COUNCIL REPORT

Edmonton

PAY-AS-YOU-GO REPLENISHMENT AND DEDICATED UNIVERSAL RENEWAL FUND - DRAFT STRATEGY

Recommendation

That the strategy to replenish the cumulative impact of the $15,000,000 reduction in annual Pay-As-You-Go and establishment of a Dedicated Universal Renewal Fund, as outlined in the March 18, 2025, Financial and Corporate Services report FCS02818, be approved.

Requested Action		Decision required	
ConnectEdmonton's Guiding Principle		**ConnectEdmonton Strategic Goals**	
CONNECTED This unifies our work to achieve our strategic goals.		**Healthy City**	
City Plan Values	BELONG. LIVE. THRIVE. ACCESS. PRESERVE. CREATE.		
City Plan Big City Move(s)	A community of communities Inclusive and compassionate Catalyze and converge	**Relationship to Council's Strategic Priorities**	Conditions for service success
Corporate Business Plan	Serving Edmontonians		
Council Policy, Program or Project Relationships	• The City Plan • C578A - Multi-year Budgeting Policy • C624 - Fiscal Policy for Revenue Generation • C203C - Debt Management Fiscal Policy • C595A - Neighbourhood Renewal Program Policy • C591 - Capital Governance Policy		
Related Council Discussions	• November 7, 2023, Financial and Corporate Services report FCS02052, Fall 2023 Supplemental Operating Budget Adjustment • December 2, 2024, Financial and Corporate Services report FCS02530rev, Fall 2024 Supplemental Capital Budget Adjustment • December 2, 2024, Financial and Corporate Services report FCS02529rev, Fall 2024 Supplemental Operating Budget Adjustment		

	• March 5, 2025, Financial and Corporate Services report FCS02746, Fiscal Gap Strategies Work Plan

Previous Council/Committee Action

At the December 2, 2024, City Council meeting, the following motion was passed:

> That Administration provide a report with a draft strategy to replenish cumulative impact of the $15,000,000 reduction in annual Pay-As-You-Go and establish a Dedicated Universal Renewal Fund aligned with the following principles:

a. Repayment of the cumulative impact of the $15,000,000 reduction in annual Pay-As-You-Go by 2030.
b. Redirection of tax levy funding used to replenish the Financial Stabilization Reserve once the minimum balance is achieved.
c. Incorporation of dedicated tax levy increase of successive 0.5% in 2027 and beyond to meet the draft strategy.

Executive Summary

- A Dedicated Universal Renewal Fund (DURF) will be established to supplement existing renewal funding.
- Successive tax increases of 0.5 per cent will be incorporated in each year of the 2027-2030 operating budget in order to replenish the operating transfer of Pay-As-You-Go (PAYG) to capital by 2030. These funds will then be directed to the DURF.
- Once the Financial Stabilization Reserve reaches its five per cent minimum balance, the tax levy that was allocated towards the repayment (already approved for 2025 and 2026) will be redirected to the DURF.
- While these funds help to address a portion of the renewal gap, they are not enough to eliminate the gap. Additional future funding or other mechanisms are required to fully address the shortfall. The gap will widen without further action, necessitating more funding for urgent needs.
- Without strategies to proactively address failing and aging assets, Administration projects that 20 per cent or more of the City's assets will be in poor or very poor condition within approximately 20 years.

REPORT

In the Fall 2024 Supplemental Operating Budget Adjustment, Council approved two amendments that impact the draft strategy outlined in this report:

1. Approval of a plan to restore the Financial Stabilization Reserve (FSR) to its required minimum balance by 2029 by increasing the tax levy by 0.5 per cent in 2025 and 0.6 per cent in 2026 (these increases are already included as part of the approved 6.1 per cent increase in 2025 and 6.8 per cent for 2026), and

2. Approval of an ongoing reduction of $15 million to the operating transfer of Pay-As-You-Go (PAYG) to capital starting in 2025, resulting in a cumulative $90 million less available for PAYG funding by 2030.

This report outlines a strategy to replenish PAYG funding as well as direct funds to a new Dedicated Universal Renewal Fund.

Establishment of a Dedicated Universal Renewal Fund

Evaluating funding mechanisms to address the renewal deficit is one of the strategies identified to address the fiscal gap in the March 5, 2025, Financial and Corporate Services report FCS02746, Fiscal Gap Strategies Work Plan.

The City of Edmonton's $34 billion asset inventory, including facilities, roads, open spaces, vehicles, technology and equipment, supports 70 services for Edmontonians, such as public transit, recreation, police and fire rescue. The 2023–2032 Capital Investment Outlook[1] presented to Council in June 2022 identified a $4.8 billion infrastructure gap, with an ideal 10-year renewal investment of $10 billion compared to a forecasted $5.2 billion.

