Financial Statement Discussion and Analysis of

THE CITY OF EDMONTON

INTRODUCTION

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

In addition to providing an overview of the City's 2024 financial performance and position, this report describes significant fiscal policies, strategies and plans related to financial control, accountability, long-term sustainability and risk management.

Included in the 2024 Annual Report are the City's consolidated financial statements and notes, which have been prepared in accordance with Canadian Public Sector Accounting Standards (PSAS). KPMG LLP has audited the City's financial statements and provided an Independent Auditor's Report. The financial statements and auditor's report satisfy the legislative reporting requirement set out in the *Municipal Government Act* (MGA) of Alberta.

The following financial statement discussion and analysis, dated April 22, 2025, should be read in conjunction with the financial statements. Both have been prepared by and are the responsibility of the Management of the City of Edmonton. A section for Climate-related Financial Disclosures has been included as well as the five-year statistical review of key information.

2024 FINANCIAL HIGHLIGHTS

The City of Edmonton has a multi-year budget policy in which operating budgets are developed and approved for a four-year period. The 2023-2026 Operating Budget was approved on December 16, 2022. The multi-year budget process provides for adjustments to the four-year capital budget on a semi-annual basis, in the spring and in the fall, and to the four-year operating budget in the spring through the municipal tax confirmation with more significant budget adjustments made once a year in the fall. Operating budget information for 2024 is consistent with the amounts approved by City Council (Council) in April 2024 with the passing of Bylaw 20706 - 2024 Property Tax and Supplementary Property Tax Bylaw.

Edmonton's general government (tax-supported) operations ended the fiscal year with a $4.2 million deficit, or 0.1% of the budget. This shortfall resulted from several factors:

- Higher than expected personnel costs, resulting from overtime in Fire Rescue Services and Edmonton Transit as well as increased staffing levels required at recreation centres to meet greater than expected demand and security needs.
- Lower than expected transit revenue resulting from shifts in fare purchasing behaviour and greater demand for discounted fare products.
- Higher than anticipated material and contractor expenses primarily due to inflation.
- Higher than budgeted tax losses related to property exemptions.

These unfavourable budget variances were partially mitigated by favorable variances related to funding set aside to manage risk and provide flexibility for emerging items over the course of the budget cycle, delayed grant payments and higher revenue from recreation facility admissions related to increased demand.

In 2024, the City started the second year of a four-year budget cycle. In the previous budget cycle and throughout the pandemic, the City significantly reduced planned tax increases in response to the financial challenges Edmontonians were dealing with at the time. While these low tax increases were necessary at the time, it is not sustainable given the high costs resulting from a prolonged period of high inflation combined with the City's rapid population growth. Consequently, Council approved an 8.9 per cent tax increase for 2024. The additional funding secured for 2024 will enable the City to maintain and continue to improve core public services while also carrying out previous commitments and transformational projects, allowing the City to be able to manage its capital plan for 2024. These projects include expanding the LRT, converting Yellowhead Trail to a freeway and building new recreation centers, all of which contribute to make it a great place for Edmontonians to call home.

With an overall accumulated surplus of $19,154.7 million, the City's financial position remains strong and resilient. The City will continue to monitor its financial performance and will implement strategies to address growth and increased service demand through the multi-year budget process. These areas are expanded upon in the Long-Term Sustainability section of this report.

Consolidated Statement of Financial Position

(millions of $)

	2024	2023	2022 Restated*	2021	2020
Financial Assets	**$ 9,433.6**	$ 8,873.7	$ 8,511.1	$ 8,093.8	$ 7,527.5
Liabilities	**6,348.3**	6,041.7	5,804.0	5,370.8	5,027.5
Net Financial Assets	**$ 3,085.3**	$ 2,832.0	$ 2,707.1	$ 2,723.0	$ 2,500.0
Non-Financial Assets	**16,069.4**	15,161.7	14,443.7	13,839.1	13,272.9
Accumulated Surplus	**$ 19,154.7**	**$ 17,993.7**	**$ 17,150.8**	**$ 16,562.1**	**$ 15,772.9**

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

The City ended the year with **net financial assets** of $3,085.3 million, an increase of $253.3 million, or 8.9 per cent, compared to the 2023 balance. The primary components of the net financial asset balance are the City's investment in EPCOR of $5,172.1 million and investments of $2,809.2 million, partially offset by long-term debt of $4,368.4 million, and accounts payable and accrued liabilities of $1,178.8 million.

The City's **non-financial assets** at the end of 2024 were $16,069.4 million, an overall increase of $907.7 million, compared to 2023. Non-financial assets consist primarily of tangible capital assets such as roadways, buildings, land and light rail transit that are carried at a net book value of $15,956.0 million. The City's non-financial assets have grown over the last five years due to continued investments in infrastructure; these investments include the construction of new infrastructure to meet the needs of a growing population and renewal of existing infrastructure to achieve or extend its life and reduce the likelihood of asset failure. The ability to build and maintain infrastructure assets ensures that the City of Edmonton is able to deliver services and programs that Edmontonians rely on everyday, while also attracting new residents to live and do business here.

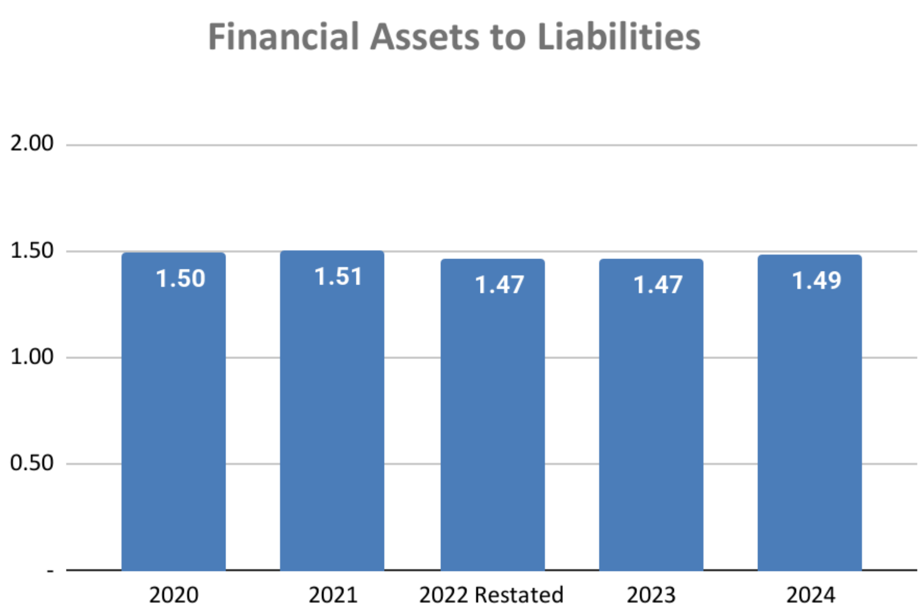
Accumulated surplus is an indicator of the City's overall financial viability that reflects the net economic resources the City has built up over time. The City ended 2024 with a total accumulated surplus of $19,154.7 million, an increase of 6.5 per cent compared to 2023. This surplus includes the City's equity in tangible capital assets, investments including its investment in the EPCOR subsidiary and Ed Tel Endowment Fund, and a number of reserves, including the Financial Stabilization Reserve. The City maintains a stable accumulated surplus balance due to its continued investments in Edmonton's infrastructure, its growing investment in EPCOR and robust reserve management.

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

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

FINANCIAL ASSETS

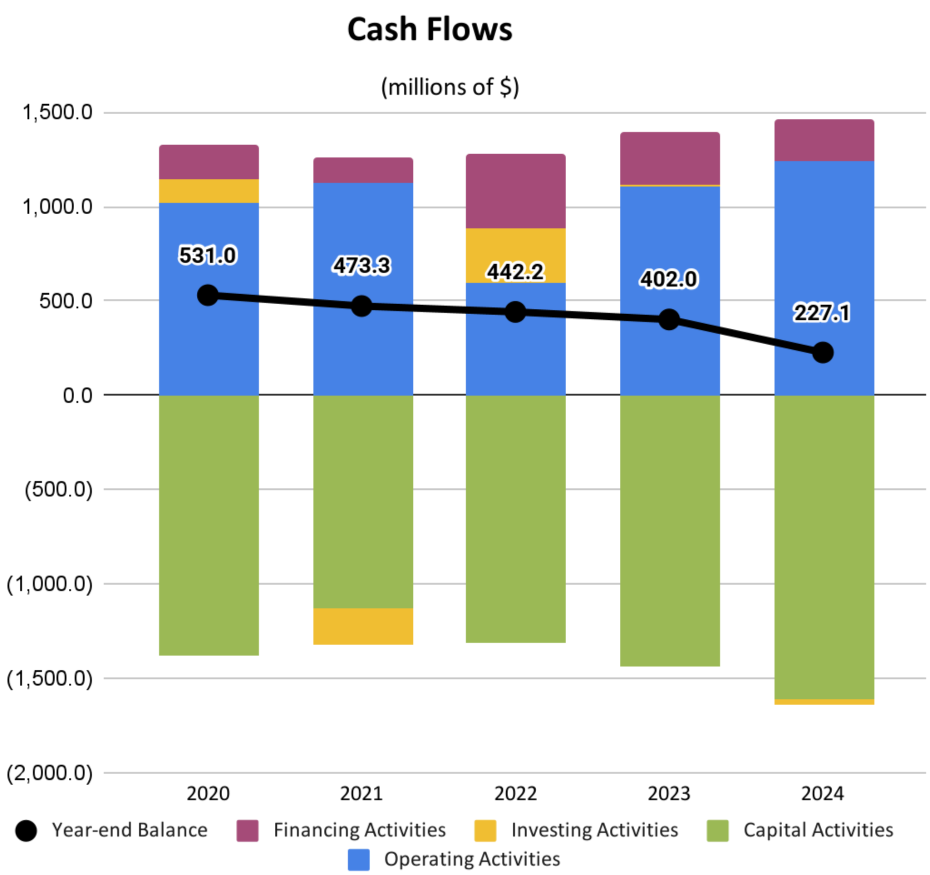
The financial assets-to-liabilities ratio is used to assess the sustainability of the City's financial position. A ratio lower than one indicates that future revenues will be required to pay for past transactions and events. A result higher than one indicates the City currently holds sufficient financial resources to meet its financial obligations. The City's financial assets-to-liabilities ratio over the past five years has remained stable, ranging from 1.47 to 1.51. The ratio increased in 2024 to 1.49 mainly due to an increase in portfolio investments and the City's investment in EPCOR.



Cash

The City's cash position includes both cash and cash equivalents such as bankers' acceptances, treasury bills and commercial paper, which is used to ensure that sufficient cash and liquid assets are available to manage the timing of payments for the City's operating, capital, investing and financing activities. In 2024, the City's cash position decreased to $227.1 million from $402.0 million in 2023, an overall decrease of $174.9 million, or 43.5 per cent.

