development, promoting culture and arts, and parks and recreation.
   ƒ
2. **GROWING SIGNIFICANCE OF MUNICIPAL GOVERNMENT** Canada has undergone extensive urbanization since the 1867 Constitution, and urban centres today are where people and economic activity concentrates. Consequently, municipal governments have significantly expanded their roles, responsibilities, and public service offerings. However, municipalities are "creatures of the province," so any expansion of municipal responsibilities has been in accordance with provincial enabling legislation. In Alberta, this legislation is the *Municipal Government Act*.

3. **OVERLAPPING RESPONSIBILITIES** As responsibilities have evolved over time, there are areas of overlap between the various orders of government. For example, economic development, environmental protection, social services, and subsidized housing.

Table 15 provides examples of some of the key services provided by the federal, provincial and City government today that are not listed the *Constitution Act, 1867*. As is shown, the services delivered today are very different from the responsibilities outlined in Table 14.

[99] City of Calgary. 2023 "Municipal Fiscal Gap."

Table 15: Examples of Services Delivered Today By the Federal, Provincial and City Government

Government of Canada	Government of Alberta	City of Edmonton
Benefits Family & sickness leave, child benefit, pensions, housing, student aid, disabilities **Business & Industry** Starting a business, permits, copyright, business support, selling to government **Environment & Natural Resources** Weather, climate, agriculture, wildlife, pollution, conservation, fisheries **Foreign Policy** Foreign policy, trade agreements, development work, global issues **Health** Food, nutrition, diseases, vaccines, drugs, product safety & recalls **Jobs** Find a job, training, hiring programs, work permits, Social Insurance Number (SIN) **Science & Innovation** Scientific research on health, environment & space, grants & funding	**Business & Economic Development** Agriculture, forestry, tourism & other key sectors & supports for business, trade, economic development **Culture** Funding for arts, heritage & cultural, multiculturalism initiatives, conserving heritage sites, festivals, events, museums **Family & Social Supports** Financial assistance & services for seniors, children, people with disabilities, & individuals & families in crisis. **Moving to Alberta** Immigration information, jobs, health, education for those planning to move or new to Alberta. **Emergency Preparedness, Disaster Response & Public Safety** Active emergency updates, disaster recovery supports, emergency & disaster planning, emergency responders **Housing** Affordable housing & homelessness supports, safety codes, residential tenancy services	**Transportation** Roads, freeways, public transit, active transportation, traffic enforcement, snow & ice control, street sweeping **Recreation** Fitness facilities, recreation centres, golf courses, swimming pools, indoor arenas, outdoor pools, major events hosting & attraction, stadiums, sports fields **Garbage & Recycling** Waste collection, recycling, waste reduction, sustainable waste processing **Attractions** Arts centre, archives, zoo, historical park, conservatory, **Urban Planning** Development process, growth management & monitoring, zoning, urban design, construction standards **Parks** Parks, playgrounds, pathways & trails, river valley parks, funicular **Emergency Services** Fire rescue service, fire prevention, fire investigation, police service, emergency management & preparedness

Source: Government of Canada - All Services. https://www.canada.ca/en/services.html. Accessed 13 September 2024; Government of Alberta - All Services. https://www.alberta.ca/all-services. Accessed 13 September 2024.

25.3 EXPANDING MUNICIPAL RESPONSIBILITIES

The lines drawn between the responsibilities of orders of government are blurring for many public services as large cities like Edmonton seek to respond to the demands of local residents, as well as urgent social issues that concentrate in urban centres. While each order of government has some clear lines of responsibility—for example, national defence by the federal government, healthcare by provincial governments, and public transit by municipal governments—a number of services that have traditionally been provided by higher order governments have seen municipal responsibilities increase with no corresponding changes to fiscal frameworks. The growth in responsibilities has meant increased expenditure responsibilities for big cities like Edmonton and limited tools with which to respond.

“Downloading” is an often used term in discussions of municipal financial sustainability. As there is no consistent definition of “downloading,” this section offers a specific definition, and differentiates the different ways municipalities have their responsibilities expanded. There are five ways that municipal roles and responsibilities can increase: the first two are initiated by policies of higher-order governments, the next two are initiated by municipalities of their own accord, and the last is initiated by both, though is still considered discretionary as no formal requirement to deliver services is made:

1. **DOWNLOADED RESPONSIBILITIES** Downloading is when federal or provincial governments shift spending responsibilities directly onto municipalities. In some cases, when responsibilities are downloaded, higher-order governments require municipalities to take up the responsibility. In other cases, policy decisions by higher-order governments result in new municipal expenditures that cannot be avoided. In either case, the municipality must take on the new responsibility. Downloading has not been very common in Alberta, as the provincial government has seldom required municipalities to take up downloaded responsibilities, but there are some examples, such as the City’s assessment responsibilities performed on behalf of the provincial government.

2. **REDUCED TRANSFER FUNDING** Transfer funding can take many forms. A well designed system of transfer funding can be an effective mechanism in the delivery and management of programs across levels of government. When federal or provincial governments reduce transfer funding to municipalities, it requires them to reduce spending or increase taxes to compensate.[100] When taxes are increased, this shifts tax burden from the federal or provincial tax base to the municipal tax base. Reductions to transfers are discussed more in Sections 8, 14 and 20.

3. **MUNICIPALITIES STEPPING INTO PROVINCIAL OR FEDERAL DOMAINS** In some cases, municipal governments, of their own accord, begin delivering services that have traditionally been under federal or provincial jurisdiction. This tends to happen more for public service types that do not have clearly defined authorities and jurisdictions across orders of government, or for services that touch on several service categories all at once. When multiple orders of government have overlapping responsibilities in the same service area, it can sometimes lead to financial inefficiency and duplication of administrative and overhead spending.

[100] Grant programs that are not indexed to population growth and inflation function effectively like funding cuts.

4. **EVOLVING RESIDENT EXPECTATIONS** As internet-connected residents become more globally aware, their preferences and demands upon municipal services correspondingly evolve. This is particularly notable for large cities like Edmonton, where residents are increasingly demanding both a greater variety of municipal services not provided historically, as well as higher service levels. Larger municipalities, of their own accord, often expand their service offerings or enhance service levels in response to evolving resident expectations. Being responsive to growing expectations from residents and businesses expands the City's expenditure responsibilities. Some examples of expanding municipal responsibilities due to evolving resident expectations include: recreation centres (including the scope and scale of the facilities built and programmed), protected bike lanes, streetscapes and public realm improvements, architecturally-designed municipal facilities, and river access facilities.

5. **MUNICIPALITIES FILLING GAPS IN SERVICE** For certain public services, when federal or provincial governments do not keep pace with spending responsibilities in their own jurisdictions, it can sometimes have implications at the municipal level. In these circumstances, larger municipalities sometimes step in and take on the responsibility of delivering these services. In these cases higher-order governments are not formally requiring municipalities to deliver these services, but not doing so could have impacts at the municipal level. As the closest order of government and last potential responder at the community level, municipalities, and big cities in particular, seek to be responsive to emergent issues within their communities.

Municipalities, and big cities in particular, are taking on increasing responsibilities in areas that have traditionally resided with other orders of government.[101] An example of a service that is within scope of traditional provincial healthcare responsibilities, but is provided by the City, is Fire Rescue Service's response to medical calls under the Medical First Response program. Since the first provincial-municipal relationships were constructed in Canada, municipal responsibilities have undergone considerable expansion. Table 16 provides some examples of the City's expanded service responsibilities.

[101] Federation of Canadian Municipalities. 2006. "Building Prosperity from the Ground Up: Restoring Municipal Fiscal Balance."

Table 16: Examples of Edmonton's Roles and Responsibilities in Non-Traditional Municipal Service Areas

Area of Responsibility	Expansion of City Responsibility Initiated By	Key Examples of Edmonton's Expanded Roles and Responsibilities
Property Assessment	Provincial Government	• The Government of Alberta relies on municipalities to assess and tax property owners to collect ~$2.5B in education property tax on an annual basis.
Education	City	• Edmonton Learning City to promote life-long learning.
Health	City	• Previous funding support for the Hygiene Hub for homeless populations to support AHS's Shigella response (e.g. washrooms, showers and laundry facilities). • Previous funding support for community Overdose Protection and Response Teams in response to the drug poisoning crisis. • Narcan administration costs for Peace Officers. • Edmonton Fire Rescue Service responds to medical calls as one of the 314 agencies registered under Alberta Health Services' (AHS) Medical First Response program. These voluntary agreements support a collaborative first responder approach.
Environment	Federal Government	• Federal environmental policies, such as shifting to become carbon neutral, building emission restrictions, electric vehicle standards, etc. impose cost burdens on the City for implementation and infrastructure development (e.g., developing EV charging station network, retrofitting existing buildings to meet GHG emission targets, etc.).
Emergency Response To Fill Gaps in Social Supports	City	• Increased service levels for encampment response and clean up as a result of urgent and increased unmet demand for limited affordable housing, mental health and addictions services and supports.
Social Services	City	• Increased services and supports for vulnerable populations during rising rates of extreme weather events due to urgent and increased unmet demand for limited affordable housing, mental health, addictions, and basic needs services and supports.
Homelessness Supports	City	• Providing temporary stop gap funding to support emergency shelters and day services during the COVID-19 pandemic to address urgent funding gaps and increased demand for services by a growing diversity of groups.
Affordable Housing	All Three Orders	• Roles and responsibilities in this service area have fluctuated over the years. In recent years demand has increased as has the requirement from other orders of government for matched funding contributions. In addition, there is a legislated requirement to financially support seniors housing.
Low Income Support	City	• Leisure Access Pass (LAP) for recreation facilities and attractions. • Ride Transit Program for ETS.

Source: City of Edmonton.

The Government of Alberta is responsible for health care, social services and education, among others. In spite of this, the City continues to address a number of these major service areas (Table 16). As the government closest to people in the communities in which they live, municipalities are well-positioned to engage with and be engaged by their local residents, businesses and community partners to respond to the local needs. These direct interactions can place increased demands for support elements of social services that are not typically the responsibility of local governments. Additionally, it is common for nongovernmental social service providers to approach the City with funding requests for social service programs that have historically been within the provincial government's domain.