The 2023-2026 Capital Budget funded 54 per cent of the ideal renewal investment. After isolating constrained renewal funding for the Neighbourhood Renewal Program and funding allocations to bridges (which are funded to their ideal level to mitigate for increased risk of failure), the remainder of the renewal program was funded at 30.7 per cent of its ideal renewal investment. If this funding trend continues, without strategies to proactively address failing and aging assets, Administration projects that 20 per cent or more of the City's assets will be in poor or very poor condition within approximately 20 years.

Supplemental budget adjustments allocated a total of $110.8 million to unfunded renewal projects for items with significant risks. The renewal investment shortfall in 2023-2026 is approximately $1.52 billion. Excluding renewal programs with constrained funding (e.g., neighbourhood renewal and bridges), the remainder of the renewal program is funded at 35.4 per cent of its ideal investment.

To begin to address this shortfall, a Dedicated Universal Renewal Fund (DURF) will be established to supplement existing renewal funding from the corporate pool. This reallocation will free up corporate pool funds for additional asset renewals, with the goal of narrowing the overall funding gap.

The DURF will fund the renewal of all City-owned assets not covered by other dedicated funding sources, such as the Neighbourhood Renewal Fund or Fleet Reserve. Administration will continue to allocate renewal investments based on criteria including physical condition, risk, operational and maintenance data and service delivery impacts. This flexible approach allows Administration to adjust allocations between asset types to address urgent needs, resource capacity, market conditions or project synergies. For example, if steel prices rise sharply while asphalt prices remain low, allocations could shift from the renewal of steel picnic shelters, to the renewal of

[1] Capital Investment Outlook: 2023-2032

asphalt trails. Any allocation adjustments will be based on a risk-benefit analysis for both the affected assets and the services they support.

Further details can be found in Attachment 3 of the November 7, 2023, Financial and Corporate Services report FCS02052, Fall 2023 Supplemental Operating Budget Adjustment, which outlines options for creation of a new dedicated renewal fund.

Strategy

In order to replenish PAYG and align with the principles of the motion, successive tax increases of 0.5 per cent will be incorporated in each year of the 2027-2030 operating budget and beyond. The following table outlines where the additional tax revenue will be directed to implement the strategy.

	2025	2026	2027	2028	2029	2030	Total	2031
Annual Tax Increase (%)	0.5	0.6	0.5	0.5	0.5	0.5		0.5
Breakdown ($ millions)								
FSR Repayment	10.7	24.7	24.7	24.7	24.7	0.0	**109.7**	0.0
Replenish PAYG			12.5	25.7	26.2	25.6	**90.0**	15.0
DURF					13.4	53.4	**66.8**	64.1
Total	10.7	24.7	37.2	50.4	64.3	79.0	**266.5**	79.0

The breakdown above is based on current projections. These numbers are estimates and will be updated as the strategy is implemented and actual results are available.

<u>FSR Repayment</u>

The FSR Repayment line in the table shows the additional tax revenue generated by the 0.5 per cent increase in 2025 and 0.6 per cent in 2026 being directed towards the FSR repayment until 2029, when the minimum five per cent balance will be restored, based on the five-year timeline Council approved.

This repayment plan is based on the financial results as of December 31, 2024, which indicate the balance of the FSR to be $61.3 million when factoring in the 2024 year end deficit of $0.7 million and operating carryforwards of $23.3 million. The estimated FSR minimum balance, which is five per cent of operating expenditures, in 2029 is $171.8 million. The total amount required to achieve the minimum balance in 2029 is $109.7 million. After the FSR reaches the minimum balance, the $24.7 million annual tax revenue will be redirected to the DURF. If the FSR falls below the minimum again, a new strategy would be required in the future.

The FSR repayment strategy is based on an assumption of results being equal to budget over the next five years (i.e. no tax-supported surplus or deficit). If the FSR's financial position improves over the next five years, potentially because of tax-supported surpluses, less funding will be required for repayment, and the excess funds will be reallocated sooner to expedite the creation of the dedicated renewal fund. Alternatively, if the FSR position gets worse as a result of further tax-supported deficits, larger tax increases may be required in future years to bring the FSR back up above its minimum balance by the end of 2029.

PAYG Replenishment

The "Replenish PAYG" line in the table shows the 0.5 per cent increase in 2027, 2028 and 2029 being directed towards PAYG, based on the current estimated values of 0.5 per cent tax levy. By the end of 2030, the $90 million reduction to PAYG will be restored, including reinstating the annual $15 million transfer to PAYG. All other additional revenue generated from these tax increases, estimated at $39.3 million, will be directed to the DURF. Fluctuations in investment earnings are not part of the strategy; any increase in PAYG due to investments earnings will be additional funding on top of the repayment strategy.

Dedicated Universal Renewal Fund

The DURF line shows the funding being directed after the FSR minimum balance is reached, after PAYG funding is replenished, as well as the 0.5 per cent tax increase from 2030. Starting in 2031, an estimated annual $64.1 million will be directed to the Dedicated Universal Renewal Fund.