The Consolidated Statement of Cash Flows summarizes the sources and uses of cash by the City in 2024. During the year the City's cash balance decreased due to capital activities of $1,608.2 million, mainly due to acquisition of tangible capital assets, and a net increase in portfolio investments of $226.3 million. This was partially offset due to cash raised of $1,242.7 million from operations, $224.0 million through financing activities, largely due to net debenture borrowings to finance capital and $193.0 million from an EPCOR dividend. Generally, the cash balance has trended downwards over the last five years due to increased capital investment activities to fund the increased infrastructure required to support a growing City and renew existing infrastructure. The City maintains a healthy financial assets to liabilities ratio, a robust accumulated surplus and monitors its working capital requirements to ensure sufficient cash funds are on hand to manage expenditures.



Receivables

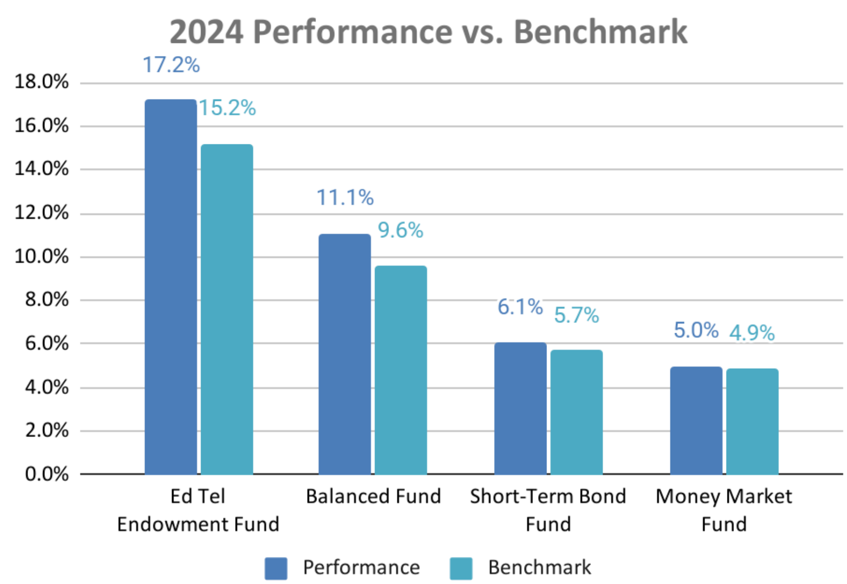
The 2024 receivables balance of $956.6 million decreased by $25.9 million, or 2.6 per cent, from the prior year balance of $982.5 million. A majority of the variance is related to changes in GST and government transfers receivable.

GST receivables decreased by $39.9 million largely due to receipt of GST owing to the City related to Valley Line Southeast project.

Government transfers receivable increased by $14.8 million. This was primarily from Investing in Canada Infrastructure Program (ICIP) grant funding receivable related to the Valley Line West and Capital Line Southeast LRT project expenditures incurred in 2024. The increase was partially offset with the receipt of funding through the P3 Canada Fund, which was used for LRT construction costs and receivable at the end of 2023.

Portfolio Investments

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



Included in investments of $2,809.2 million are Canadian, international and global equities, fixed income and private pooled funds, which includes real estate funds and other investments. The majority of these investments are held within the Money Market Fund, Short-Term Bond Fund, the Balanced Fund and the Ed Tel Endowment Fund.

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

The Short-Term Bond Fund is an investment vehicle for working capital that will be required within the next five years. Therefore, the fund holds fixed income securities with an investment horizon of less than five years.

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

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

In 2024, the fund contributed $46.4 million in dividends to the City. Since 1995, the Ed Tel Endowment Fund has contributed a total of $1,060.1 million to the City in the form of annual dividends. The fund ended the year with a market value of $1,045.6 million.

Overall the City's portfolio investments increased over the prior year by $365.4 million, or 15.0 per cent, largely due to positive performance in the City's equity and fixed income funds.

Performance of the City's investment funds ranged from 5.0 per cent (Money Market Fund) to 17.2 per cent (Ed Tel Endowment Fund), reflecting each fund's asset mix.

In terms of general market conditions, global equities grew 21.0 per cent for the year, and U.S. equities gained 25.0 per cent. Canadian equities were up 21.7 per cent. The Canadian dollar depreciated 7.7 per cent against the U.S. dollar. Finally, Canadian fixed income securities increased 4.2 per cent for the year.

As a result, the Ed Tel Endowment Fund and Balanced Fund, both of which are invested in a mix of fixed income and equity markets in accordance with the City's investment policy, saw returns of 17.2 per cent and 11.1 per cent, respectively. Conversely, the Money Market Fund and Short-Term Bond Fund, which are invested solely in less volatile fixed income securities, had returns of 5.0 per cent and 6.1 per cent, respectively. Overall, the market value of the City's investment portfolio at year-end was $2,848.5 million. At December 31, 2024, the unrealized gains on equity investments held was $138.1 million (2023 - $77.0 million)

More detailed information about the investment performance and benchmarks is available in the 2024 Investment Committee Annual Report on the City of Edmonton's website.

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

Investment in EPCOR

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

The City applies a modified equity method of accounting and reporting for EPCOR, a wholly owned subsidiary, as a government business enterprise. EPCOR's management has prepared their 2024 consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). EPCOR's accounting principles are not adjusted to conform to those used by the City as a local government; therefore, inter-organizational transactions and balances are not eliminated.

In 2024, the City's investment in EPCOR increased to $5,172.1 million from $4,791.7 million in 2023, a net increase of $380.4 million, or 7.9 per cent. The net increase is due to EPCOR's reported net income of $426.5 million for 2024, $34.5 million of tangible capital assets contributed to EPCOR by the City and other comprehensive income of $116.3 million. This is offset by $3.9 million in amortization of contributed assets and a dividend of $193.0 million paid to the City. Summary financial information for EPCOR is included in Note 23 to the financial statements.

Additional details on EPCOR's strategies, financial performance and health and significant events that occurred in 2024 are discussed in EPCOR's annual reporting for 2024, which is available on the company's website.

LIABILITIES

Promissory notes

The City has the ability to issue promissory notes for a term of one year or less to a maximum of $250.0 million to manage cash flow requirements. As at December 31, 2024, the City had three promissory notes totalling $60.0 million with a discounted value of $59.3 million and maturity dates ranging from January 14 to June 11, 2025.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include the categories of trade, developer obligations, payroll and remittances, provision for self-insured claims, accrued interest and liabilities for contaminated sites. The balance of $1,178.8 million at year-end increased over the prior-year balance of $1,147.8 million by $31.0 million, or 2.7 per cent.

Trade payables reflect a net decrease of $36.4 million over prior year largely due the completion of the Valley Line Southeast LRT in 2023, including one-time GST payment related to the P3 capital payments. GST will be paid by the City on the entire value of the P3 capital payments upon service commencement. This is fully offset by a GST receivable recognized under Accounts Receivable related to the City's GST rebate for this amount. There was an increase in trade payables related to large capital infrastructure projects in the second year of the capital budget cycle, including Valley Line West and Capital Line Southeast LRT construction.

Payroll and remittance liabilities increased by $46.8 million over the prior year mainly a result of higher salary accruals and arbitrated settlements not yet paid.

Developer obligations increased by $14.3 million over the prior year mainly due to an increase in development construction in 2024.

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

Deferred Revenue

Deferred revenue is largely made up of government transfers provided to fund operating and capital expenditures. The use of these revenues is externally restricted until the service is performed or when the funds are used for the purposes specified. The deferred revenue balance of $272.4 million increased by $58.2 million, or 27.2 per cent, from the prior year balance of $214.2 million. The increase is mainly due to capital funding received in advance of eligible expenditures for the Housing Accelerator Fund, a federal funding program administered by Canada Mortgage and Housing Corporation (CMHC) to rapidly create affordable housing for vulnerable populations–as well as the new Local Government Fiscal Framework Grant, which replaces the Municipal Sustainability Initiative capital grant program. Revenue in advance of service performed decreased in 2024 due to the Police Recruit Grant, E911 Grant and completion of the Alberta Transit System Clean-Up grant. This was partially offset by an increase in the Alberta Mental Health & Addictions Urban Strategy Grant.

Additionally, deferred revenue increased for development permits and land development applications, due to implementation of the new accounting standard PS3400, Revenue, which required deferral of development permit revenues until the City has provided the related performance obligation. There was also an increase in development permits issued compared to prior year due to higher construction activity in 2024. Additional details about balances and changes in deferred revenue are included in Note 11 to the financial statements.

Employee Benefit Obligations

Employee benefit obligations include accrued vacation, post-employment benefits, banked overtime, balances in the City-sponsored major medical, dental and other employee benefit plans, supplementary management retirement plans and unused health-care spending.

Employee benefit obligations rose by $13.9 million, or 7.0 per cent, compared to 2023, culminating in a year-end balance of $212.8 million. This increase was primarily attributed to an elevated accrued vacation balance and a surplus within the City's dental and major medical plan. The City implemented increases to medical and dental premiums intended to counter COVID-related claim pressures, however premiums have now exceeded claim cost increases, yielding a surplus balance in these plans. The City will monitor the plan balances and adjust premiums as necessary moving forward. Additionally the City carefully monitors vacation usage in an attempt to reduce the unused vacation balance. Further details regarding employee benefit obligations can be found in Note 12 to the financial statements.

Asset Retirement Obligations

In 2023, the City adopted PS3280, *Asset Retirement Obligations*, which represents the estimated future obligation related to the removal of asbestos in its buildings at retirement, landfill closure and post-closure care costs from its Clover Bar and Rundle Park landfill sites and remediation of underground storage tanks. As of December 31, 2024, the liability was $192.2 million, a decrease of $11.7 million, or 5.7 per cent, from the 2023 balance of $203.9 million. The decrease in the obligation was mainly due to post-closure expenditures incurred during the year as well as the demolition of properties acquired as part of the Yellowhead Trail Freeway Conversion. This was partly offset by increases to the liability resulting from changes in estimates for the Clover Bar landfill post-closure liability. Further information on the asset retirement obligation is included in Note 13 to the financial statements.

Long-Term Debt

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

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

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

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

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

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

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

Borrowing Terms and Interest Rates

Term	Interest Rates
10 years	4.30% to 4.88%
15 years	4.61% to 5.06%
20 years	4.79% to 5.17%
25 years	4.88% to 5.24%
30 years	4.91% to 5.22%

The City's net long-term debt was $4,368.4 million at December 31, 2024, an increase of $200.9 million, or 4.8 per cent, compared to the 2023 balance. Long-term debt consists of debentures, mortgages and P3 term debt. The gross amount of debentures, mortgages payable and P3 term debt of $4,796.0 million is offset by $427.6 million in amounts receivable from EPCOR. The amounts receivable from EPCOR are for debentures issued in the name of the City on behalf of EPCOR relating to the Gold Bar Wastewater Treatment Facility (transferred to EPCOR in 2009) and the Drainage Utility (transferred to EPCOR in 2017).

Debt Schedule

(millions of $)

	Tax-Supported	Self-Liquidating	**Total Debt (net)**
Opening	$ 3,634.1	$ 533.4	**$ 4,167.5**
Borrowings	421.4	24.8	**446.2**
Principal Payments	(194.2)	(38.0)	**(232.2)**
P3 term debt modification	(13.1)	-	**(13.1)**
Ending	**$ 3,848.2**	**$ 520.2**	**$ 4,368.4**

Of the total net long-term debt of $4,368.4 million, $3,848.2 million is tax-supported and $520.2 million is self-liquidating. Tax-supported debt includes $450.6 million of P3 term debt related to the portion of deferred capital costs owing to TransEd from 2024 to 2050 for the construction of the Valley Line Southeast LRT.