Existing fiscal arrangements do not create the right conditions for Edmonton's long-term success and fiscal sustainability given its expanding responsibilities. The City and higher-order governments need to engage in thoughtful dialogue together to produce clarity around these types of funding issues, and to clarify divisions of responsibility for modern public services which are not delineated in the *Constitution Act, 1867*. Failing to address issues of expanding municipal responsibilities into services areas that have overlap between orders of government can produce government waste, and an inefficient use of public dollars, which ultimately costs all taxpayers.

25.3.1 EXPANDING RESPONSIBILITIES TOWARDS ADDRESSING SOCIAL AND PUBLIC HEALTH ISSUES

A central theme of Canada's fiscal federalism is that the federal government generates high taxation revenue relative to its expenditure responsibilities, and then shares this revenue with provincial and territorial governments through transfers. There are four main federal transfer programs in Canada: Canada Health Transfer (CHT), Canada Social Transfer (CST), Equalization, and Territorial Formula Financing. The CST is the third largest federal block transfer[102] to provinces and territories, after the CHT and Equalization, that is intended to support three broad areas of social programs:

- Post-secondary education;
- Social assistance and social services; and
- Early childhood development and early learning and childcare.

Given the transfer funding arrangements underpinning fiscal federalism in Canada, social services have traditionally been a provincial service responsibility. The Government of Canada states:

> "*The provincial and territorial governments have most of the responsibility for delivering health and other social services. The federal government is also responsible for some delivery of services for certain groups of people*."[103]

[102] Block transfer funding allows funds to be reallocated within the block of programs during the agreement, as long as progress towards program objectives is being achieved. The block transfer funding structure gives provinces and territories greater flexibility in designing and administering programs.
[103] Government of Canada - Canada's Health Care System. https://www.canada.ca/en/health-canada/services/health-care-system/reports-publications/health-care-system/canada.html. Accessed 15 September 2024.

Provincial and federal governments have also identified areas where limited municipal involvement in funding social/community services and affordable housing is required for effective service delivery, however, expectations of municipalities in this space have increased significantly. While funding is often provided from higher-order governments, contribution requirements from the City result in increased financial pressure with limited access to funding tools.

In recent years, the City has increased its commitment to providing support and permanent housing solutions for Edmontonians who are experiencing homelessness or otherwise insecurely housed. The City works as conveners in the social sector to ensure Edmontonians who are struggling with addictions and/or mental health issues have access to a spectrum of services throughout their recovery journey. Analysis of City spending on homelessness, addictions, mental health, affordable housing and funding community-based organizations suggest that significant expenses have been incurred in recent years.

1. **HOMELESSNESS** Beyond addressing the symptoms of homelessness through policing, bylaw enforcement, cleanliness initiatives, and community safety efforts, the City provides limited support to people experiencing homelessness who are in both acute situations and/or experiencing chronic homelessness. Ongoing commitments include: providing additional services during extreme weather events that ensure the safety of those experiencing homelessness; providing transit fare for people experiencing homelessness; funding for outreach support including Indigenous-led outreach teams and REACH Edmonton's 24/7 Crisis Diversion program; and providing an ongoing subsidy to Homeward Trust Edmonton to deliver housing services.

   Since the onset of the COVID-19 pandemic, the City has incurred additional unbudgeted expenses to address both the growing rates of homelessness and increasing complexity of health needs present in the chronically-homeless population. Examples of one-time funding provided to community organizations through agreements and grants include funding for emergency shelter and day services to address capacity challenges in the homeless serving system of care, and to supplement the work of partner organizations and the provincial government. The City also provided a Hygiene Hub to address the Shigella Outbreak, in order to help prevent the spread of this disease. These temporary stop gap measures have since been discontinued and the provincial government has taken steps to increase capacity and funding of the shelter system.

2. **ADDICTIONS** The City currently responds directly to drug-related incidents and advances collaborative solutions that aim to address the increasing challenge of addiction impacting the safety and wellbeing of the community. This includes: dispatching of Edmonton Fire Rescue Service, Peace Officers and contract security guards to overdose and poisoning events; coordinating responses to the drug poisoning crisis in Edmonton through the management and monitoring of the Drug Poisoning Deployment Dashboard (including funding a data analyst position housed within Boyle Street Community Services); historically subsidizing agencies to provide medical and outreach overdose response and prevention services within transit and downtown areas (funding for this has ended); strengthening partnerships with the community and other orders of government by convening local collaborative tables such as the Community Liaison Committee; executing the Drug Poisoning Reduction Action Plan; and developing the forthcoming local substance use strategy for Edmonton.

3. **MENTAL HEALTH FUNDING** The City supports the improvement of mental health outcomes for Edmontonians by facilitating coordination of mental health service providers and investing in local community mental health programs and services. This includes: providing financial support to a variety of community-based mental health organizations to expand the provision of integrated mental health services and increase accessibility for priority populations; sponsoring public awareness and mental health education and training opportunities to increase equitable access, reduce stigma and improve understanding of how to access help for oneself and others; and strengthening partnerships with the community in the design and implementation of localized strategies and actions that increase coordination and ensure the accessibility of the whole continuum of care (Edmonton's Community Mental Health Action Plan, Living Hope, and the forthcoming Strategy for Community Mental Health and Suicide Prevention).

4. **AFFORDABLE HOUSING** The City takes a collaborative approach to the development of affordable housing by acting as a limited funding partner with other orders of government and affordable housing providers, recognizing housing as one of the service areas that requires investment from all governments. The City contributes capital and operating funding, as well as land to affordable housing providers. This includes: the distribution of grants through the Affordable Housing Investment Program, the sale/lease of City-owned land at below market for the purpose of affordable housing development; the Affordable Housing Tax Grant Program;

ongoing operating funding to GEF Seniors Housing as required by all municipalities through Ministerial Order No. H:158/95; and an annual operating deficit contribution towards Civida managed/operated City owned Social Housing Site under a Tri-Party Agreement with GOA/CMHC/City which has been in place since the 1970s.

5. **SUPPORT FOR COMMUNITY ORGANIZATIONS** The City provides grants to community-based organizations who deliver services to vulnerable communities that may include people who are experiencing homelessness or otherwise precariously housed, or struggling with mental health and/or addictions challenges. The City delivers grant funding through:
   - Community Safety and Wellbeing Fund (2024 budget - $8.02 million);
   - Family and Community Support Services funding (2024 budget, City portion only - $5.83 million);[104] and
   - Community Investment Operating Grants (2024 budget - $0.97 million).

While legislation does not restrict municipalities from choosing to deliver these services of their own accord, the City's ability to advance social policies is often constrained by the limited revenue and taxation tools that it can access to fund new programs, services and infrastructure. Social services is a large public service area across Canada, and there is significant demand for the service: to provide an example, in 2024 the province budgeted $7.3 billion on social services from three Ministries alone: Children and Family Services; Mental Health and Addiction; Seniors, Community and Social Services.[105] The size and scale of this service area means cities must be intentional with tax dollars to support required services.

The City recognizes that a strong partnership approach is necessary for effective and comprehensive service delivery. Although the City's growing social investments have attracted significant investment from other orders of government, including direct transfers to Edmonton, the requirement to contribute places a financial pressure on the City. For services where the City's unique position and knowledge as the closest order of government to community is necessary for service delivery, adequate funding sources are best provided by the provincial or federal governments.

The City has limited fiscal capacity and limited tax room each fiscal year. Consequently, the relatively high expenditure needs for social services has the potential to increase property

[104] FCSS is a provincial-municipal 80-20 partnership. The City's 2024 FCSS budget is $29.16 million, of which $23.33 million (80%) is funded by the province, and $5.83 million (20%) by the City.
[105] Source: Government of Alberta - Budget 2024 Fiscal Plan.

tax or displace spending on other core municipal services. Growing spending responsibilities in nontraditional municipal service areas contributes to the City's fiscal gap.

26. EDMONTON HAS UNIQUE POLICING PRESSURES

Edmonton Police Service (EPS) is the City's largest tax-supported public service, comprising 15.4% ($537 million) of the City's operating expenditure budget in 2024.[106] Edmonton has unique policing pressures compared to most municipalities in the Edmonton region, as well as most large cities across Canada. These unique pressures drive demand for policing and create different policing needs in Edmonton compared to other jurisdictions. Because of the relatively large share of budget dollars required to deliver this service, this section summarizes some of the major factors that drive policing costs, which ultimately places upward pressure on the City's expenditure budget and contributes to the City's fiscal gap.

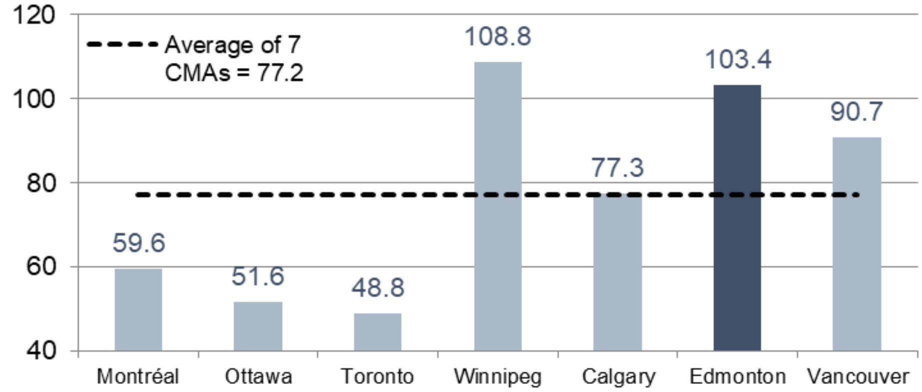
26.1 EDMONTON HAS HIGH CRIME SEVERITY

Statistics Canada publishes annual data on crime severity. The Crime Severity Index tracks changes in the severity of police-reported crime by accounting for both the volume of crime reported by police in a given jurisdiction, and the relative seriousness of the crimes.[107] The Crime Severity Index measures changes in the level of crime severity in Canada from year to year.

As is shown in Figure 61, over the 2013 to 2022 period, Edmonton census metropolitan area (CMA) had the second highest rate of crime severity of the seven largest CMAs in Canada, following only Winnipeg. Edmonton CMA's 10-year average crime severity index (103.4) was 34% higher than the average of Canada's seven largest CMAs (77.2). Edmonton CMA's 10-year average rate was also 34% higher than Calgary CMA's 10-year average rate (77.3).