Strategy Implementation and Next Steps

A new reserve policy for the DURF will be brought forward in mid 2026, prior to approval of the 2027-2030 budget. While establishing a DURF is a positive step, this strategy alone will not eliminate the renewal funding gap. If successive 0.5 per cent increases were applied to the DURF each year starting in 2031, it would take until 2047 to reach the ideal state before considering cost escalation or inventory throughout this timeframe. Additional future funding or other mechanisms are required to fully address the shortfall. The gap will widen without further action, necessitating more funding for urgent needs.

It is important to acknowledge the interconnections between the operating and capital budgets. The operating budget is experiencing increased financial pressure due to the lack of renewal funding in the capital budget. Lack of renewal funding in the capital budget leads to increased costs for maintenance in the operating budget; aging infrastructure waiting for renewal often costs more to maintain and is at a higher risk of requiring costly repairs or requiring total replacement. Shortfalls in the operating budget limit the City's ability to maintain assets appropriately, which decreases the life of assets and places a heavier burden on the renewal budget.

The 2023-2026 Capital Budget is still approximately $1.52 billion short from the ideal renewal investment. It is expected the 2027-2030 capital budget will have a greater need for investment in renewal. Given there are no major increases in available funding expected, renewal will have to be a focus in the development of the proposed 2027-2030 Capital Budget. This will be discussed as part of FCS02696 Prioritization of Renewal in 2027-2030 Capital Budget on June 10, 2025.

Community Insight

Administration gathers insights from multiple sources to inform the budget, including public engagement on the four-year budget, the annual satisfaction survey and public opinion research.

- Administration did extensive public engagement in summer 2022 to support the development of the 2023-2026 budget, as well as subsequent budget adjustment recommendations. Those insights were also shared with Council to support their decision-making through the October 31, 2022, Communications and Engagement report CE01489, Budget 2023-2026 Community Insights.
- Administration conducted its third annual Service Satisfaction Survey in summer 2024. The survey gathers Edmontonians' perceptions of overall service quality and the satisfaction and importance of highly visible City of Edmonton services.
- Administration also undertook public opinion research in fall 2024 about the budget. An online survey was conducted to understand Edmontonians' current financial situation and their opinions on potential adjustments to City services, user fees and property tax increases. Survey respondents are reflective of Edmontonians in terms of age, gender, income and regional distribution across the city (by quadrant).

The insights from this research illustrate the challenges in building and adjusting municipal budgets. There is no single combination of priorities that will satisfy all Edmontonians, particularly given the financial challenges many residents are facing.

Administration will continue to gather insights from the community throughout the remainder of the 2023-2026 budget cycle and in advance of the 2027-2030 budget development.

GBA+

The four-year budget incorporated input from the public engagement activities described above. This engagement applied a GBA+ to do targeted outreach and ensure the City captured input from residents experiencing unique barriers and challenges and those whose voices are heard less often. Administration conducted targeted outreach and engagement with 2SLGBTQ+ community members, non-English speakers, youth, seniors, racialized community members, women, people with disabilities, Edmontonians experiencing or at risk of homelessness and people experiencing mental health and addiction challenges.

GBA+ is applied on the project, service or profile that makes up each of the budget adjustments. As part of the development of the 2023-2026 Proposed Operating Plans and Budget, departments and GBA+ Centres of Excellence participated in a partial GBA+ process, and identified differential impacts that new initiatives proposed for the next four years might have on Edmontonians.

Administration will apply GBA+ for the 2027-2030 budget development.

Environment and Climate Review

This section highlights climate risk considerations and their connection to funding infrastructure and assets development:

- The City of Edmonton is facing climate change challenges, with projected increases in average annual temperatures, precipitation extremes, and higher wind speeds, all of which will add risks to infrastructure and assets over the coming decades, resulting in more damage to infrastructure and assets with potential service disruptions and safety concerns.
- Infrastructure and assets are the foundation upon which services are delivered to Edmontonians. Climate risks to infrastructure and assets will impact the City's long-term livability. Developing and maintaining safe and functional infrastructure and assets, with climate risk considerations, is critical to the successful delivery of services to Edmontonians at the expected service levels and capacity.
- Long-range strategic investment decisions that fund infrastructure and asset renewal, especially the inventory of assets that are projected to be in poor or very poor condition, provide opportunities to consider future climate risks in investment decisions, and can help enhance climate resilience.
- The City's asset management framework has considerations for looking at climate vulnerabilities and assessing risks as part of asset renewal program. Since a Dedicated Universal Renewal Fund aims to fund the renewal of all City-owned assets not covered by other dedicated funding sources, it can support increased climate resilience through renewal funding.

Emissions reduction and climate change adaptation opportunities are assessed on a case-by-case basis at a project level. Projects need to be planned, designed, built and operated in ways that anticipates, prepares for, and adapts to changing climate realities.