During the year, the City added a total of $446.2 million through new debenture borrowings and mortgages; $421.4 million is considered tax-supported and $24.8 million is considered self-liquidating. Tax-supported debt was borrowed to finance various capital projects, including: the Valley Line, Metro Line and Capital Line LRT construction ($90.5 million), Yellowhead Trail Freeway Conversion ($18.9 million), Terwillegar Drive Expressway ($53.9 million), Lewis Farms and Coronation Community Recreation Centres ($74.7 million), William Hawrelak Park Rehabilitation ($53.1 million) and continued progression of Downtown and Quarters Community Revitalization Levy funded projects ($26.0 million). Self-liquidating borrowings during the year include $4.6 million for Non-Profit Housing Corporation, $13.2 million related to local improvement projects and $7.0 million for Waste Management.

Debt principal repayments of $232.2 million were made during the year, comprising $194.2 million for tax-supported debt (including $9.1 million of P3 term debt) and $38.0 million for self-liquidating debt.

A portion of the P3 long-term debt included amounts related to monthly capital payments that were not made to the P3 partner as a result of the project reaching service commencement later than anticipated. The Valley Line Southeast LRT reached service commencement in October 2023. Based on the project agreement with the P3 partner capital payments owing before the service commencement date were technically forfeit due to the delayed opening. As a result there was a $13.1 million write down of the carrying value of the P3 long-term debt during the year.

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

Debt Service Limits - DMFP*

(millions of $)

	2024	2023*	2022*	2021*	2020*
Total debt servicing limit (26%)	**$ 939.2**	$ 871.2	$ 799.0	$ 777.2	$ 761.4
Debt servicing limit	**$ 391.9**	$ 420.7	$ 341.9	$ 289.1	$ 291.8
Percentage used (%)	**41.7**	48.3	42.8	37.2	38.3
Total debt servicing limit (21%)	**$ 758.6**	$ 703.7	$ 645.3	$ 627.7	$ 615.0
Debt servicing limit	**$ 391.9**	$ 420.7	$ 341.9	$ 289.1	$ 291.8
Percentage used (%)	**51.7**	59.8	53.0	46.1	47.5
Tax-supported debt servicing limit (18%)	**$ 514.6**	$ 481.7	$ 446.1	$ 406.5	$ 397.3
Tax-supported debt servicing	**$ 337.1**	$ 366.8	$ 270.0	$ 239.6	$ 243.3
Percentage used (%)	**65.5**	76.1	60.5	58.9	61.2

*The limits outlined in the table above for 2020 and 2021 comparatives have been restated from previous years reporting to reflect the revised City Policy C203D Debt Management Fiscal Policy, 2022 has been restated related to the adoption of PS3280 and 2023 has been restated to reflect changes in debt servicing classification between self-liquidating debt and tax-supported debt.

NON-FINANCIAL ASSETS

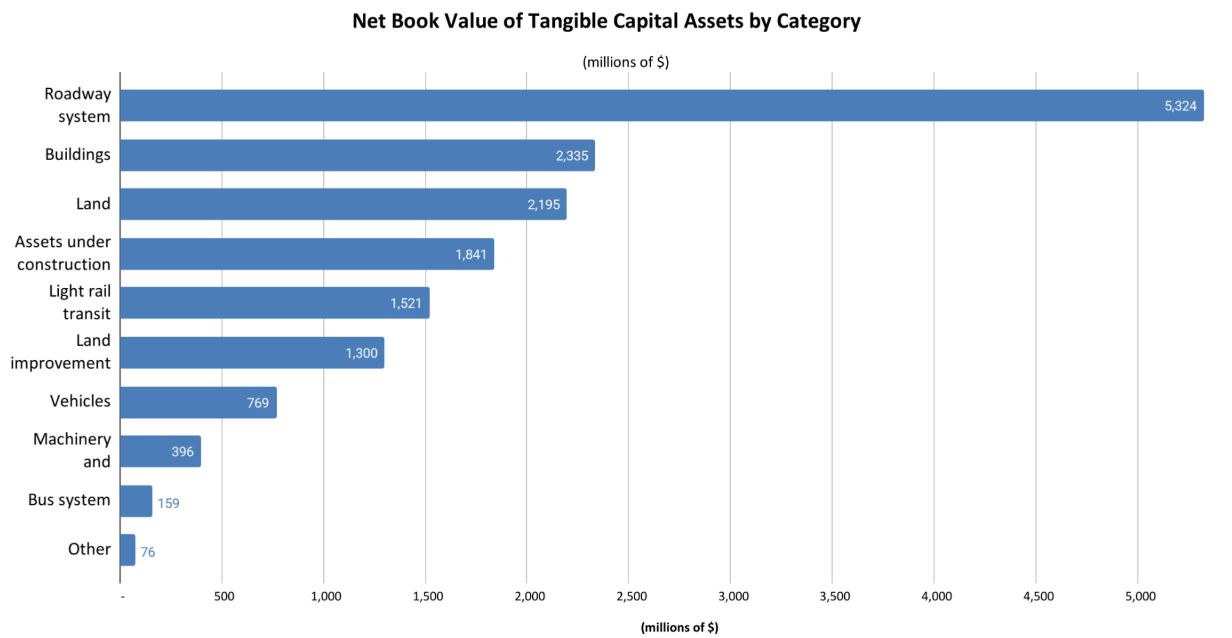
Tangible Capital Assets

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

Compared to the 2023 balance of $15,068.9 million, tangible capital assets of $15,956.0 million have increased by 5.9 per cent. The net increase of $887.1 million is a result of acquisitions of tangible capital assets of $1,586.3 million and contributed tangible capital assets of $61.6 million, partially offset by annual amortization of $686.6 million and disposals and transfers of assets with a net book value of $74.2 million.

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

During 2024, the second year of the 2023-2026 capital budget, spending focused on key growth projects and infrastructure maintenance. The capital additions and contributions of $1,647.9 million in 2024, compared to $1,512.6 million in 2023, reflects the City's continued commitment to investing in infrastructure to accommodate both growth and renewal. Capital expenditures have increased, attributed to ongoing construction projects including Terwillegar Drive, the Valley Line West and Capital Line South LRT, the Coronation Community Recreation Centre, the Edmonton EXPO Centre, the Peter Hemingway Fitness and Leisure Centre and multiple neighbourhood revitalization initiatives. Substantial progress was also achieved on major capital projects such as the Yellowhead Trail Freeway Conversion, the William Hawrelak Park Rehabilitation, the Lewis Farms Community Recreation Centre and Library and the development of a new transit bus garage. Roadways continue to be the largest asset category with a net book value of $5,324.4 million. These are followed by buildings and land with net book values of $2,334.7 million and $2,195.3 million.



Reserves

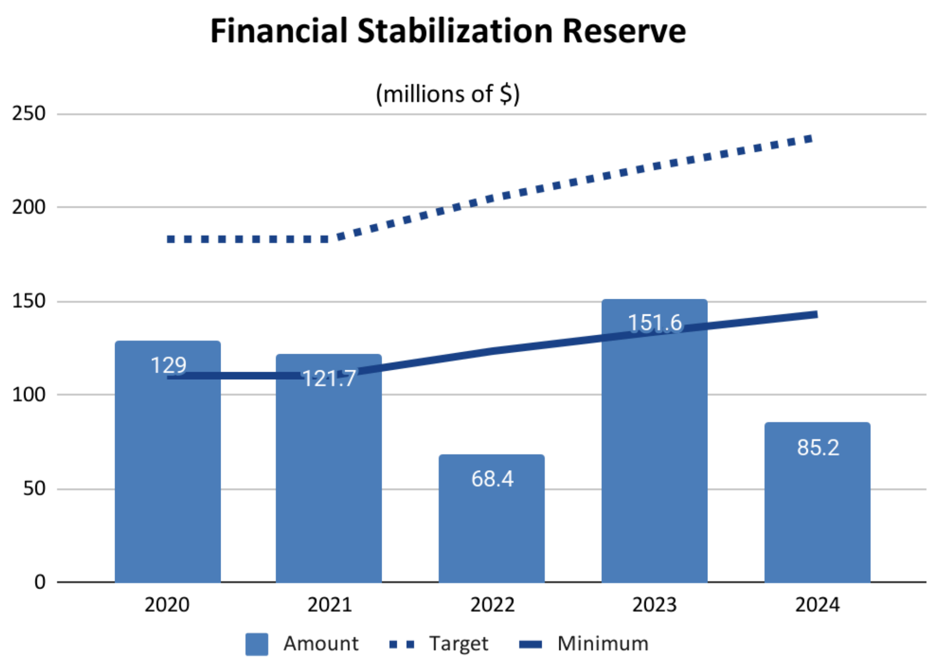
The City's reserve policy, C217F, Reserve and Equity Accounts, directs the establishment of and processes related to reserves. Establishing reserves and transferring funds to and from reserves requires Council's approval.

In accordance with policy C217F, the City completed a review of reserves in 2024. This review is completed at minimum once every three years to ensure the reserves continue to support the City's financial goals and serve the highest priority needs of the City and its residents. As a result of the 2024 review, Council approved the creation of the following two reserves:

- **Facility Lease Renewal and Replacement Reserve** was created to capture contributions required from tenants to fund future renewal or replacement activities associated with leases of City facilities.
- **Edmonton Elections Reserve** was created to manage program costs over the four-year election cycle.

A schedule of reserves and their balances has been provided in Note 18 to the financial statements. In addition, a Reserve Register, which is part of Council Policy C217F Reserve and Equity Accounts Policy and available on the City's website, provides further descriptions of all reserves and is updated annually. Total reserves of $1,028.6 million at the end of 2024 decreased by $31.6 million over the 2023 balance of $1,060.2 million.

The unappropriated and appropriated Financial Stabilization Reserves, reserves with significant changes in their balances from prior year and deficit reserves are discussed below.



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

City Policy C629A, Financial Stabilization Reserve, requires that a risk-based review of the unappropriated FSR be completed every three years to ensure the sufficiency of the minimum and target percentages. Administration conducted a risk-based review of the unappropriated FSR balance in 2024 and confirmed that the respective minimum and target balances of 5.0 per cent and 8.3 per cent of current general government expenses (excluding non-cash amortization and gain/loss on sale of tangible capital assets) were appropriate.

As of December 31, 2024, the unappropriated FSR balance is $85.2 million which is a $66.4 million decrease from the 2023 balance of $151.6 million. During 2024, the general government deficit from 2023 of $40.6 million was transferred to the reserve, and an additional $25.8 million was appropriated within the FSR to provide funding in 2024 for projects and initiatives not completed in 2023. During 2024, Council approved the use of $18.0 million from the unappropriated FSR to fund priority items over 2025 to 2026 on a one-time basis. Additionally, $18.0 million in funding for projects previously appropriated in the FSR was released back to the unappropriated FSR as it was determined that the funding was no longer required. The reserve ended the year with a balance of $85.2 million as of December 31, 2024. However, after considering the tax-supported deficit of $4.2 million and Council-approved operating budget carry-forwards of $23.3 million, the projected unappropriated FSR balance in 2025 is $57.7 million. This is $85.2 million below the required minimum balance of $142.9 million.