[106] Approved 2024 Operating Budget, as of spring 2024 supplementary operating budget adjustment.
[107] The Index includes all Criminal Code violations including traffic, as well as drug violations and all Federal Statutes. In the Index, all crimes are assigned a weight based on their seriousness. The level of seriousness is based on actual sentences handed down by the courts in all provinces and territories. More serious crimes are assigned higher weights, and less serious offences lower weights. As a result, more serious offences have a greater impact on changes in the Index.

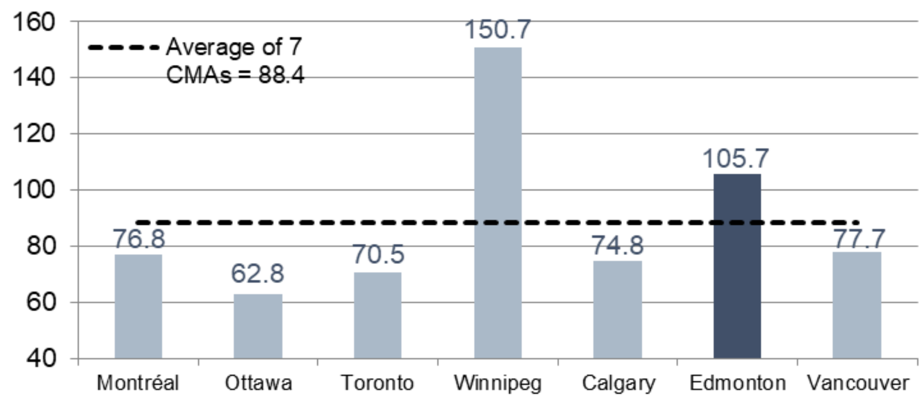
Figure 61: Crime Severity Index For Canada's 7 Large CMAs - 2013-2022 Average



Source: Statistics Canada Table 35-10-0026-01; Calculations by City of Edmonton.
Note: The crime severity index includes all Criminal Code violations including traffic, as well as drug violations and all Federal Statutes.

As is shown in Figure 62, over the 2013 to 2022 period, Edmonton CMA also had the second highest violent crime severity of all large cities in Canada, following only Winnipeg. Edmonton CMA's 10-year average violent crime severity index (105.7) was 20% higher than the average of Canada's seven largest CMAs (88.4), and 41% higher than Calgary CMA's average rate over that same period (74.8).

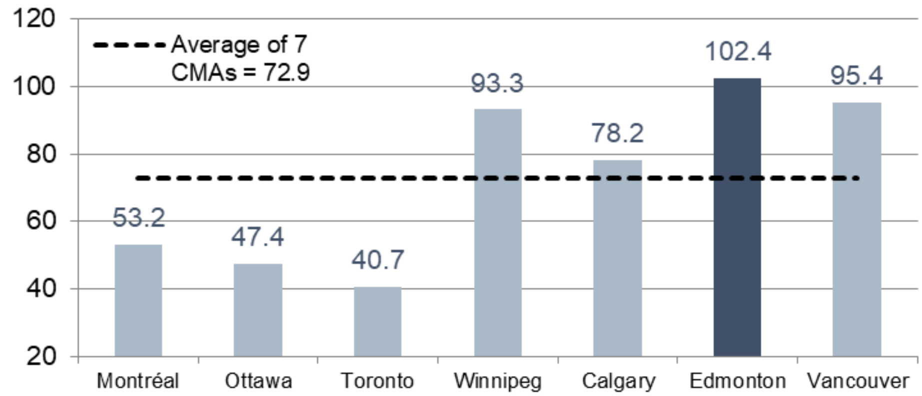
Figure 62: Violent Crime Severity Index For Canada's 7 Large CMAs - 2013-2022 Average



Source: Statistics Canada Table 35-10-0026-01; Calculations by City of Edmonton.
Note: The violent crime severity index includes all Incident-based Uniform Crime Reporting Survey (UCR2) violent violations, some of which were not previously included in the aggregate violent crime category, including uttering threats, criminal harassment and forcible confinement.

As is shown in Figure 63, over the 2013 to 2022 period, Edmonton CMA had the highest non-violent crime severity of all large Canadian cities. Edmonton CMA's 10-year average non-violent crime severity index (102.4) was 40% higher than the average of Canada's seven largest CMAs (72.9), and 31% higher than Calgary CMA's average rate over that same period (78.2).

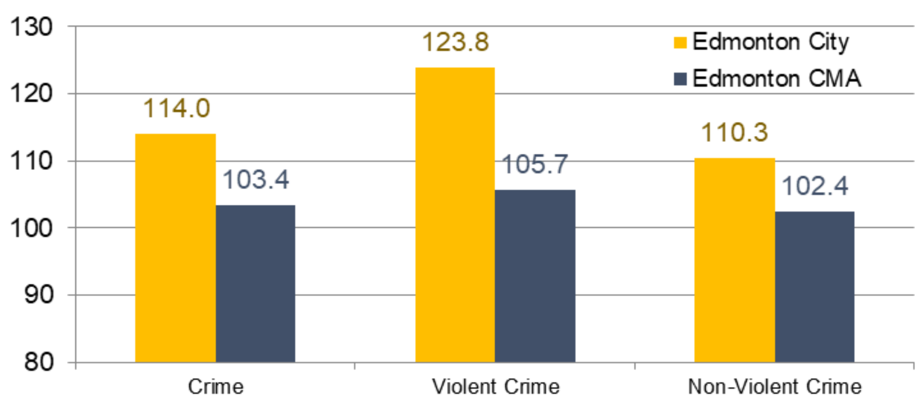
Figure 63: Non-Violent Crime Severity Index For Canada's 7 Large CMAs - 2013-2022 Average



Source: Statistics Canada Table 35-10-0026-01; Calculations by City of Edmonton.
Note: The non-violent crime severity index includes all non-violent Criminal Code violations including traffic, as well as drug violations and all Federal Statutes.

The rates of crime severity shown above reflect the entire Edmonton metropolitan region. It is understood that crime levels are lower in the municipalities and counties surrounding Edmonton. The city of Edmonton has an even higher crime severity index than what's reported for the entire Edmonton CMA. As is shown in Figure 64, the city of Edmonton's crime severity rates were significantly higher than Edmonton CMA over the 2013 to 2022 period: crime severity was 10% higher within Edmonton proper, violent crime was 17% higher, and non-violent crime was 8% higher.

Figure 64: Crime Severity Index For Edmonton City and Edmonton CMA - 2013-2022 Average



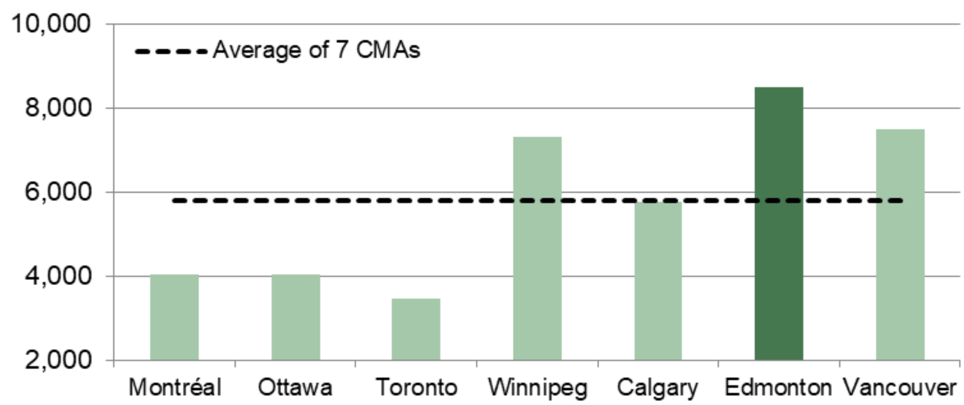
Source: Statistics Canada Table 35-10-0026-01; Statistics Canada Table 35-10-0190-01; Calculations by City of Edmonton.

Edmonton's relatively high crime severity compared to other large CMAs in Canada puts pressure on policing resources, drives demand for policing services, and puts upward pressure on the City's expenditure budget.

26.2 EDMONTON HAS THE HIGHEST CRIME RATES OF BIG CANADIAN CITIES

Edmonton CMA also had the highest crime rate of all large Canadian cities over the 2013 to 2022 period (Figure 65). Edmonton CMA's 10-year average annual crime rate for all violations was 8,495 per 100,0000 population. In contrast, the average crime rate across Canada's seven largest CMAs over that same period was 5,805 per 100,0000 population. Edmonton CMAs crime rate was 46% higher than the average of large Canadian cities. Similar to crime severity, above average crime rates place pressure on policing responsibilities and demands, which places upward pressure on the City's expenditure budget. Both crime-severity and the number of incidents, as an absolute measure, tend to drive policing costs. As policing is the City's largest service area, these expenditure pressures ultimately contribute to the City's fiscal gap.

Figure 65: Incident-Based Crime Rate Per 100,000 Population - All Violations - Largest 7 CMAs - 2013-2022 Average



Source: Statistics Canada Table 35-10-0177-01; Calculations by City of Edmonton.
Note: All violations include all criminal code violations (including traffic) and all federal statute violations.

26.3 EDMONTON HAS A HIGH CONCENTRATION OF PRISON FACILITIES

The Edmonton region is home to eight federal and provincial incarceration/detention facilities with a total inmate capacity of 3,405 (Table 17). Five of the incarceration facilities are federal, and three are provincial. The largest federal facility is the maximum security Edmonton Institution, with an inmate capacity of 324. The largest provincial facility is the Edmonton Remand Centre, with an inmate capacity of 1,952. Edmonton has a very high concentration of incarceration facilities relative to other large cities in Canada, with one of the highest rates of correctional institutions per capita in the country.

In addition to the five federal and three provincial correctional institutions located in the greater Edmonton area, there is also a federal institution (Bowden Institution) located 184 kilometres south of Edmonton in the town of Innisfail that releases into Edmonton.[108] The Bowden institution has a total capacity of 600, including 470 medium security capacity and 130 minimum security capacity.