In accordance with policy C629A, when the unappropriated FSR balance falls below the minimum, a strategy is required to achieve the minimum balance over a period not to exceed three years, starting with the subsequent year's operating budget. The strategy may include replenishing the FSR with any unplanned one-time revenues, savings through one-time cost reduction strategies, previously committed one-time appropriated items within the FSR that are no longer required for their original purpose, and transfer of funds from other reserves where the amounts are no longer required for their original purposes.

In December 2024, through the Fall 2024 Supplemental Operating Budget Adjustment process, Council identified $10 million in one-time savings for 2025 to replenish the FSR and approved tax increases in 2025 of 0.5 per cent and 2026 of 0.6 per cent to restore the FSR back to the minimum balance over five years from 2025 to 2029. This required a Council approved exemption to Policy C629A to allow the repayment strategy to occur over five years instead of three. The total amount required to achieve the minimum balance in 2029 is estimated to be $109.7 million, as the minimum balance is expected to increase with expenditure growth over the next five years.

As of December 31, 2024, the appropriated FSR balance is $75.5 million, which is a decrease of $24.5 million from the 2023 balance of $100.0 million. During 2024, the balance decreased as $53.5 million was used to fund approved items and $14.8 million was released back to the unappropriated FSR as the funding was no longer required. The balance increased as $43.8 million was transferred into the appropriated FSR to fund specific projects.

The **Pay-As-You-Go (PAYG) Capital Reserve** is funded through investment earnings, tax-levy and other operating sources. The reserve is used to fund capital projects, as approved by Council through the capital budget process. The balance in the reserve at year-end of $151.4 million is fully allocated to capital and reflects the approved PAYG funding for capital projects with expenditures in future years.

The **Light Rail Transit Reserve** ended the year with a balance of $138.8 million, a decrease of $12.8 million from 2023. Funds in the reserve come from a dedicated tax-levy as well as other operating sources and are made available for city-wide LRT expansion. The balance decreased as funds from the reserve were used as intended to pay for P3 debt repayments and passenger service operating costs, as 2024 was the first full year of operations for the Valley Line Southeast LRT.

The **Neighbourhood Renewal Reserve** contains tax funding dedicated to the Neighbourhood Renewal Program net of annual program expenditures. The reserve ended the year with a balance of $2.4 million, a decrease of $13.7 million from 2023. This decrease was mainly due to the timing of neighbourhood renewal capital projects, with more capital expenditures funded from the reserve in the year compared to incoming tax-levy funding.

The **Sanitary Servicing Strategy Fund (SSSF) Reserve** is allocated fees collected by the City from developers and EPCOR Water Services that are used to build deep sanitary sewer trunk lines.
The reserve ended the year with a balance of $115.8 million, an increase of $12.4 million from 2023. The increase is due to earned interest on the balance of the reserve as well as revisions in the sanitary sewer trunk lines construction plan as the program undergoes a review.

The City maintains reserves that are used to accommodate differences between expenses and related funding sources. As of December 31, 2024, the City had six reserves in deficit balances. These include the Interim Financing, Community Revitalization Levy (Capital City Downtown, Belvedere and Quarters), Brownfield Redevelopment and Edmonton Police Service Reserve. In accordance with City Policy C217F Reserve and Equity Accounts, reserves that are expected to have deficit balances will only be established if future funding to offset the deficit balance has been identified at the time of the reserve’s creation.

A **Community Revitalization Levy (CRL)** is a provincially legislated financing tool that provides up to 20 years of stable funding for public infrastructure investments in the approved redevelopment areas. Within each CRL area a baseline property assessment is established in the year that the plan is approved. Subsequent increases in property tax revenue above the baseline (both municipal and equivalent provincial school taxes) that result from new development and property value growth make up the CRL revenue. The CRL funds are dedicated to CRL plan projects within the CRL area. There is a timing difference between project expenses and CRL revenue generation. In each of the three levy areas, debt (referred to as CRL debt) is used to finance City-owned projects. Debt-servicing (principal and interest) associated with capital investment began immediately, before there was sufficient revenue generated to fully cover those costs. These annual shortfalls have resulted in a negative reserve position for each of the three CRL Reserves for a total deficit of $49.5 million in 2024 compared to $46.2 million in 2023.

These reserves will begin to be repaid when annual levy revenues start to exceed annual expenditures. The intent is for the reserves to be replenished over the life of the CRL (20 years from start date). If the reserve deficit is not repaid by the end of the term, funding from annual tax-levy is required until the deficit balance in the reserve is repaid. An annual update on the progress of the CRLs was presented to Council's Executive Committee on April 2, 2025. The annual update noted that the CRL reserves will all be in deficit positions at the end of the related CRL terms, therefore requiring ongoing tax-levy to offset the deficit balances existing in the reserves at the end of the CRL terms.

The **Interim Financing Reserve** is used to accommodate timing differences between operating impacts of capital projects and related external funding sources and differences that arise between the timing of cash outflows (budget) and recognition of expenses (accounting) to ensure that the City can levy taxes in a manner that matches the cash outflow. At the end of 2024, the reserve had a deficit balance of $33.4 million compared to a deficit of $34.8 million in 2023. The deficit will be repaid through external funding sources.

The **Brownfield Redevelopment Reserve** supports brownfield redevelopment, granting payments to qualified developers under the program to help finance costs related to environmental testing, remediation and/or exposure control in preparation for redevelopment. At the end of 2024, the reserve had a deficit balance of $0.9 million compared to a deficit of $2.0 million in 2023. The deficit will be recovered through future municipal tax uplift relating to the developer agreements.

The **Edmonton Police Service Reserve** was established to manage operational surpluses and deficits of the Edmonton Police Service over time. At the end of 2024, the reserve had a deficit balance of $0.6 million compared to a deficit of $1.1 million in 2023. In accordance with Policy C605 Edmonton Police Reserve, in the event the reserve falls into a deficit position, a strategy will be developed by EPS, to be approved by Council, to achieve a balanced position over a period not to exceed three years, starting with the subsequent year's operating budget. The reserve is forecasted to be at minimum in a balanced position by 2026 through anticipated operating transfers to the reserve.

Equity in Tangible Capital Assets

As summarized in Note 17 to the financial statements, equity in tangible capital assets represents the investment made in tangible capital assets, after deducting the portion financed by outstanding long-term debt, net of long-term debt for land redevelopment and debt recoverable. With an increase of $682.1 million for 2024, as a result of the net acquisition of tangible capital assets partially offset by net additional debt, the ending balance of equity in tangible capital assets for the year is $11,695.4 million.

Advances for Construction (capital to be financed)

At the end of 2024, $165.2 million of capital funding was in place in advance of incurring capital expenditures. The debt proceeds will be used early in 2025 to finance related project expenditures.

Obligations to be funded in future years

Obligations to be funded in future years ended at $143.4 million, a decrease of $5.4 million compared to last year. This balance represents an estimate of funding required for asset retirement obligations associated with retirement related abatement and monitoring costs of the City's buildings and equipment. The decrease year-over-year is mainly due to abatement work performed in 2024, partially offset by an increase in estimated costs for future asset retirement obligations. For further details, refer to Note 13 to the financial statements.

FINANCIAL OPERATIONS

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

Consolidated Statement of Operations

(millions of $)

	2024 Actual	2023 Actual	2022 Actual Restated	2021 Actual	2020 Actual
Operating Revenues	**$ 4,001.6**	$ 3,674.1	$ 3,433.8	$ 3,358.5	$ 3,170.6
Capital Revenues	**800.3**	762.5	633.5	527.1	717.4
Operating Expenses	**3,819.8**	3,658.7	3,426.0	3,093.5	3,023.5
Excess of Revenues over Expenses	**$ 982.1**	**$ 777.9**	**$ 641.3**	**$ 792.1**	**$ 864.5**

Consolidated revenues exceeded expenses for the year by $982.1 million after accounting for government transfers for capital, contributed tangible capital assets and developer and customer contributions for capital and local improvements.

Operating revenues increased 8.9 per cent from the prior year, with increases in revenue from property taxes, subsidiary operations - EPCOR, investment earnings, operating government transfers and licences and permits, partially offset by decreases in user fees and sales of goods and services. Capital revenues vary from year-to-year based on timing of capital projects and recognition of capital revenues to fund capital expenses. The largest increase was in capital government grants required to fund expenditures related to advancement in significant capital projects during 2024, including Valley Line West, Capital Line South Extension, Yellowhead Freeway Conversion, Terwillegar Drive Upgrade and 50 Street Grade Separation.

After relatively slow growth experienced in 2020-2021 when services were reduced in response to public health orders related to the pandemic, operating expenses have grown at a fast pace since 2021. Operating expenses over the past five years reflect the cost to maintain and improve existing infrastructure and core services that comes with a growing population, personnel increases for wage progression and cost of living adjustments, operating impacts related to new capital projects and prolonged periods of high inflation.

Significant year-over-year variances and variances from budget are discussed in the following sections. The operating budget is based on the original 2023-2026 operating budget approved by Council in December 2022, including the supplementary operating budget adjustment in the 2024 Spring Supplemental Budget Adjustment approved by Council on April 23, 2024. The capital budget line items are based on the 2023-2026 capital budget approved in December 2022. Budgets are approved on a modified cash basis and adjusted to conform with the Canadian Public Sector Accounting Standards for inclusion in the Consolidated Statement of Operations and Accumulated Surplus. A reconciliation between the budget approved by Council and the budget for financial statement purposes is provided in Note 33.

OPERATING REVENUES

Operating Revenues

(millions of $)

	2024 Budget (A)	**2024 Actual (B)**	Variance (B-A)	2023 Actual (C)	Variance (B-C)
Net taxes available for municipal purposes	$ 2,141.9	**$ 2,136.9**	$ (5.0)	$ 1,927.5	$ 209.4
User fees and sales of goods and services	631.0	**652.3**	21.3	713.0	(60.7)
Subsidiary operations - EPCOR	440.8	**426.5**	(14.3)	361.3	65.2
Franchise fees	216.8	**222.4**	5.6	206.8	15.6
Investment earnings	196.9	**201.7**	4.8	138.3	63.4
Government transfers - operating	140.8	**165.8**	25.0	140.3	25.5
Licences and permits	80.8	**94.0**	13.2	74.5	19.5
Fines and penalties	63.2	**69.2**	6.0	69.5	(0.3)
Developer and customer contributions - operating	34.9	**32.8**	(2.1)	42.9	(10.1)
Operating Revenues	**$ 3,947.1**	**$ 4,001.6**	**$ 54.5**	**$ 3,674.1**	**$ 327.5**

Comparison to Budget

Operating revenues were higher than budgeted by $54.5 million, or 1.4 per cent of the revenue budget, mainly due to higher than budgeted income from government transfers, user fees and sale of goods and services and licences and permits.

User fees and sales of goods and services were higher than budget due to expected recovery from the Regional Municipality of Wood Buffalo and Municipality of Jasper for wildfire assistance, as well as higher than expected demand at recreation and attraction facilities, special events and programs. Additionally, there were increased requests for EPS to perform information checks and extra duty policing. These favourable variances compared to budget were partially offset by decreased transit fare revenue due to changing purchasing behaviours and travel patterns, lower than budgeted land sales due to timing of sales and below market sales.

Government transfers - operating exceeded budget primarily due to greater than budgeted provincial grants. These include funding for 50 additional Edmonton Police Service (EPS) officers, the Guns and Gangs Violence Action Fund and the Alberta Transit System Cleanup Grant.

Licences and permits exceeded budget primarily driven by an increase in residential and non-residential development permits due to higher than expected building activity in the city. Higher than budgeted business licence revenues due to increased business licence activity during the year as well as a change in accounting treatment for this revenue stream due to the implementation of PS3400 *Revenue* also contributed to the exceeded budget. Business licence revenue is now recognized immediately whereas the budget assumes the revenue to be recognized over the period of the licence (typically two years). These favourable variances are partially offset by lower permit revenues due to less than expected permitting demands relating to On-Street Construction and Maintenance (OSCAM), regulated road use licences and agreements, other traffic controls fees for detours, developer signs and moving permits. Furthermore, development permits, land development application and lot grading revenues were previously recognized immediately upon receipt of payment, however, there is a performance obligation that takes place over a period of time. Due to adoption of PS3400 Revenue starting in 2024, these revenue streams are recognized as deferred revenue and recognized into revenue over the term of the performance obligation, resulting in less-than-budgeted revenues for these revenue streams.

Comparison to Prior Year

Overall, operating revenues were higher when compared to last year by $327.5 million, due to increases in revenue from property taxes, subsidiary operations - EPCOR, investment earnings, government transfers and licences and permits. These increases were partially offset by a decrease in user fees and sales of goods and services.

Net taxes available for municipal purposes increased from the prior year mainly due Council approving a 8.9 per cent tax increase for 2024. As well, property taxes increased due to assessment growth (the growth that occurs through new construction, upzoning, subdivision or exemption changes).

User fees and sales of goods and services decreased compared to the previous year, principally due to significantly higher land sales in the prior year, a revenue source that fluctuates considerably. This was partially offset by increased waste collection fees, as a result of customer growth and rate increases, higher transit fare revenue as ridership surpassed pre-pandemic levels and increased membership and admission revenues at the recreation facilities and other city attractions due to increased attendance.

Subsidiary operations (EPCOR) increased from the prior year due to favourable changes in the fair market value of financial electricity purchase contracts in Energy Services and higher Water Services revenue as a result of higher rates, consumption and customer growth. This increase was partially offset by higher amortization due to additional assets placed in service and losses on disposal from asset retirements.

Investment earnings increased compared to the prior year as a result of gains realized in 2024 on the sale of a portion of its global and U.S. equity holdings undertaken as part of the City's annual rebalancing exercise. This rebalancing brought asset classes back closer to investment policy targets.

Government transfers - operating increased primarily due to increased federal and provincial grants. These include funding for 50 additional Edmonton Police Service (EPS) officers, Alberta Transit System Cleanup Grant and additional revenue received for the 2 Billion Trees Program.

Licences and permits increase was primarily driven by a surge in residential and non-residential development permits due to increased building activity compared to prior year. Additionally, business licence revenue rose due to the biennial renewal cycle with many licences coming up for renewal in 2024.

CAPITAL REVENUES

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

Capital Revenues

(millions of $)

	2024 Budget (A)	**2024 Actual (B)**	Variance (B-A)	2023 Actual (C)	Variance (B-C)
Government transfers - capital	$ 1,404.5	**$ 701.5**	$ (703.0)	$ 643.9	$ 57.6
Contributed tangible capital assets	119.3	**61.6**	(57.7)	80.6	(19.0)
Developer and customer contributions - capital	83.1	**30.2**	(52.9)	24.9	5.3
Local improvements	11.6	**7.0**	(4.6)	13.1	(6.1)
Capital Revenues	**$ 1,618.5**	**$ 800.3**	**$ (818.2)**	**$ 762.5**	**$ 37.8**

Comparison to Budget

Capital revenues of $800.3 million were $818.2 million lower than budget due to less than expected capital government transfers, contributed tangible capital assets, and developer and customer contributions.

Government transfers - capital were lower than budget by $703.0 million due to timing of LRT projects (Metro Line, Century Line and Valley Line West) and recognition of the Investing Canada Infrastructure Program (ICIP) grant used to fund a portion of the LRT projects. The Century Line LRT project completed the design phase and construction preparation work is underway. The Metro Line has been completed however there are six Light-Rail Vehicles (LRV) to be procured. The Valley Line West reached 35 per cent completion and will also include the procurement of LRV’s. Grant eligible spending related to Yellowhead Freeway Conversion projects, which are funded through the Building Canada Fund program, occurred at a slower rate than originally planned with expected completion now in 2027.

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

Developer and customer contributions were lower than budgeted largely due to the timing of capital expenditures that are partner or developer funded, including Imagine Jasper Avenue, renewal of parks and district energy sharing systems.

Comparison to Prior Year

Capital revenues were higher than 2023 by $37.8 million mainly due to increases in government transfers partly offset by lower contributed tangible capital assets.

Government transfers - capital revenues increased due to an overall increase in capital activity in 2024 across numerous capital projects including LRT construction on Valley Line West and the extension of the Capital Line South. This was partially offset by decreased activity on the Metro Line as the majority of the work on this capital project was completed in 2023. Additionally, a significant portion of the Yellowhead Freeway Conversion project is now complete with completion of the one remaining section expected in 2027.

Contributed tangible capital assets were lower than prior year due to a decrease in developer contributed infrastructure assets such as roads, sidewalks and streetlights for new neighbourhoods constructed, partially offset by an increase related to the contribution of the Citadel Theatre building in 2024.

OPERATING EXPENSES

Operating Expenses by Function

(millions of $)

	2024 Budget (A)	**2024 Actual (B)**	Variance (A-B)	2023 Actual (C)	Variance (B-C)
Transportation services	$ 1,153.8	**$ 1,114.0**	$ 39.8	$ 1,038.7	$ 75.3
Protective services	890.0	**909.2**	(19.2)	846.1	63.1
Community services	882.0	**839.8**	42.2	803.9	35.9
Waste Services Utility	228.3	**236.9**	(8.6)	213.6	23.3
Land Enterprise	52.0	**30.4**	21.6	63.4	(33.0)
Blatchford Renewable Energy Utility	3.5	**3.2**	0.3	2.1	1.1
Fleet services	31.9	**43.2**	(11.3)	41.9	1.3
Corporate administration, general municipal and other	630.0	**643.1**	(13.1)	649.0	(5.9)
Operating Expenses	**$ 3,871.5**	**$ 3,819.8**	**$ 51.7**	**$ 3,658.7**	**$ 161.1**

Comparison to Budget

Operating expenses of $3,819.8 million were lower than budget by $51.7 million, or 1.3 per cent of the consolidated expenses budget.

Transportation services expenses were lower than budget due to reduced amortization, primarily resulting from slower than expected construction progress, specifically related to Yellowhead Trail and Terwillegar Drive assets. This reduction was partially offset by higher than budgeted costs related to a change in accounting treatment as a result of the new accounting standard PS 3160 Public Private Partnerships. Beginning in 2024, payments for the Valley Line Southeast P3 are recognized equally across the agreement's duration, unlike the budget which uses fluctuating scheduled payments. The LRT Reserve handles the discrepancy between these amounts. There were also increased personnel costs in transit resulting from higher wages, overtime and benefits, and higher fuel, material and contract costs driven by inflation and increased vandalism. Additionally, snow and ice control expenses were higher than budget due to significant snowfall events in late 2024.

Protective services expenses, including Fire Rescue Services, exceeded budget primarily due to $11.6 million in Alberta Wildfire support provided to the Regional Municipality of Wood Buffalo and the Municipality of Jasper, with cost recovery anticipated from these jurisdictions. Additionally, increased personnel costs, mainly due to higher benefit and WCB premiums, contributed to this overage.

Community services experienced less than budgeted costs due to grant and rebate program delays resulting from slower than expected program uptake and progress on projects. The project delays were due to supply chain issues and general construction delays resulting in project milestones not being met. Public housing grant payments were also lower due to delayed third-party commitments, primarily for the Affordable Housing Investment Program, related to ongoing construction delays. These were partially offset by higher-than-budgeted recreation facility costs, driven by unexpectedly higher demand for recreation, attraction facilities, programs and special events.

Land Enterprise costs of sales were lower than budget due to timing of land sales within the budget cycle.

Fleet services expenses exceeded budget primarily due to increased amortization resulting from full year amortization on prior year's significant vehicle purchases, as well as higher costs due to parts and fuel inflation.

Corporate administration, general municipal and other expenses were higher than budget due to increased tax losses. These losses resulted from a change in the tax exemption status of certain properties that were previously taxable and higher than anticipated tax appeals due to the 2024 tax increase of 8.9 per cent.

Comparison to Prior Year

In 2024, operating expenses increased by $161.1 million over the prior year mainly due to increased expenditures in Transportation services, Protective services, Community services, and Waste services utility. These increases were partially offset by lower costs incurred by Land Enterprise in 2024 compared to 2023.

Transportation services costs increased from the previous year, primarily due to the Valley Line Southeast LRT's first full year of operations, higher wages for Amalgamated Transit Union under collective bargaining agreements and higher personnel costs in transit related to increased overtime. Increased fuel, material and contract costs due to inflation also contributed to these overages. Snow and ice control expenses were higher in response to significant snowfall events in late 2024 that resulted in increased contractor callouts and higher contractor prices driven by inflation. Additionally, amortization increased due to higher capitalization of transportation related assets including significant ongoing LRT construction, the Yellowhead Trail Freeway Conversion, the Terwillegar Drive Expressway and neighbourhood road renewal. These increases were partially offset by lower disposals related to roadway asset retirements for neighbourhood and arterial road construction compared to last year.

Protective Services experienced higher costs as result of increased wages for Edmonton Police Association and Senior Officer Association under collective bargaining agreements, higher benefit and WCB premiums. Additionally, there was increased operating costs due to inflation and to support expanded policing, driven by population growth.

Community services costs rose compared to the previous year due to increased demand for recreation facilities and special events, leading to higher personnel, material and contract expenses. Higher wages for unionized staff under collective bargaining agreements and general inflation further contributed to these increases. Forestry work under the Federal 2 Billion Trees Commitment program and higher grant payments for the Community Safety and Well-Being initiative also increased costs.

Waste Services Utility saw increased costs due to higher wages as a result of collective bargaining agreements, as well as higher contract costs from increased landfill disposal fees and an increase in contract and tipping fees resulting from the Material Recovery Facility closure.

Land Enterprise costs were lower than the previous year as a result of timing of land sales, as well as a significant land sale in the previous year.

Operating Expenses by Object

(millions of $)

	2024 Actual (A)	2023 Actual (B)	Variance (A-B)
Salaries, wages and benefits	**$ 1,885.0**	$ 1,790.7	$ 94.3
Materials, goods and utilities	**378.7**	398.5	(19.8)
Contracted and general services	**524.9**	426.0	98.9
Interest and bank charges	**164.4**	171.9	(7.5)
Grants and other	**151.5**	146.0	5.5
Amortization of tangible capital assets	**686.6**	661.0	25.6
Loss on disposal, impairment and transfer of tangible capital assets	**28.7**	64.6	(35.9)
Operating Expenses	**$ 3,819.8**	**$ 3,658.7**	**$ 161.1**

The operating expense increase of $161.1 million compared to prior year was largely due to higher salaries, wages and benefits, contracted and general services and amortization of tangible capital assets. This is partially offset with lower loss on disposal, impairment and transfer of tangible capital assets and a reduction in materials, goods and utilities.