Table 17: Incarceration Facilities Located in the Greater Edmonton Area

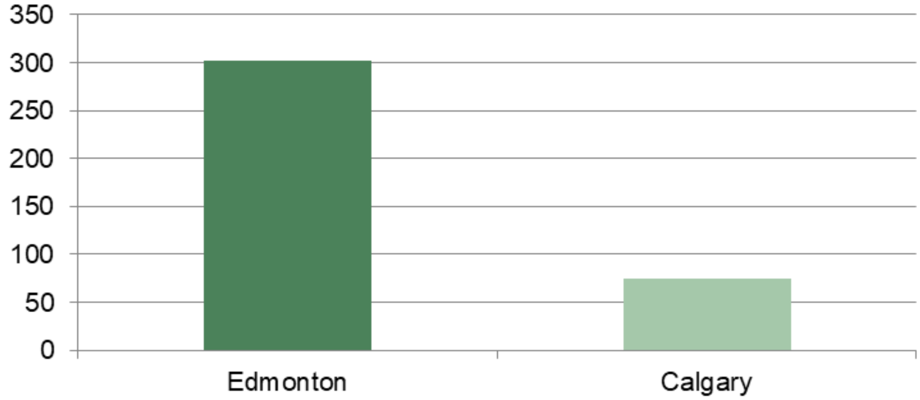
Facility Name	Type	Jurisdiction	Capacity
Fort Saskatchewan Correctional Centre	Correctional Centre	Provincial	546
Edmonton Remand Centre	Remand Centre	Provincial	1,952
Edmonton Young Offender Centre[109]	Youth Custody Facility	Provincial	286*
Grierson Institution	Minimum Security Prison	Federal	30
Stan Daniels Healing Centre	Community Residential & Section 81 Healing Lodge - houses conditionally released & federally sentenced Indigenous inmates[110]	Federal[111]	72
Edmonton Institution	Maximum Security Prison	Federal	324
Edmonton Institution for Women	Minimum/Medium/Maximum Security Prison	Federal	167
Buffalo Sage Wellness House	Community Residential Facility that houses Conditionally Released & Federally Sentenced Indigenous female offenders	Federal	28
Total Capacity			**3,405**

*Source: Government of Alberta - Correctional Service, https://www.alberta.ca/adult-correctional-remand-centres, Retrieved 15 May 2024; Government of Canada - Indigenous Healing Lodges, https://www.canada.ca/en/correctional-service/programs/offenders/indigenous-corrections/healing-lodges.html, Retrieved 15 May 2024; Government of Canada - Correctional Services Canada, https://www.canada.ca/en/correctional-service/corporate/Facilities-security/institutional-profiles/prairie.html, Retrieved 15 May 2024; *Edmonton Journal Article, Published May 13, 2020, https://edmontonjournal.com/news/local-news/edmonton-young-offender-centre-floated-as-secure-facility-for-those-who-flout-quarantine-rules#:~:text=The%20Edmonton%20Young%20Offender%20Centre%20(EYOC)%2C%20located%20next%20to,pre%2Dtrial%20and%20sentenced%20inmates, Retrieved 15 May 2024.*

In contrast, the City of Calgary's population is 31% greater than Edmonton's, but has far fewer incarceration facilities: Calgary has only two provincial facilities, with a total inmate capacity of 1,111; Edmonton's inmate capacity (3,405) is 306% greater than Calgary's. Figure 66 depicts Edmonton and Calgary's total inmate capacity per 100,000 population: in 2023, Edmonton's capacity was 302 per 100,000 population, whereas Calgary's capacity was 75.

[108] Thomson, Jessica, et al. 2013. "Housing Needs of Adults Post-Incarceration in Edmonton." A Research Project by The Mustard Seed Edmonton and the University of Alberta.
[109] Young persons can be housed at a young offender centre until they reach 20 years of age.
[110] Section 81 of the Corrections and Conditional Release Act allows interested federal prisoners to be transferred to an Indigenous community to serve their sentence if the community consents.
[111] Managed by Native Counselling Services of Alberta.

Figure 66: Total Inmate Capacity Per 100,000 Population, 2023



Source: See source for previous table; Calculations by City of Edmonton.

The high concentration of incarceration facilities in the greater Edmonton area results in a high number of offenders settling in Edmonton post-incarceration. Due to challenges within the criminal justice system to effectively promote rehabilitation, reintegration, and public safety, there continues to be high rates of recidivism for individuals shortly after their release from incarceration. Recidivism refers to relapsing into criminal behaviour or coming into conflict with the criminal justice system again.

Statistics Canada conducted a study on 70,000 adults sentenced to custody or community supervision across five provincial correctional programs: Nova Scotia, Ontario, Saskatchewan, Alberta and British Columbia.[112] The custody cohort included full-time custody and intermittent sentences; the community supervision cohort included conditional sentences and probation. The study found that across all five provinces, 53% of the custody cohort was reconvicted within one year, 62% within two years and 66% within three years.

The large concentration of prisons in metropolitan Edmonton, coupled with high rates of recidivism, drives additional demand for police services. These demand pressures drive policing costs in Edmonton, and ultimately put upward pressure on the City's expenditure budget.

27. INFRASTRUCTURE HAS BEEN COSTLIER IN EDMONTON

Broadly, the inputs required for building public infrastructure are labour, materials, and equipment. Due to Alberta's prominent energy sector, the prices of these construction building inputs have been historically elevated compared to other cities and provinces in

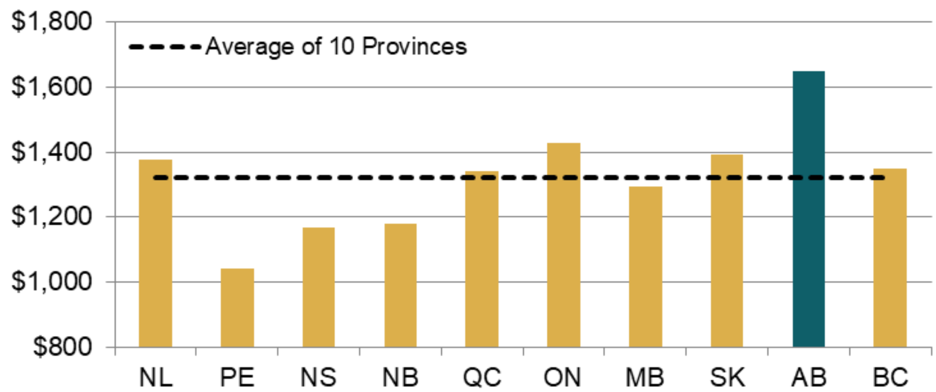
[112] Pedneault, Chloe, et al. 2024. "Reconvictions among adults sentenced to custody or community supervision across five provincial correctional programs, 2015/2016 to 2018/2019." Statistics Canada. https://www150.statcan.gc.ca/n1/pub/85-002-x/2024001/article/00002-eng.htm. Accessed 11 July 2024.

Canada. This section provides an overview of how these inputs have cost more in Edmonton and Alberta, making City infrastructure projects potentially more expensive than in other Canadian jurisdictions.

27.1 ALBERTA HAS HIGHER CONSTRUCTION LABOUR COSTS

Because construction building activities throughout Canada are largely market-based, weekly labour earnings are used in this analysis as a suitable proxy for the market price of construction labour. As is shown in Figure 67, over 2001 to 2023, inflation-adjusted average weekly earnings in the construction sector were 25% higher in Alberta ($1,650) than the 10-province average ($1,322).

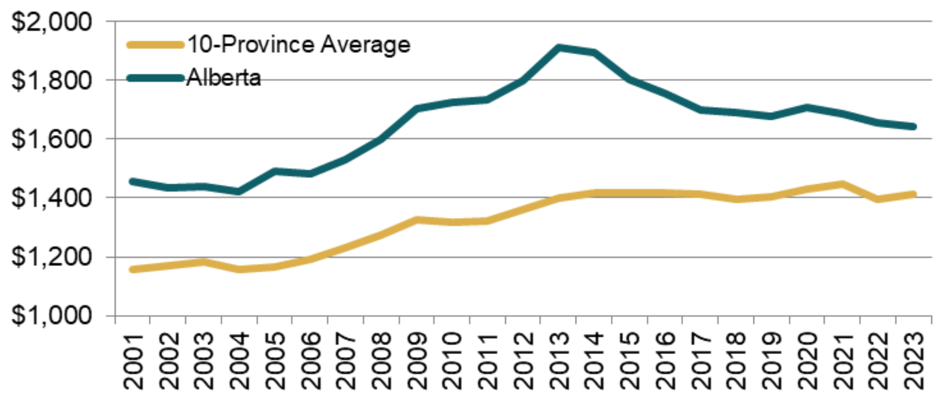
Figure 67: Average Weekly Earnings in the Construction Sector, 2001-2023 Average ($2023)



Source: Statistics Canada Table 14-10-0204-01; Statistics Canada Table 18-10-0005-01; Calculations by City of Edmonton.
Note: Average weekly earnings include overtime; Earnings data are based on gross payroll before source deductions.

Figure 68 shows this same data on an annual basis. Inflation-adjusted construction sector labour earnings have been consistently higher in Alberta than the 10-province average over the entire period, though have been converging towards the 10-province average since 2013. Average weekly construction labour earnings in Alberta peaked in 2013 ($1,912), 36% above the 10-province average. They have since been easing towards the mean: in 2023, Alberta's average weekly construction labour earnings ($1,645) were 16% higher than the 10-province average.

Figure 68: Average Weekly Earnings in the Construction Sector, 2001-2023 ($2023)



Source: Statistics Canada Table 14-10-0204-01; Statistics Canada Table 18-10-0005-01; Calculations by City of Edmonton.
Note: Average weekly earnings include overtime; Earnings data are based on gross payroll before source deductions.

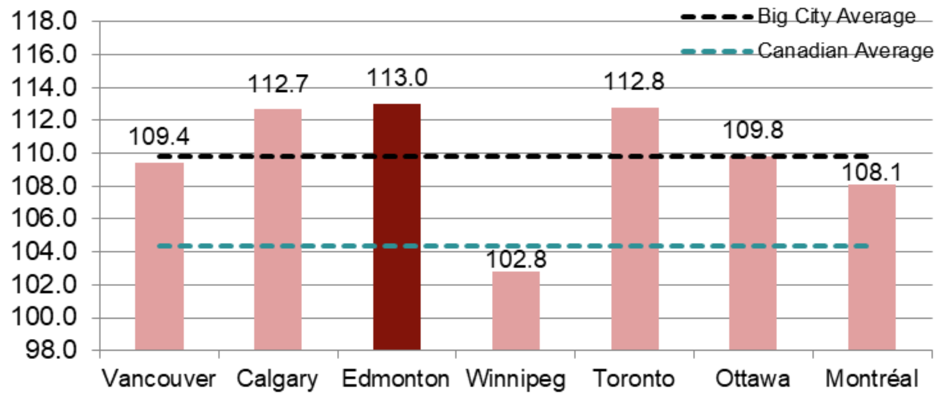
Above average construction labour earnings suggest above-average construction labour costs in Alberta. The economic growth driven by the province's energy sector for much of this period created tight labour market conditions, driving labour costs up. This resulted in reduced purchasing power for government capital investments in Alberta, with higher capital construction costs than other provinces.