Salaries, wages and benefits increased mainly due to higher salaries under collective bargaining agreements, increased benefit and WCB premiums and higher demand for services causing the need for additional staff at recreation facilities. There was also increased overtime in Edmonton Transit Services, Community Recreation and Culture and Fire Rescue Services in order to maintain services.

Materials, goods and utilities decreased primarily due to reduced land sales and lower renewable energy purchases. This decrease was partially offset by increased transportation costs related to the first full year of Valley Line Southeast LRT operations, higher snow and ice control costs due to significant snowfall events in late 2024 and general cost increases due to inflation.

Contracted and general services costs increased from the previous year, primarily due to the Valley Line Southeast LRT's first full year of operations, increased demand for recreation facilities and special events and higher overall contracting costs driven by inflation. Additionally, snow and ice control expenses increased due to significant snowfall events in late 2024, increased contractor callouts and higher contractor prices driven by inflation, while Waste Services expenses rose due to increased contract and tipping fees resulting from the Materials Recovery Facility closure.

Amortization of tangible capital assets was higher than the previous year because more assets were capitalized, including ongoing major projects like the LRT construction, Yellowhead Trail Freeway Conversion, the Terwillegar Drive Expressway and neighbourhood road renewal. This also includes additional assets placed in service related to Open Space Renewal and the rehabilitation and replacement of the bus fleet and equipment.

Loss on disposal, impairment and transfer of tangible capital assets decreased from the prior year primarily due to lower disposal on roadway asset retirements for neighbourhood and arterial road construction and fewer transfers of contributed assets.

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

NEW ACCOUNTING STANDARDS

Effective January 1, 2024, the City adopted the new requirements in PS3400, *Revenue* and PSG-8, *Purchased Intangibles*. These requirements were adopted on a prospective basis with no adjustments made to comparative figures.

- PS3400 provides a framework for recognizing, measuring and reporting revenue for specific types of revenue by differentiating between revenue that arises from transactions that include performance obligations and transactions that do not have performance obligations. Performance obligations are enforceable promises to provide specific goods or services to a specific payor. This standard applies to certain revenue streams of the City such as user fees, sales of goods and services, franchise fees, licences and permits, and fines and penalties. The adoption of this standard resulted in expanded accounting policy disclosures in the City's financial statements. To conform to the new standard, on January 1, 2024, the City's financial results were impacted by increasing deferred revenue by $1,047.0 and decreasing revenue by $1,047.0.
- PSG-8 allows for purchased intangible assets to be recognized as assets in a public sector entity's financial statements. The adoption of this standard did not have an impact on the City's financial results.

Effective January 1, 2024, the City adopted the new requirements in PS3160, *Public Private Partnerships*, using a retroactive approach without restatement of comparative figures. PS 3160 establishes standards on accounting for partnerships between public and private sector entities where the public sector entity procures infrastructure using a private sector partner. The adoption of this standard resulted in additional disclosures regarding private partnership arrangements in the City's financial statements.

Further information regarding these new accounting standards are detailed in Note 1s in the City's financial statements.

FINANCIAL CONTROL AND ACCOUNTABILITY

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

FISCAL POLICIES

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

City Policy, C217F, Reserve and Equity Accounts. This policy outlines the governance, accountability, administration, monitoring and reporting of all City reserves and equity accounts. The City has policies in place for various reserves, including the Financial Stabilization Reserve, Traffic Safety and Automated Enforcement Reserve, Edmonton Police Services Reserve and Planning and Development Reserve, that ensure sufficient funds are in place to satisfy the financial needs of the operations being supported by the reserve.

City Policy, C629A, Financial Stabilization Reserve. This policy outlines the governance, administration and reporting of the appropriated and unappropriated Financial Stabilization Reserve (FSR). The appropriated FSR balance is designated for specific purposes, including operating and capital projects, as approved by Council. The purpose of the unappropriated FSR balance is to manage one-time unexpected emergent financial needs and should not be used to address ongoing pressures or to mitigate tax-levy increases. Every three years, Administration performs a risk based review of the unappropriated FSR adjusting the minimum balance if required. The results of the review are submitted to Council for approval, if necessary. A review was completed in 2024 and the next scheduled review will be carried out in 2027. Currently, the unappropriated FSR has a minimum balance of 5.0 per cent and a target balance of 8.3 per cent of current tax-supported operating expenses.

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

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

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

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

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

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

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

Council’s Waste Management Utility Fiscal Policy, C558C governs the financial relationship between the City and the municipally owned and operated utility. This policy requires the utility to operate in a manner that balances the best service at the lowest cost while employing private sector approaches to rate setting. The utility is required to charge rates that are sufficient to meet expenditures and cash flow requirements, repay capital debt and ensure financial sustainability.

City Policy C578A, Multi-year Budgeting Policy. This policy enshrines the use of a multi-year budget cycle for budgeting operating and capital programs, unless otherwise directed by Council, with the end of the term of this four-year budget to be coincidental with the calendar year-end of the year after the year in which a new Council is elected. The purpose of this policy is to establish guidelines and the approach for the planning and approval of multi-year budgets to ensure greater certainty for future expenditures and revenue increases, and the related impact on future tax increases.

City Policy C597B, The Blatchford District Energy Utility Fiscal Policy. The purpose of the policy is to ensure the Blatchford Renewable Energy Utility is operated in a manner that reflects Council's overall vision and philosophical objectives, ensures there is a consistent approach year-over-year for financial planning, budgeting and rate setting for the City managed Utility, and that the Utility is financially sustainable over the long-term. Bylaw 17943, which established the Blatchford Renewable Energy Utility, regulates connections between building mechanical systems and the District Energy System (DES), access to the DES and to prevent damage or misuse of the DES. It also determines fees and charges related to the DES.

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

REGULATORY

EPCOR water and wastewater treatment rates are approved through Performance Based Regulation (PBR) Plans which set these rates for the term of the PBR. The PBR framework and annual PBR progress reports allow Council to have oversight and governance over water, wastewater treatment and drainage rates over a longer term and provide incentives to ensure that EPCOR operates more efficiently while providing appropriate service levels. Bylaw 19626 sets the rates for water services charged by EPCOR for the period April 1, 2022 to March 31, 2027. Bylaw 20865 sets the rates for wastewater services charged by EPCOR for the period April 1, 2025 to December 31, 2027.

STRATEGIC PLANNING

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

ConnectEdmonton and The City Plan

The City's long-term goals are outlined in two documents: ConnectEdmonton sets the direction for the future and identifies where changes are required. ConnectEdmonton is based on an aspirational vision for Edmonton in 2050 and focuses on four strategic goals for 2019-2028 that require transformational change: Healthy City, Urban Places, Regional Prosperity and Climate Resilience.

[The City Plan] combines a Municipal Development Plan and Transportation Master Plan and includes direction for environmental planning, social planning and economic development to prepare for a city of two million Edmontonians.

The Corporate Business Plan and Budgets

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

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

Enterprise Performance

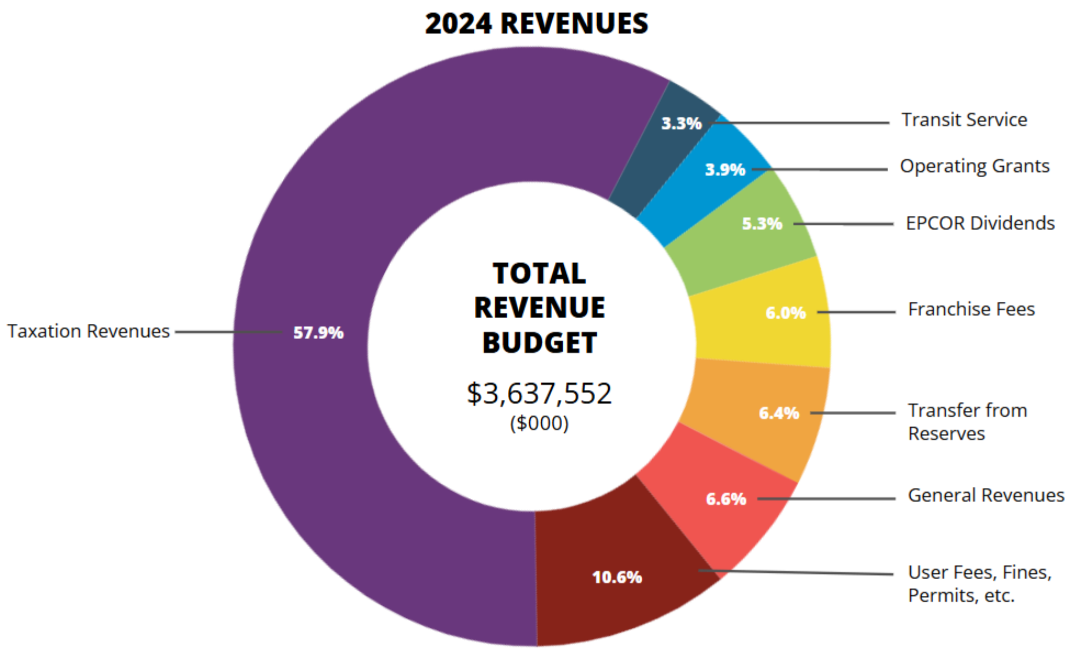
Enterprise Performance Management (EPM) is an approach that helps the City manage its work and continuously improve performance to achieve the results that Edmontonians care about. When Council approved the Enterprise Performance Policy on May 8, 2018, it set the foundation for managing performance for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