27.2 EDMONTON HAS HIGHER CONSTRUCTION COSTS

When comparing Canada's seven largest cities, construction material and installation costs were highest in Edmonton over 2007 to 2024. Figure 69 shows the weighted average index of construction material and installation costs, averaged over the 2007 to 2024 period.[113] The construction material and installation cost index was highest in Edmonton (113.0), followed closely by Toronto (112.8) and Calgary (112.7). Construction costs in Edmonton were on average 3% higher than the Canadian big city average, and 8% higher than the Canadian average from 2007 to 2024 (Figure 69).

[113] Construction material and installation costs include material, labour, and equipment.

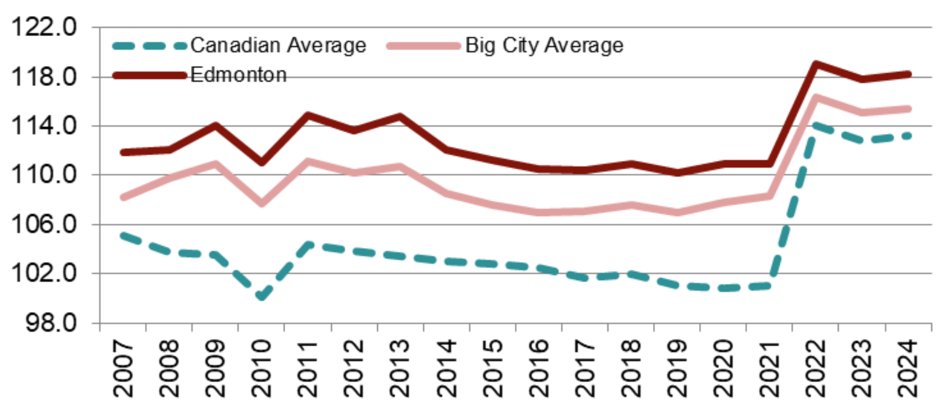
Figure 69: Weighted Average Cost Indexes For Construction Material and Installation, 2007-2024 Average



Source: RSMeans City Cost Indexes (CCI) 2007-2024; Calculations by City of Edmonton.
Note: 1) Construction costs are broken down into 19 categories: cast-in place concrete; ceilings and acoustic treatment; concrete; concrete forming and accessories; concrete reinforcing; contractor equipment; covers; electrical, communications and utilities; finishes; fire suppression, plumbing, HVAC; flooring; masonry; metals; openings; plaster and gypsum board; site and infrastructure, demolition; thermal and moisture protection; wall finishes and painting/coating; wood, plastics and composites. 2) The cost indexes do not include managerial efficiency, competitive conditions, automation, restrictive union practices, local unique requirements, or regional variations for building codes.

Figure 70 depicts the same data on an annual basis. Edmonton's construction cost index was consistently higher than the big city average and the Canadian average over 2007 to 2024. In 2022 construction costs increased sharply in Edmonton and elsewhere in Canada: Edmonton's cost index spiked 7.4% in 2022, the big city average spiked 7.5% and the Canadian average spiked 13%, lessening the gap between large and small cities in Canada.

Figure 70: Weighted Average Cost Indexes For Construction Material and Installation, 2007-2024



Source: RSMeans City Cost Indexes (CCI) 2007-2024; Calculations by City of Edmonton.
Note: See note for previous Figure.

Given that City capital budgets are constrained, and funding programs from higher-order governments do not compensate for construction cost differences, the cost differential of construction inputs (labour, materials and equipment) suggests that municipal infrastructure dollars in Edmonton have had reduced purchasing power, and have acquired and rehabilitated fewer capital assets than if those dollars were spent on infrastructure in a different province. Put simply, higher prices in the construction building sector have meant City infrastructure dollars have not stretched as far. This long-standing phenomenon has contributed to the City's fiscal gap.

28. EDMONTON'S URBAN FORM DRIVES CAPITAL COSTS

There is a relationship between Edmonton's urban form and the City's fiscal position. There are several types of linear infrastructure assets the City provides, where costs are driven by distances or length, such as roads, sidewalks and street lighting. Factors such as density, urban design and geographic footprint can influence municipalities' expenditure obligations to both build and maintain these linear infrastructure assets.

These long-term expenditure obligations can contribute to the City's fiscal gap, particularly in areas of intensification and where developments are located on the periphery and necessitate the expansion of City-funded amenities and services in conjunction with industry investment in hard infrastructure. This is because the quantity of amenities and linear infrastructure assets to support these neighbourhoods are relatively high. Note that individual neighbourhoods are not intended or designed to "pay for themselves;" when contemplating financially sustainable city building, the City's planning framework (City Plan) considers the collection of the city as a whole, and not individual neighbourhoods in isolation.

Through The City Plan, the City is advancing a more compact urban form. As part of development of The City Plan, Hemson Consulting Ltd. was contracted in 2020 to undertake financial assessments of growth scenarios to understand long-term City cost and revenue impacts of various forms of growth and development.[114] Hemson undertook a detailed financial assessment of the City Plan Land Use Concept against a Business-As-Usual scenario. Both scenarios are based on a population of 2.0 million and employment of 1.1 million by 2065. The Land Use Concept integrates with the mass transit network, accommodating much of the future population and employment growth within strategically located nodes and corridors as well as the city centre. The Business-As-Usual scenario mirrors historical growth patterns, with a relatively high proportion of growth in developing areas.

[114] Edmonton's City Plan was approved on December 7, 2020. The City Plan combines the Municipal Development Plan, Transportation Master Plan, and includes strategic direction in environmental planning, social planning and economic development.

The Land Use Concept scenario distributes 61% of the population and 57% of employment in the redeveloping area; in contrast, the Business As Usual scenario distributes 71% of population and 69% of employment in developing areas. By 2065, the City Plan Land Use Concept is anticipated to result in growth-capital cost savings of about 10%, or $3.0 billion, as compared to Business-As-Usual (Table 18). The majority of the growth-capital efficiencies relate to roads and related infrastructure: as The City Plan encourages development to within the existing urban boundary and prioritizes transit and active modes of transportation, less road infrastructure will be required.

Table 18: City Plan Relative Financial Assessment - Capital Growth Scenarios ($Millions)

	Capital Expenditures - Total at 2065 ($Millions)			
	City Plan Land Use Concept	**Business As Usual**	**City Plan Relative to Business as Usual ($)**	**City Plan Relative to Business as Usual (%)**
Roads & Related	$8,742.2	$12,326.4	($3,584.1)	-29%
Transit	$4,077.8	$3,416.9	$660.9	19%
Parks & Open Space	$6,310.7	$6,125.0	$185.7	3%
Recreation Facilities	$3,946.7	$4,171.7	($225.0)	-5%
Police	$590.9	$590.9	$-	0%
Fire	$537.5	$682.9	($145.4)	-21%
Library	$318.7	$337.0	($18.3)	-5%
Waste Management	$976.3	$846.3	$130.0	15%
General Government	$1,714.5	$1,723.6	($9.1)	-1%
Capital Total	**$27,215.4**	**$30,220.7**	**($3,005.3)**	**-10%**

Source: Hemson Consulting; Calculations by City of Edmonton.

The Hemson analysis indicates that the operating impacts amongst the two scenarios are relatively similar, with the City Plan Land Use Concept having slightly higher operating cost impacts by 2065 of $119 million annually (Table 19).

The Hemson financial assessment suggests that a more compact urban form will reduce capital growth requirements by 10%, and increase annual operating requirements by 2%. While a more compact urban form is predicted to reduce the City's fiscal gap, city building is a long-term process, and any significant improvement to financial efficiency through neighbourhood design and redevelopment are expected to be realized over the long term through The City Plan implementation.

Table 19: City Plan Relative Financial Assessment - Operating Growth Scenarios ($Millions)

	Annual Operating Expenditures at 2065 ($Millions)			
	City Plan Land Use Concept	Business As Usual	City Plan Relative to Business as Usual ($)	City Plan Relative to Business as Usual (%)
Roads & Related	$221.3	$230.3	-$9.0	-4%
Transit	$1,267.3	$1,175.3	$92.0	8%
Parks & Open Space	$336.8	$329.3	$7.5	2%
Recreation Facilities	$188.7	$197.7	-$9.0	-5%
Police	$832.9	$832.9	$-	0%
Fire	$336.4	$354.2	-$17.8	-5%
Library	$82.2	$83.9	-$1.7	-2%
Waste Management	$454.6	$429.4	$25.2	6%
General Government	$1,680.7	$1,649.1	$31.6	2%
Operating Total	**$5,400.8**	**$5,282.2**	**$118.6**	**2%**

Source: Hemson Consulting; Calculations by City of Edmonton.

29. AMBITIOUS STRATEGIC GOALS WIDEN THE FISCAL GAP

The City of Edmonton's Strategic Planning Framework directs the planning, operation and growth of Edmonton. Within the framework, ConnectEdmonton and The City Plan provide the vision and strategic direction that influence the Corporate Business Plan, budgets, Enterprise Performance Management, and Enterprise Risk Management. ConnectEdmonton is the City's Strategic Plan for 2019 to 2028. It was developed based on feedback gathered by engaging with Edmontonians in person and online, through workshops, small group discussions, public engagement sessions, social media and surveys. It contains four broad strategic goals:

1. Healthy City (Social)
2. Urban Places (Growth Patterns and Built Form)
3. Regional Prosperity (Economic)
4. Climate Resilience (Environmental)

The City Plan is Edmonton's combined Municipal Development Plan (MDP) and Transportation Master Plan (TMP), and outlines the systems and networks that direct the way Edmonton grows through planning and design, mobility systems, and managing growth towards a city of 2 million people. The City Plan also sets strategic direction in environmental planning, social planning, and economic development. The City Plan was developed through engagement with Edmontonians and took strategic direction from ConnectEdmonton, which is reflected in the targets set out in The City Plan's five Big City Moves:

1. Inclusive and Compassionate (Social)
2. Rebuildable City (Growth Patterns and Built Form)
3. Community of Communities (Growth Patterns and Mobility)
4. Catalyze and Converge (Economic)
5. Greener as We Grow (Environmental)

Both documents are ambitious and transformative, and set the vision and strategic direction for the City through numerous goals and targets that touch on most aspects of life in Edmonton, and aim to influence most social conditions in the community. The expansive strategic goals along with anticipated population growth will affect nearly all of the City's 70 lines of business, and require the delivery of new services, enhancements to existing services, and significant investments in infrastructure and facilities.

The breadth of the goals and targets pulls the City into non-traditional municipal service areas, such as health, social services, reducing economic inequality, poverty reduction, clean energy transition, climate change adaptation, and many others historically considered to be under other levels of government. The City Plan is implemented through both the City as an organization and the community, and therefore not all actions will require a financial investment from the City. Delivering on the goals and targets within ConnectEdmonton and The City Plan requires partnership and collaboration otherwise it could result in an expansion of Edmonton's municipal government sector, with significantly higher taxing and spending responsibilities.

Much of The City Plan is intended to make Edmonton more globally competitive and sustainable for future generations. While The City Plan hopes to transform land use and mobility patterns to make growth more financially sustainable in the future, it also contains many expansive strategic goals beyond the scope of the MDP and TMP, which puts upward pressures on City expenditures beyond its revenue-raising capacity, contributing to and widening the fiscal gap. Some of these goals and targets may not be compatible with the City's fiscal constraints and probable growth trajectory of City revenues. An adjustment to the pace of City Plan implementation, refocusing City spending on a narrower set of goals more aligned with municipal jurisdictions or scaling back legacy services would help reduce the fiscal gap.

30. RECREATION SERVICE LEVELS DRIVE CAPITAL REQUIREMENTS BEYOND REVENUE CAPACITY

When capital planning, the two most influential drivers of capital cost are the number of facilities/buildings required, and the functional program of each facility. Functional program refers to the requirement that a building must satisfy to support intended service levels: it identifies scope of service, service objectives and operational needs for each facility component (i.e. size of aquatics, dive tank, arenas, multipurpose rooms, gymnasiums, commercial retail units, etc.); it lays out the facility input requirements, forming the foundation for building design and construction documents. The third most influential driver of capital costs are design standards (discussed more in Section 31).

The 2005-2015 Recreation Facility Master Plan was a roadmap that led to a significant shift in how the City provided community recreation facilities. Under the Plan, the City began an extensive expansion of its community recreation programming. The Plan shifted the City's model of recreation services towards the development of district facilities. District facilities are community hubs integrating numerous services and types of facilities that provide opportunities for all ages and interest levels. The City's 2018 Recreation Facility Master Plan, "Approach to Community Recreation Facility Planning in Edmonton" builds on the 2005 to 2015 plan, adding refinements rather than a new planning vision.

The 2005 to 2015 Plan led to the development of six large-scale, flagship district recreation centres, including two that are currently under construction (Table 20). The Plan also saw significant renewal of a number of other recreation facilities in the city. The six flagship district recreation centres had a total capital cost of $998.5 million at the time of each project's completion, before applying a construction cost inflation rate. Building the first four projects listed in Table 20 would cost significantly more today than the project costs shown, due to construction inflation.

All six recreation facilities shown in Table 20 are built to deliver a high recreation service level. High service levels necessitate large and more complex building requirements, which escalates capital costs relative to facilities designed to deliver lower service levels. Adding to this, the number of recreation facilities required to reach intended service levels also had a significant impact on capital expenditures; lower service levels necessitate fewer facilities, which can reduce overall capital expenditure requirements.

Table 20: District Recreation Centres Under 2005-2015 Recreation Facility Master Plan

Flagship District Recreation Centre	Opening Date	Type	Dollar Year	Project Cost - Original
Terwillegar	opened in early 2011	New	2011	$157.9M
Commonwealth	opened in spring 2012	Expansion	2012	$104.0M
The Meadows	opened in late 2014	New	2014	$148.2M
Clareview	opened in late 2014	New	2014	$124.6M
Coronation	anticipated completion 2026	New	2024	$153.1M
Lewis Farms	anticipated completion 2028	New	2024	$310.6M
Total Capital Cost				**$998.5M**

Source: City of Edmonton; Statistics Canada Table 18-10-0276-01.
Note: Scope varies by project, as certain facility project budgets include arterial road construction, stormwater pond construction, acquisition of district parks, school construction or library construction.

The substantive investment required to build these facilities are an embodiment of the City's current and prior strategic vision and plans, which are expansive and drive City expenditure (discussed in Section 29). The high capital funding amounts to build the four facilities between 2011 and 2014 were reflective of a fiscal period characterized by greater capital funding availability and debt-servicing room. Coronation and Lewis Farms Community Recreation Centres, which are currently under construction, similarly had functional programs informed by relatively high service levels, along with elevated architectural and sustainability standards. These attributes also necessitated large capital funding requirements, despite being funded under a highly constrained capital budget.

Coronation and Lewis Farms were financed using $148.4 million and $305.3 million of tax-supported debt, respectively ($453.7 million combined). These two projects alone consumed a significant portion of the City's available debt-servicing room, limiting the ability to use debt financing in the future for other types of growth capital or for funding large renewal projects. As discussed in Section 9, there is a large renewal gap in the City's 2023 to 2026 Capital Budget, with only 57.5% of the City's ideal renewal need being funded in the current budget cycle.

Given the limited funding availability in the current capital budget cycle, the large investments made in these two projects were not an optimal allocation of the City's capital funding envelope. An optimal capital allocation is one where the City balances its investments in renewal and growth, with growth investments diversified across a variety of services. To advance recreation services under these fiscal conditions, lower service levels are required. Given capital funding constraints, advancing these two large projects contributed toward the City's fiscal gap.

Once recreation facilities are constructed they must also come into operational service. The relatively high service levels that drive capital costs also affects the operating costs to deliver services from those facilities. Relatively high recreation service levels also places upward pressures on operating expenditures, contributing to the City's fiscal gap.

31. INFRASTRUCTURE DESIGN REQUIREMENTS DRIVE COSTS

As part of the City's current and former Strategic Planning Frameworks, design requirements for infrastructure projects which take into account standards, codes, policies, and bylaws have been elevated above historical levels as well as those of other peer municipalities.

One of the primary drivers to this is in support of the City's response to climate change. This has driven the establishment of high sustainability standards and policies related to energy efficiency of facilities, durability of architectural finishes and infrastructure, and embodied carbon.

To provide one example, the latest version of the sustainable building policy, Council Policy C627 Climate Resilience, sets requirements for all new City-owned and occupied buildings to be designed emissions neutral (e.g., passive design strategies, durable energy conserving building envelopes, energy-efficient mechanical and electrical systems, etc.). There are also several other requirements, such as on-site renewable energy production, LEED Silver or above certification, and resilient design to mitigate risks of climate change (e.g., flood resilience, reduce heat island effect, etc).

These requirements exceed current codes and significantly impact the cost of the capital investment to design and build infrastructure. Preliminary City analysis indicates that the capital cost of a new facility will be up to 20% higher due to this policy. This cost differential is anticipated to decrease with the City's purchase of renewable electricity, and as technology and experience levels improve. The energy code update, effective May 1, 2024, along with potential future updates by the province, could further reduce the capital cost impact of the City's policy, as the difference in requirements between the City's policy and energy codes will narrow. In addition to supporting the City's climate resilience goals, the investment in sustainable building design can have long-term value in reducing operating and maintenance costs and the policy allows for exceptions where the cost to achieve the policy requirements outweighs the expected benefits, as demonstrated by a Life Cycle Cost-Benefit Analysis.

Given the City's smaller overall capital budget envelope, the infrastructure cost impact of Policy C627 should be considered. At present, the Policy contributes to the City's fiscal gap by escalating project costs beyond the City's ability to expand its capital funding envelope. Reducing these design standards would enable the City to leverage available capital funding towards more growth and renewal projects.

32. EARLY ENGAGEMENT ON CAPITAL PROJECTS DRIVES CAPITAL SPENDING RESPONSIBILITIES

Engaging with the public on capital projects before any capital project prioritization has been undertaken, or funding sources identified, creates public expectations that the City may not be able to fulfill. This can inflate capital spending requirements and advance projects out of alignment with strategic goals and The City Plan. Preempting the capital project prioritization process with early engagement can result in:

- Lower-priority projects being advanced due to public expectation;
- Lower-priority projects displacing higher-priority projects in the capital budget process;
- Limited capital funding being diverted away from renewal projects towards lower-priority growth projects; or
- The size, service level and design requirement of the capital asset being elevated due to community expectation.

These consequences of early engagement can result in elevated capital project costs, or increased capital budget expenditures, widening the City's fiscal gap, as funding capital envelopes are constrained.

While public engagement is necessary when developing a strategy, duplicating efforts by including planning and design early in the process sets unrealistic expectations and is inefficient. Failing to deliver on the proposals presented during engagement undermines community trust and confidence. To provide current examples:

- The Old Strathcona Public Realm Strategy recently completed its third phase of public engagement, though there is limited capital funding available to advance this project;
- Glennwood neighbourhood renewal provided concept visuals requiring investment beyond what the renewal program could support;
- The 124th Street Renewal project underwent public engagement and concept design, later requiring redesign because the initial data was considered outdated.

By the time funding is available, projects that were engaged on early in the planning cycle may not align with current priorities, pressuring the City to advance a backlog of projects rather than using available funding to advance projects aligned with current goals. Capital planning prioritization and budget approval for infrastructure projects should proceed before engaging with the community or completing concept plans. The current implementation of the IPD recommendations is aimed at enabling the City to provide a clear, prioritized and integrated path forward that informs and prioritizes what it builds.

As outlined in the Infrastructure Planning and Design (IPD) Service Review, current processes lack consistency and integration in the creation, oversight and management of infrastructure strategies. These strategies and high-level plans lack integration and alignment with the district planning approach, which aims for a comprehensive approach that considers all asset types and programming needs. Better alignment and planning can improve processes, but also reduce future capital expenditures.

PART VII
DEBT SERVICING PRESSURES

33. DEBT SERVICING HAS DISPLACED SERVICE SPENDING

33.1 WHY THE CITY USES DEBT

Unlike other orders of government, the City does not borrow for operating expenditures, but as a financing tool for large capital projects. Federal and provincial governments utilize debt to cover annual budget deficits, which occur when revenue is insufficient to cover expenditures. To compare this to a typical homeowner, the City will borrow to help pay for infrastructure the same way a homeowner may borrow to buy their house. In contrast, the provincial and federal governments also borrow money to cover shortfalls in their day-to-day expenditures, akin to a homeowner borrowing to buy groceries or pay for their utilities. The City of Edmonton only borrows for infrastructure.