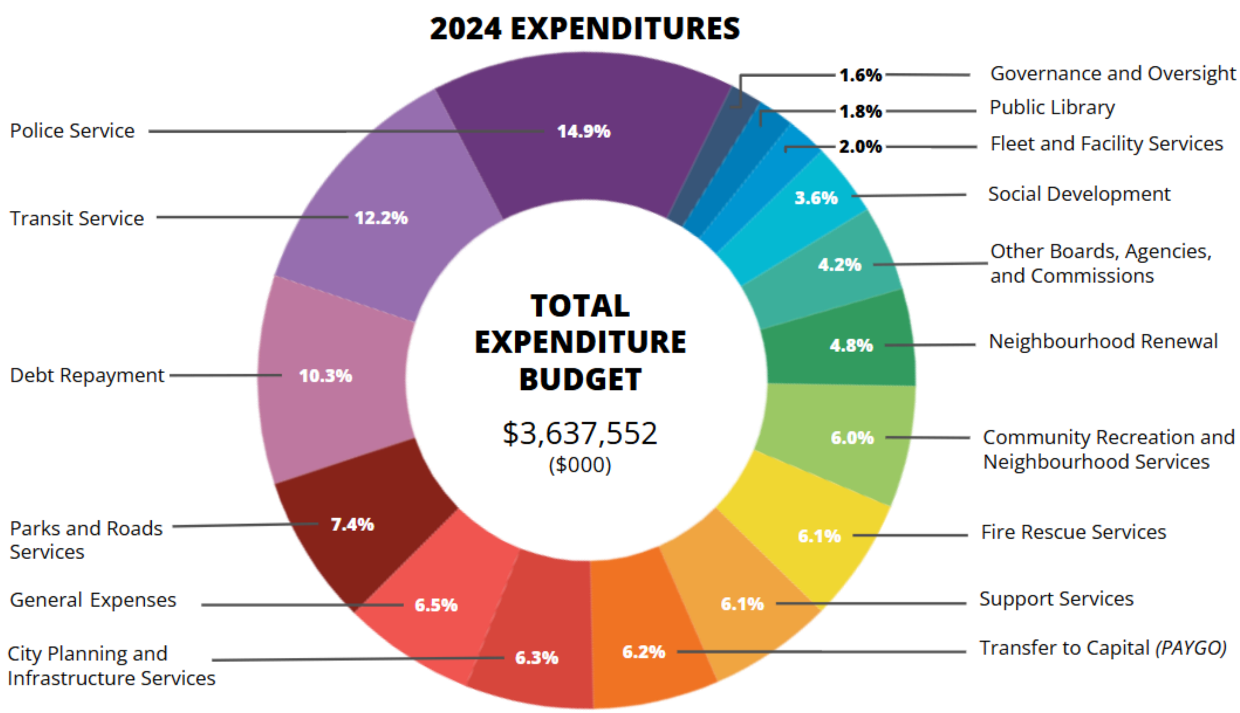
BUDGETING

Guided by Edmonton's strategic plans ConnectEdmonton and the City Plan, the 2023-2026 Operating and Capital Budgets assist Council in making strategic decisions about how to allocate City resources. This multi-year approach, governed by City Policy C578A, Multi-year Budgeting, allows the City to align strategic plans, business plans and operating and capital budgets, to ensure the dollars are spent to achieve Council's vision. It also allows for better alignment with Council's election terms, providing the foundation for more informed and strategic financial decision-making. Funding can be reallocated across different years of the budget and needs can be assessed over a longer term to allow for more prudent and informed financial decision-making, while building stable program and service delivery and infrastructure development.

The multi-year process includes opportunities to adjust the budget through a supplemental budget adjustment process approved by Council. During the supplemental budget adjustment process, Council can adjust the capital and operating budgets in response to changing project needs, new funding opportunities, changes in federal and provincial budgets, changes imposed by legislation, Council directed changes in priorities, operating impacts of capital projects, unforeseen impacts to economic forecasts and emerging issues. In December 2022, Council approved the original 2023-2026 operating and capital budgets. In April 2024, Council finalized the 2024 budget through the spring supplemental operating budget adjustment process.

The operating budget identifies how resources for the day-to-day costs required to run the City are allocated for services such as maintaining roads and public transit, police, bylaws and fire rescue services, as well as parks and waste services. The approved budget resulted in an 8.9 per cent general property tax increase in 2024. The chart below shows the City's total revenue budget by category followed by a further breakdown of the total tax supported expenditure budget that is spent on each major expense category:





Certain Expenditure Budget groupings consist of multiple departments:

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

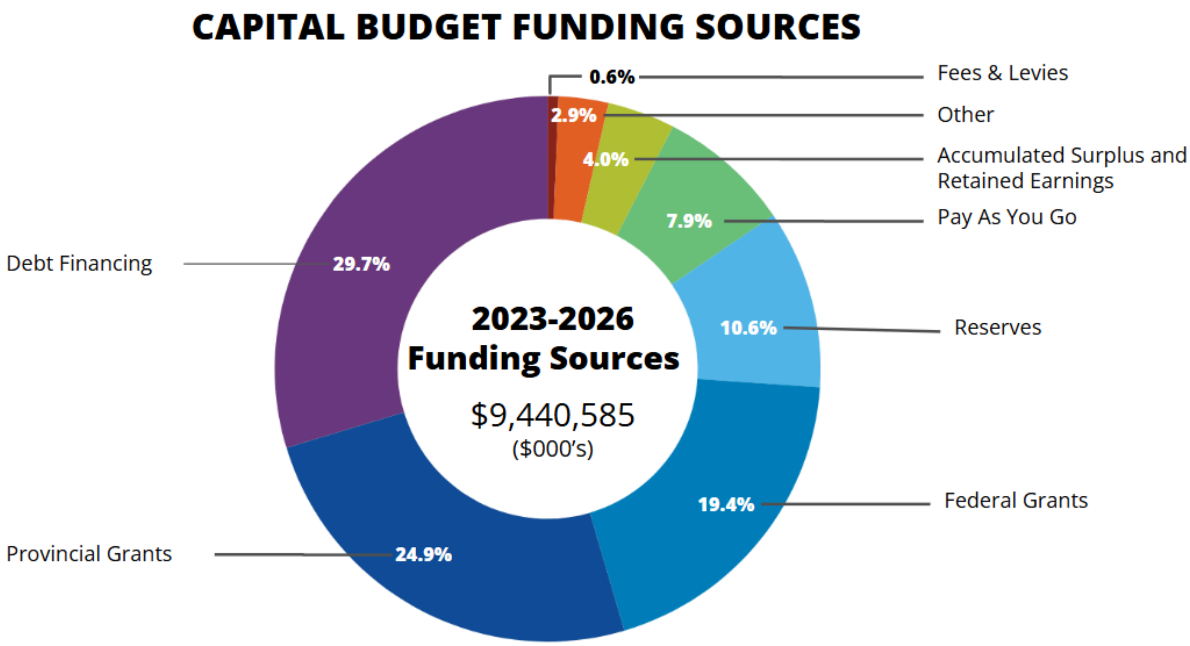
The Bylaw to establish the 2025 municipal tax rate for all property types will be set by Council in April 2025. Changes to the operating budget that will impact the tax levy will be completed prior to the taxation bylaw approval.

As a part of the 2023-2026 budget deliberations, Council directed the removal of $60.0 million and the reallocation of $240.0 million towards housing, climate change, public transit and core services between 2023-2026. This was implemented through a seven-stream project, which included a review of past work, organizational structure changes and an idea generation process. The $60.0 million reduction has been achieved, and in 2024 the $240.0 million reallocation options were identified for Council. The work now continues as part of ongoing continuous improvement and addressing structural budget issues.

During 2024, Council also began discussions on implementation of action plans to address structural budget variances, which are defined as recurring deficits or surpluses that can be attributed to an event or circumstance that fundamentally changes business operations. Recurring budget shortfalls left unaddressed could erode the long term financial sustainability of the City. These structural budget variances include inflationary pressures, revenue shortfalls, external factors impacting city operations, as well as previous decisions that were insufficiently funded. Addressing these structural budget variances requires an approach to resolve their systemic impact, as they are not temporary or timing-related discrepancies that will balance over time. Instead, they require analysis to identify and address their root cause. In the fall of 2024, City Council was presented with an action plan to resolve each structural budget variance. These action plans specify the steps and timeline for identifying the root cause, identifying solutions with the intention of resolving the budget issues through the next three supplemental operating budget adjustment processes. In many cases, actions to remedy the budget will take time to implement. Administration's focus is on aligning actual expenditures with the budget once identified solutions are implemented. Administration is conducting a variety of actions to remedy the budget variances including initiating program reviews, completing cost of service studies, exploring methods to increase revenues and examining service delivery options. The length of time to implement action plans and realize the expenditure reductions will vary, with some implementation taking two to three years.

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

The four-year capital budget saw investments of $11.0 billion on infrastructure based on the approved capital budget with cash flows extending beyond 2026, with $9.4 billion falling within the four-year budget cycle. Capital requirements directly related to EPCOR are not included in the capital budget. The funding and financing sources are as follows:



ACCOUNTING AND FINANCIAL REPORTING

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

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

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

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

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

RECOGNITION FOR ACHIEVEMENT

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

For the 31st consecutive year, the Government Finance Officers Association (GFOA) of the United States and Canada awarded a Canadian Award for Financial Reporting to the City of Edmonton for its annual financial report for the fiscal year-ended December 31, 2023. The Canadian Award for Financial Reporting program was established to encourage Canadian municipal governments to publish high quality financial reports and to provide peer recognition and technical guidance for officials preparing these reports. To receive a Canadian Award for Financial Reporting, a government unit must publish an easily readable and efficiently organized annual financial report that conforms to program standards. Such reports should go beyond the minimum requirements of public sector accounting standards and demonstrate an effort to clearly communicate the municipal government's financial picture, enhance an understanding of financial reporting by municipal governments and address user needs.

The GFOA established the Popular Annual Financial Reporting Awards Program to recognize local governments that produce high quality summarized annual financial reports. The reports must be readily accessible and easily understandable to the general public and other interested parties without a background in public finance. The City received the Popular Annual Financial Reporting Award for the 2023 Financial Report to Residents for the tenth consecutive year.

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

AUDITING PROCESS

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

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

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

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

LONG-TERM SUSTAINABILITY

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

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

The City's top risks to achieving the City's strategic goals currently are focused on economic prosperity, financial constraints, environment and climate change impacts, infrastructure and technology and the public sphere.

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

ECONOMIC RISKS

Another year of record population growth combined with improving financial conditions (e.g. stabilizing consumer inflation, falling interest rates) supported further economic expansion in Edmonton and the census metropolitan area (CMA) in 2024, with activity peaking towards the end of the year. Edmonton CMA labour market conditions eased in 2024 as it struggled to absorb the influx of new job seekers as well as it did in 2023. As a result, the annual unemployment rate in 2024 averaged 7.5 per cent, an increase from 6.1 per cent in 2023.

Major developments since fall 2024 have raised the level of uncertainty surrounding economic outlooks for Edmonton and the CMA in 2025. These developments include changes to federal immigration policies that reduce permanent resident admission targets and the temporary resident share of the national population. These changes are anticipated to slow population growth starting in 2025, which will weigh on overall economic growth. There are also threats of U.S. tariffs and Canadian retaliatory measures that, if imposed, could be highly disruptive to the economy, potentially affecting variables including spending, trade flows, employment, prices and gross domestic product. The longer the tariffs are in place, the greater the disruption. The USD-CAD exchange rate has already been affected by the looming threat of U.S. tariffs, leading to higher costs for transactions in U.S. dollars.

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

The City's new four-year budget cycle started in 2023. During the previous cycle, tax increases were kept low, including one year with a tax decrease. While this was necessary to support Edmontonians through the pandemic, it was not enough to cover inflationary pressures, including from a growing population. Council approved an 8.9 per cent tax increase in 2024. The 2024-2026 budget is focused on making investments and creating equity in Edmonton. This increase will allow the City to maintain and continue to improve core public services while also carrying out previous commitments and transformational projects, allowing the City to be able to manage its capital plan for 2024.

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

ASSET RENEWAL INVESTMENT

The City of Edmonton owns an inventory of assets with a combined replacement value of over $37 billion, which includes facilities, roads, open spaces, vehicles, technology and equipment. These assets support the delivery of 70 services to Edmontonians, such as public transit, recreation, police, fire rescue services and transportation services. The most recent asset condition report indicates 56.6 per cent of City assets are in very good/good condition, 32.9 per cent are in fair condition and 10.5 per cent are in poor or very poor condition.

While the capital budget makes the most of available funding, the current level of funding is not sufficient to maintain the City's inventory of assets. Continued underinvestment in renewal will impact the condition of the City's assets and could shorten asset lifespans, cause service disruptions and create more urgent maintenance needs later on and potentially impact the City's long term financial sustainability.