There are three primary reasons the City uses debt to optimize its capital infrastructure program:

1. **DISTRIBUTE CAPITAL COSTS OVER TIME** Borrowing allows large projects to proceed without having to accumulate enough savings to pay for the full cost up front. Accumulating savings to pay for large capital projects often means that the taxpayers paying for a project are not those benefiting from it. Users of a capital project will change over its useful life, and fairness suggests that those costs should be paid by those who will use the infrastructure over time. This concept is referred to as generational equity. Therefore, debt financing over a longer term can be more equitable. Furthermore, levying taxes for City savings over long periods of time is difficult, as taxpayers expect their taxes to be put to use in the short term.

   The other challenge that arises from saving money for the cash purchase of infrastructure relates to negative carrying costs. Depending on the construction inflation rates, it can sometimes be difficult to earn a sufficient investment return on those savings that will offset the inflationary impacts on infrastructure costs. In other words, construction costs escalate faster than the interest earned on investments leaving the City in a negative position.

2. **ADVANCE LARGE PROJECTS THAT COULD NOT OTHERWISE PROCEED** The City's capital program does not consume resources at a consistent rate. Even though the City undertakes long-term capital planning, with a 10-year Capital Investment Outlook (CIO) and a four-year capital budget, capital spending—particularly for growth capital—does not occur in consistent equal amounts annually. A common

way to describe this is that the City's capital expenditure streams are lumpy. For example, the City's recent LRT expansion projects are the largest capital growth projects in its history. Even with consistent annual contributions of taxes and capital grants, these projects could not advance without debt, as the City could not stop funding all other capital requirements in any given year to advance one large project.

3. **LEVERAGE GRANT FUNDING DOLLARS** Debt financing helps the City maximize its eligibility of capital grant funding from higher-order government. Provincial and federal capital grant programs sometimes require the City to provide matching funds. Without debt use, the City could not access many of these funding streams.

33.2 HISTORICAL CONTEXT

In the 1970s the City managed tax-supported debt by setting a limit on the amount of new debt that could be issued each year.[115] The tremendous growth pressures in the late-1970s to support the energy boom led to a relaxation of the total debt limit, resulting in a threefold increase in annual borrowing. This resulted in Edmonton's tax-supported debt being higher than most other major Canadian cities.

The recession and high interest rates of the early 1980s prompted a revised debt management policy. New tax-supported debt issues were limited to $25 million per year with a five-year repayment term. Shorter borrowing terms for utility debt were also required.[116] The objective was to prohibit new tax-supported borrowing after 1990. Subsequent to 1990, a pay-as-you-go approach was adopted for tax-supported capital projects as an extreme reaction to the high-interest-rate environment and debt challenges of the 1980s.

In 2002, pay-as-you-go as a strict financial strategy was abandoned as it became impossible to build infrastructure to support a growing City without large tax increases to fund infrastructure on a cash basis. The City's financial debt was not growing, but its infrastructure debt was becoming significant. With a "no-tax-supported-debt" strategy, the City was unable to address its growing infrastructure needs.

Due to the decision to severely constrain debt use in the 1980s, and to use debt only for utility infrastructure after 1990, the City's capital program became severely constrained: construction of some of the types of facilities that contribute to quality of life and the economic well-being of Edmonton did not occur.

[115] New debt was generally issued for 25 year terms.
[116] Utility debt was serviced with utility revenue, not property taxes.

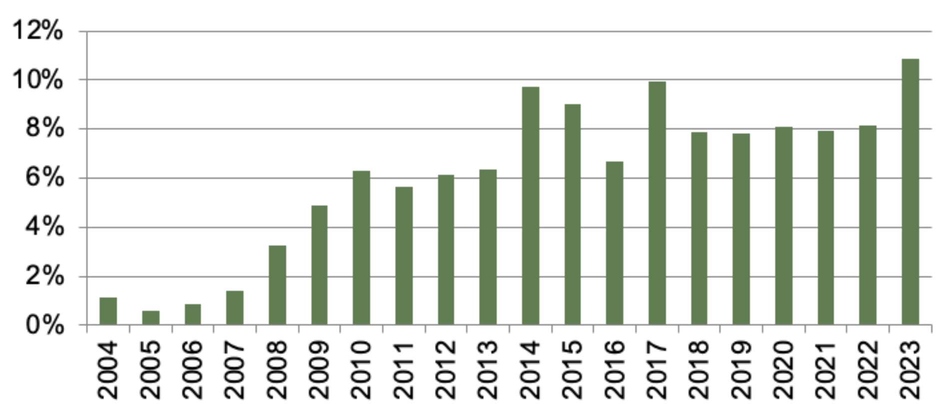
Tax-supported debt was reintroduced with a revised Debt Management Fiscal Policy, C203B, (DMFP) in 2002. At that time, a $250 million borrowing guideline was established with $50 million per year allocated over five years for debt-financed projects. As growth pressures accelerated, a revised DMFP C203C was approved in 2008 that remained in effect until 2022. Under the DMFP C203C, an average of $280 million was borrowed per year for capital projects in the 2009 to 2011 capital budget cycle, $273 million per year in the 2012 to 2014 cycle, $277 million per year in the 2015 to 2018 cycle, and $298 million per year in the 2019 to 2022 cycle. The debt incurred from 2009 to 2022 was used to advance a combination of major renewal and growth projects, such as libraries, recreation centres, the Capital Line south LRT extension, Metro Line LRT, and the Walterdale Bridge.

In 2022, an updated DMFP C203D was approved by City Council that removed reference to total internal debt limits, and instead focused solely on debt servicing limits as a way to establish controls on the issuance and use of debt.

33.3 DEBT SERVICING EXPENDITURE SHARE GROWTH

In 2023, tax-supported debt servicing was the third largest operating spending category, at 11% of total operating expenditures, behind only policing (14%) and transit (12%).[117] From 2004 to 2006, tax-supported debt servicing as a percentage of total operating expenditures was relatively low, in the 0.6% to 1.1% range (Figure 71). The share gradually increased from 2007 onward, reaching 10.9% in 2023.

Figure 71: Tax-Supported Debt Servicing Charges as a % of Total Operating Expenditures, 2004-2023



Source: City of Edmonton.
Note: Total operating expenditures from 2004-2022 reflected as budget actuals; Total operating expenditures for 2023 reflected as adjusted budget.

[117] 2023 Adjusted Budget.

As highlighted above, prolonged periods of funding capital on a cash basis resulted in very low debt servicing levels, but also a large backlog in the City's capital program, including a significant infrastructure deficit. The City began an extensive capital investment program in the late-2000s for both growth and renewal capital, which resulted in reintegrating debt as a financing tool for major capital projects.

The City is judicious, prudent, and sustainable with its debt use, holding a AA credit rating from S&P.[118] Nonetheless, at times when tax-supported debt servicing expenditures increase at a higher rate than total expenditures, as observed between 2007 and 2023 (Figure 71), the spending growth on debt servicing can crowd out spending growth on programs and services. This is because the City's predominant tax tool, property tax, has limits to its growth, in large part due to tolerance limits for tax increases. Consequently, there is a ceiling or limit on annual tax increases, sometimes referred to as tax room. When debt servicing charges consume an outsized amount of tax room in any given year, it leaves less tax room for program and service growth.

This displacement effect occurs only when debt servicing expenditures are increasing in budgetary share—for example, the 0.6% to 10.9% increase from 2005 to 2023 (Figure 71). If debt servicing's share of the expenditure budget remains stable, the tax room available for service spending will not be crowded out. Similarly, reductions to debt servicing expenditure share would free up tax levy that could be reallocated to service spending, or returned to the taxpayer, though it would create financial constraints within the City's capital program. Should debt servicing's budget share continue to escalate, future growth spending for programs and services will continue to be displaced. These historical growth constraints on program and service spending contributed to the City's overall fiscal gap.

The growth in debt servicing's budget share does not imply that debt servicing levels are too high; rather, the historical avoidance of debt produced very low debt servicing levels, and the reintroduction of debt as a capital financing tool initiated the increase from 0.6% to 10.9% percent.

[118] In 2019, the City's lone credit rating agency, S&P, downgraded the City's credit rating from AA+ to AA. At that time, S&P noted that the downgrade "reflects Edmonton's significant capital spending plans and corresponding growth in debt over the next several years." In 2022, S&P, affirmed its AA rating for the City of Edmonton. The stable outlook reflected S&P's expectation that "the City's execution of the capital plan will not result in a significantly higher reliance on debt or internal resources relative to [their] current expectations."

34. LIMITED AVAILABLE DEBT SERVICING ROOM

34.1 ABOUT DEBT SERVICING LIMITS

Although the Debt Limit Regulation in accordance with the *Municipal Government Act* specifies that the total debt limit is two times the revenue of the municipality, and the debt servicing limit is 0.35 times the revenue of the municipality, the City's own DMFP adopts a more conservative approach.[119] DMFP C203D, updated in 2022, further constrains the limit for total debt servicing and tax-supported debt servicing, as follows:

1. Tax-supported debt servicing is limited to 18% of tax-supported net operating expenditures. Tax-supported debt servicing can exceed the 18% limit for the following reasons:
    a. To provide City match-funding to leverage external funds, where the external funds are at minimum one-third of total project costs;
    b. Where the debt is self-supporting tax guaranteed debt; or
    c. Where the tax-supported debt is required for emergency purposes.

2. Total debt servicing is allowed up to 21% of City revenues, and includes debt servicing related to tax-supported debt and self-liquidating debt.

3. Total debt servicing is permitted up to 26% of City revenues, but only for emergency purposes as defined in Policy C203D.

34.2 THE CITY IS APPROACHING ITS DEBT SERVICING LIMITS

The City is projected to reach 68% of its tax-supported debt servicing limit (18% limit) and 54% of its total debt servicing limit (21% limit) by the end of 2024 (Table 21). The City is projected to reach its peak debt servicing level in 2028, at 89% of the tax-supported debt servicing limit (Table 21). Based on projected borrowing rates, the City has $800 million of unconstrained tax-supported borrowing capacity available before the tax-supported debt servicing limit is reached in 2028. After 2028, more debt room will become available once previous debentures are fully repaid.

[119] *Debt Limit Regulation*, Alberta Regulation 255/2000.

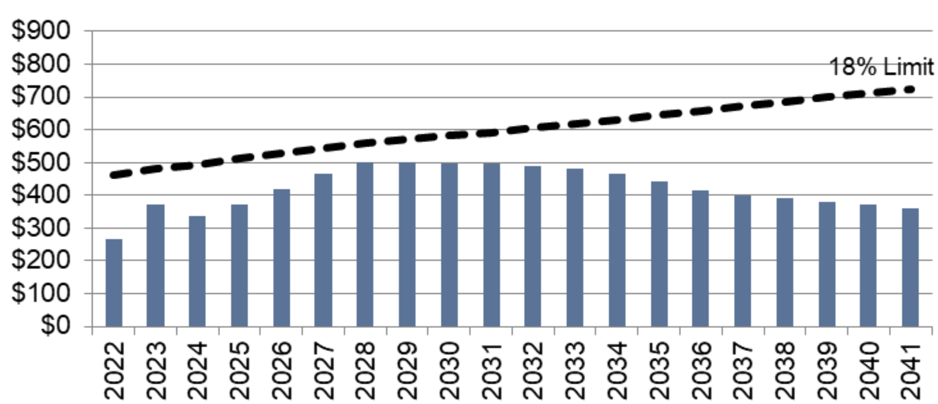
Table 21: Forecast of Debt Servicing and Debt Servicing Limits ($Millions)

	Dec 2023	Dec 2024	Dec 2025	Dec 2026	Dec 2027	Dec 2028	Dec 2029	Dec 2030	Dec 2031	Dec 2032
Debt Servicing										
Tax-Supported Debt	**370**	**337**	**371**	**418**	**467**	**499**	**501**	**497**	**497**	**491**
Long-Term	267	230	259	300	349	392	411	415	419	416
Self-Supporting Tax Guaranteed	104	107	112	118	118	107	90	82	79	75
Self-Liquidating Debt	**53**	**53**	**52**	**53**	**48**	**48**	**49**	**50**	**50**	**50**
Total Debt Servicing	**423**	**390**	**423**	**471**	**514**	**547**	**550**	**547**	**547**	**541**
DMFP Debt Servicing Limits										
Tax-supported Debt Servicing (18%)	482	495	511	527	545	558	570	581	593	604
% Used	**77%**	**68%**	**73%**	**79%**	**86%**	**89%**	**88%**	**86%**	**84%**	**81%**
Total Debt Servicing (21%)	704	723	747	770	796	816	832	849	866	883
% Used	**60%**	**54%**	**57%**	**61%**	**65%**	**67%**	**66%**	**65%**	**63%**	**61%**
Total Debt Servicing (26%)	871	895	924	954	985	1010	1030	1051	1072	1093
% Used	**49%**	**44%**	**46%**	**49%**	**52%**	**54%**	**53%**	**52%**	**51%**	**49%**

Source: City of Edmonton.
Note: Self-liquidating debt is net of EPCOR.

Figure 72 depicts how the City is nearing its tax-supported debt servicing limit in 2028. From 2029 onward, tax-supported debt servicing eases, and debt servicing room gradually becomes more available each year to the end of the forecast period (2041). This debt servicing room projection is based on currently-approved debt; should more debt be incurred, future debt servicing room will decrease.

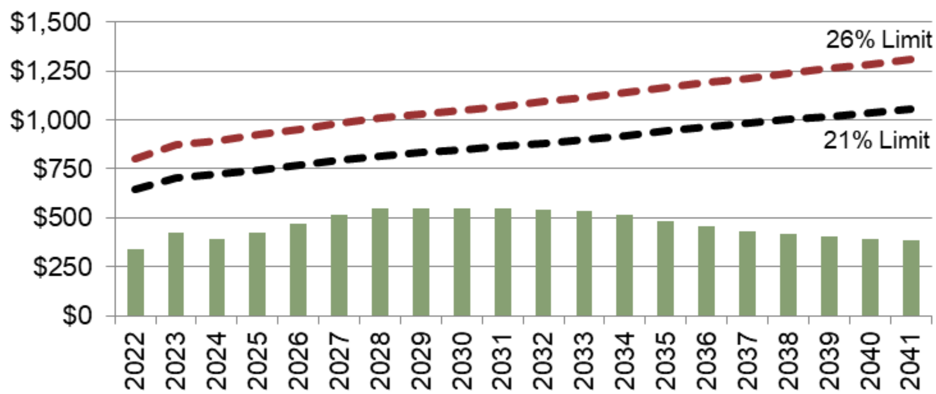
Figure 72: Forecast of Tax-Supported Debt Servicing and Tax-Supported Debt Servicing Limit, 2022-2041 ($Millions)



Source: City of Edmonton.
Note: Debt servicing limits are set out in C203D - Debt Management Fiscal Policy.

Figure 73 shows total debt servicing measured against the total debt servicing limit (21% limit), and the emergency total debt servicing limit (26% limit). Peak usage of the total debt servicing limit occurs in 2028, at 67%, and then gradually eases through to the end of the forecast period (2041).

Figure 73: Forecast of Total Debt Servicing and Total Debt Servicing Limits, 2022-2041 ($Millions)



Source: City of Edmonton.
Note: Debt servicing limits are set out in C203D - Debt Management Fiscal Policy.

As the City closes in on its tax-supported debt servicing limit, an important consideration is the impact of incurring additional tax-supported debt between now and 2028. Although some room is available, if the City were to reach the 18% limit, it would no longer be able to advance projects that are fully financed using tax-supported debt. There are two categories of projects that have historically been fully financed with tax-supported debt:

- Large growth projects that have no project-specific grant funding available from other orders of government (e.g., recreation centres); and
- Large renewal projects that cannot be funded with unconstrained funding due to their large size and the impact it would have on the rest of the renewal program (e.g., High Level Bridge renewal and LRV replacements).

The use of debt between now and 2028 must be done responsibly so that the City can leverage opportunities to match grants and also leave debt servicing room for critical renewal projects. Because debt financing is a critical part of advancing capital projects, the limitations and constraints on borrowing will continue to put pressure on the City's capital program for the next four to five years. Limited debt servicing room ultimately limits the City's capacity for advancing major capital projects, which contributes towards the City's fiscal gap.

PART VIII
CONCLUSION

35. CONCLUSION & NEXT STEPS

This report has identified that on both an operating and capital basis, the City's revenue-raising capacity has persistently fallen short of its expenditure needs. This difference, or shortfall, between revenue capacity and expenditure needs is the City of Edmonton's fiscal gap. This gap is driven by numerous factors related to City revenues, spending, the City's strategic goals, its infrastructure assets and its tax base.

While the City did not cause many contributing factors to the fiscal gap, and it is not within the City's capacity or legislative ability to solve entirely on its own, the City must take meaningful measures towards narrowing its fiscal gap. Left unaddressed, the fiscal gap will result in service level reductions, deterioration of infrastructure, inability to advance the City's strategic objectives, and outsized tax increases.

Based on the analysis in this report, Administration has identified a number of strategic bodies of work that the City will advance to narrow its fiscal gap. Each body of work will require a multitude of actions, decisions and use of policy levers to advance. A number of these strategies are already underway, and forthcoming Council or Committee reports will address them in detail.

1. **GROW THE NON-RESIDENTIAL TAX BASE** Take actions to address the City's declining share of non-residential tax base in the region, and the insufficient levels of real non-residential assessment growth.

2. **EVALUATE ALL CITY-CONTROLLED REVENUE STREAMS** Evaluate all City-controlled revenue streams for opportunities to grow non-tax revenues, including opportunities to introduce fees for services where no or limited cost is recovered from end users or beneficiaries.

3. **ASSESS CAPITAL REQUIREMENTS AND DETERMINE THE APPROPRIATE ALLOCATION BETWEEN RENEWAL AND GROWTH** With limited financial resources the City will need to assess the allocation of funding between growth and renewal, balancing the City's need to address an expanding renewal deficit with growth as the City welcomes its next one million residents. This can include consideration for downsizing the City's Neighbourhood Renewal Program and shifting its financial resources towards other areas of renewal.

4. **EVALUATE FUNDING MECHANISMS TO ADDRESS THE RENEWAL DEFICIT** Evaluate funding options to address the City's growing renewal deficit, including the potential for a dedicated tax levy. This will help limit the extent to which the City's infrastructure assets deteriorate due to the large unfunded renewal gap.

5. **CONTINUED FOCUS ON DIVESTITURE AND DILIGENCE IN ACQUISITION** Continue to explore divestiture opportunities for City capital assets. Maintaining the City's asset base requires more financial resources than the City has revenue capacity to fulfil. Diligence in asset acquisition will be necessary to ensure growth does not add pressure to this asset base.

6. **COMPREHENSIVE PRIORITIZATION OF CAPITAL GROWTH AND RENEWAL** With an overall reduced capital funding envelope, the City needs a comprehensive prioritization of growth infrastructure and capital renewal, and a refocusing of capital spending within a narrower suite of projects. This will include limiting early engagement on projects until funding has been identified.

7. **SERVICE PRIORITIZATION** With the fiscal constraints the City is experiencing, it needs to undergo comprehensive service prioritization, with a focus on traditional municipal services that are most necessary to maintain Edmontonians' quality of life.

8. **ADVOCACY AND ENGAGEMENT** Continued advocacy and engagement efforts with higher orders government on modernized fiscal frameworks or funding arrangements that consider the responsibilities and pressures of big cities today.

9. **NEGOTIATE INTERGOVERNMENTAL SERVICE DELIVERY** Explore negotiated compensation agreements where the City delivers services for areas that are the responsibility of higher-order governments, where the City delivers services on their behalf, or where the City's responsibilities have expanded into domains that are traditionally that of higher-order governments.

10. **PRIORITIZE STRATEGIC GOALS** The City's strategic goals are expansive, pulling the City into non-traditional service areas which puts upward pressures on City expenditures beyond its revenue-raising capacity. The City does not have the financial means to advance all aspects of its strategic planning framework. It will need to focus resources on areas it has the most control over, and identify aspects that are higher priority.

11. **REVIEW POLICY REQUIREMENTS** An opportunity exists for a review of the City's policies and bylaws that drive operating and capital requirements, to assess the financial impact against the outcomes achieved. This may include an assessment of historical levels as well as a comparison to other peer municipalities.

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