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 presented to Council in June 2022 identified a $4.8 billion infrastructure gap, with an ideal 10-year renewal investment of $10.0 billion compared to a forecasted $5.2 billion. Currently, 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, in December 2024 Council endorsed a strategy (subsequently approved in March 2025) to establish a dedicated capital renewal fund to supplement existing renewal funding with the goal of narrowing the overall funding gap. The capital renewal fund will fund the renewal of all City-owned assets not covered by other dedicated funding sources, such as the Neighbourhood Renewal Reserve or Fleet Reserve. The new dedicated capital renewal fund will be funded through successive tax increases starting at 0.75 per cent from 2030 to 2032 and 1.0 per cent starting in 2033 and beyond until target renewal funding levels are achieved.

Administration continues to monitor the state and condition of its assets and prioritizes investment in assets with the most critical need for investment. The City is using an Asset Rationalization Framework to evaluate facility assets that are approaching major lifecycle events, such as major renewals or end of life. With this methodology, an assessment can be made of the asset's value and the full implications of keeping, redeveloping, or disposing of the asset. This will enable the City to right size its asset base by investing in and maintaining assets that support service delivery and make the most of the available budget. Additionally, Administration is pursuing other avenues to address the shortfall of renewal investment funding, including setting up dedicated funding sources, and recommending priority for capital investment to be made in renewal before growth.

INTERGOVERNMENTAL CONTEXT

The City of Edmonton is committed to partnerships with the federal and provincial governments to achieve a shared vision of a safe, prosperous, vibrant and climate-resilient city. These partnerships are especially important in areas that have traditionally been the primary responsibility of higher orders of government, such as affordable housing. Edmonton's location as the centre of the region, as well as a service hub and a gateway to the north presents unique challenges, as social and public health issues tend to concentrate in Edmonton. Consequently, the City bears a disproportionate fiscal burden, and needs support from other orders of government to help address these complex social issues which originate across Alberta and Canada more broadly. While the role of municipalities has expanded significantly over the last few decades, the fiscal and legislative framework in which municipalities operate does not fully reflect this changing reality.

In recent years, the City has also experienced a number of pressures on fiscal sustainability, including reduced provincial capital funding levels, magnified by inflation and increased labour costs and 50 per cent reductions to provincial Grants in Place of Taxes (GIPOT) payments introduced in 2019, which removed a cumulative total of $80 million from the City's budget from 2019 through to 2024. In budget 2025, the provincial government partially reversed GIPOT reductions, announcing an increase from 50 to 75 per cent of the eligible tax amount in 2025 and committing to restore GIPOT back to 100 per cent in 2026. While the increase is phased and does not include retroactive payments, it is expected to have a positive impact on the City's fiscal situation.

Like many other Alberta municipalities, Edmonton experienced declining per capita levels of unconstrained capital funding in recent years.[1] At the same time, provincial and federal constrained capital funding programs (i.e. project-specific funding) have been at historical highs in recent years. This has presented the City with unique fiscal challenges, where funding has been available for large growth capital projects, such as LRT expansion and Yellowhead Trail Freeway Conversion, while unconstrained funding commonly-applied toward infrastructure renewal has not been sufficient. While the City appreciates the predictability of the Local Government Fiscal Framework (LGFF), which replaced the Municipal Sustainability Initiative in 2024, the current level of unconstrained capital funding from LGFF is not sufficient to meet Edmonton's renewal needs. To address these needs, the City will continue advocating for increased unconstrained funding from federal and provincial governments and/or development of new grant programs dedicated to municipal infrastructure maintenance and renewal.

The City also faces a number of emerging challenges in its relations with higher orders of government that are likely to impact the City's finances going forward. For instance, the implementation of Bill 18: *Provincial Priorities Act,* which came into effect on April 1, 2025, could place additional constraints on the City's ability to access federal funding. In addition, the dissolution of the Edmonton Metropolitan Region Board (EMRB) following the withdrawal of provincial funding can mean potential loss of cost savings for the City and the region from the joint regional planning that the EMRB provided and which may no longer be available going forward. The upcoming 2025 federal election may bring changes to federal policy priorities and the way the federal government approaches its relationships with municipalities. Finally, U.S. tariffs and Canadian countermeasures introduce an additional element of uncertainty into relationships between different orders of government, potentially resulting in fiscal and policy impacts that are currently difficult to predict.

In addition, the federal election presents an opportunity to spread awareness to candidates running in the Edmonton area about the City's needs. There are also opportunities for stronger alignment and collaboration with other municipalities that face similar issues and share Edmonton's advocacy priorities. While U.S. tariffs are a major disruptive factor, they also open an opportunity for all orders of government in Canada to work together in collaboration with community stakeholders to reduce barriers to interprovincial trade, support local production and find new markets. The City will continue to leverage these opportunities to engage with higher orders of government to advocate for modernized fiscal frameworks and funding arrangements that consider Edmonton's growing needs and greater responsibilities as a modern and fast-growing city.

[1] Provincial unconstrained grant funding per capita, reflected in inflation-adjusted terms. Provincial unconstrained capital funding includes Municipal Sustainability Initiative (MSI) and Local Government Fiscal Framework (LGFF). MSI concluded in 2023, and was replaced with the LGFF beginning in 2024.

FINANCIAL SUSTAINABILITY

During 2024, Council was presented with a report discussing the City of Edmonton's fiscal gap and challenges, Fiscal Gap: An Assessment of Factors Contributing to the City of Edmonton's Operating and Capital Funding Shortfalls.[2] The fiscal gap report outlined the significant fiscal challenges facing the City. The core issue is a growing fiscal gap, defined as the persistent shortfall between the City's revenue-raising capacity and its expenditure needs on both operating and capital fronts. This gap is driven by a confluence of factors, including limitations in revenue generation (e.g. over-reliance on property tax, declining non-tax revenues), infrastructure funding challenges (e.g. reliance on provincial and federal transfers for capital projects, lack of funding certainty, risk of budget cuts at higher levels of government), a lagging non-residential tax base, increasing expenditure pressures (e.g. population growth, inflation, unique policing needs, expansive strategic goals) and approaching debt servicing limits. If unaddressed, this fiscal gap threatens service levels, infrastructure integrity, the advancement of strategic objectives and could lead to substantial tax increases. While some contributing factors are external, the report emphasized the need for the City to proactively implement strategies within its control to narrow this gap, focusing on revenue growth and expenditure reduction.

The report outlined several broad strategies the City needs to pursue to address the fiscal gap which include growing the non-residential tax base, increasing non-tax revenues, balancing new infrastructure with renewal needs, exploring funding mechanisms for the renewal deficit, divesting underutilized assets, prioritizing renewal spending and core services, advocating for modernized fiscal frameworks and increased funding, negotiating intergovernmental service delivery, prioritizing strategic goals and reviewing policy requirements.

The City faces a significant and multifaceted fiscal gap that demands urgent attention and strategic action. Addressing this challenge requires a comprehensive approach involving both revenue enhancement and expenditure management, as well as strong advocacy efforts with other levels of government. The fiscal gaps report emphasizes that while some contributing factors are external, the City has considerable scope to influence the fiscal gap through informed decision-making and proactive implementation of the outlined strategies. Failure to address this gap will have detrimental consequences for the quality of life of Edmontonians and the long-term financial sustainability of the City.

The City's fiscal gap report is available on the City's website (Financial Sustainability: Addressing Budget and Growth Challenges) and provides a more comprehensive discussion of the City's risks and financial long-term sustainability. A work plan to address the challenges and implement the solutions raised in the fiscal gap report was presented to Council in February 2025.

[2] October 9, 2024 Executive Committee meeting, Report FCS02218 Capital and Operating Funding Shortfall Analysis, Attachment 1

MANAGING OTHER RISKS

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

- Climate and environmental risks are significant for the City, potentially affecting City assets, finance and services. These risks include the impacts of a changing climate, such as extreme weather events and rising temperatures, as well as operational risks like failing to meet environmental regulations or experiencing environmental releases. Council's Climate Resilience Policy C627 and the City's Climate Strategies focus on both reducing greenhouse gas emissions and adapting to a changing climate. Additionally, the City maintains an ISO 14001 registered Environmental Management System to manage environmental aspects of the City's operations and uphold environmental commitments identified in Environmental Management System Policy C505 and in the City's Environmental Policy C512.
- The corporate Insurance and Claims Management area provides risk management advice, claims adjusting, purchase of insurance and risk control inspections.
- Ongoing proactive analysis of the physical, contractual and insurance risks associated with capital projects or major initiatives and establishment of appropriate measures to identify and control project risk. The intention of City Policy C591, Capital Project Governance Policy, is to ensure that an appropriate level of development is completed on projects prior to them moving onto the delivery phase. This risk management process helps to ensure that key projects are completed safely, on time, on budget, on quality and in scope. In 2023, an external review was undertaken to assess and compare the policies, processes and frameworks employed by the City to manage major capital projects. The review concluded that the City has an established major capital infrastructure project management framework that is aligned with industry best practices.
- Hedges are purchased for future fuel purchases in order to stabilize operating budgets in the face of fuel price fluctuations. Similarly, forward currency contracts are used to mitigate foreign exchange risk within the City's capital purchases.
- The City has a Financial Stabilization Reserve that may be used to address emergent needs without impacting the City's financial position in the long-term. A financial risk based review was completed for the City in 2024, identifying potential risks faced by the City and the probable financial cost of each risk. The review substantiated the minimum and target balances of the reserve established through City policy. The next review will take place in 2027.
- The City's Debt Management Fiscal Policy, C203D provides for prudent management of debt and ensures debt is used responsibly without burdening the financial health and long-term sustainability of the City. Administration continues to monitor the use of debt and provide debt forecasts as part of ongoing reporting to Council.
- The City continues to leverage data analytics in order to discover and communicate meaningful patterns in data, which help to predict and improve business and financial performance, recommend strategies and guide financial decision-making.

CONCLUSION

Throughout 2024, the City of Edmonton has maintained its financial health. Robust financial policies, strategies, guiding principles and a healthy financial position ensure the continued sound fiscal management and long-term financial sustainability for the City of Edmonton.

In July Edmonton's 'AA' credit rating was affirmed by the credit agency Standard and Poor’s (S&P), with a positive outlook. This rating reflects the City's solid financial footing despite facing pressures from rising capital project costs and the increasing debt required to meet the City’s ambitious capital program. S&P indicated that its positive outlook signals confidence in Edmonton's ability to manage these challenges effectively.

The City’s finances are strong and stable. We will continue to face financial pressures but we are taking the lead on navigating through a challenging time of inflationary pressures, a rapidly growing population and the changing service needs of Edmontonians. We have a plan to continue to prioritize core services and capital projects to ensure we maintain Edmontonians' quality of life. Strong finances are the foundation that allows the City to deliver the 70 services and hundreds of construction projects Edmontonians need now, and as we grow by a million more people in the coming decades. We will continue to protect this foundation through our robust financial processes, continued work to address structural and systemic challenges to our financial health, and careful strategic management of our revenues and expenses.

Stacey Padbury, CPA,CA
Deputy City Manager and Chief Financial Officer
Financial and Corporate Services

April 22, 2025