COUNCIL REPORT

PRIORITIZATION OF RENEWAL IN 2027-2030 CAPITAL BUDGET

Recommendation

That the June 10, 2025, Financial and Corporate Services report FCS02696, be received for information.

Requested Action		Information only	
ConnectEdmonton's Guiding Principle		**ConnectEdmonton Strategic Goals**	
CONNECTED This unifies our work to achieve our strategic goals.		**N/A**	
City Plan Values	N/A		
City Plan Big City Move(s)	N/A	**Relationship to Council's Strategic Priorities**	Conditions for service success
Corporate Business Plan	Managing the corporation		
Council Policy, Program or Project Relationships	• The City Plan • C578A - Multi-year Budgeting Policy • C595A - Neighbourhood Renewal Program Policy • C203D - Debt Management Fiscal Policy • C591 - Capital Project Governance Policy		
Related Council Discussions	• June 7, 2022, Financial and Corporate Services report FCS01169, 2023-2032 Capital Investment Outlook • November 30, 2022, Financial and Corporate Services report FCS01393, Proposed 2023-2026 Capital Budget • June 13, 2023, Financial and Corporate Services report FCS01658, Spring 2023 Supplemental Capital Budget Adjustment - 2023-2026 Capital Budget • November 7, 2023, Financial and Corporate Services report FCS02052, Fall 2023 Supplemental Operating Budget Adjustment - 2023-2026 Operating Budget • November 7, 2023, Financial and Corporate Services report FCS02053, Fall 2023 Supplemental Capital Budget Adjustment - 2023-2026 Capital Budget • June 11, 2024, Financial and Corporate Services report FCS02362, Spring 2024 Supplemental Capital Budget Adjustment - 2023-2026 Capital Budget • December 2, 2024, Financial and Corporate Services report FCS02529rev, Fall 2024 Supplemental Operating Budget Adjustment - 2023-2026		

	Operating Budget • December 2, 2024, Financial and Corporate Services report FCS02530rev, Fall 2024 Supplemental Capital Adjustment - 2023-2026 Capital Budget

Previous Council/Committee Action

At the September 10, 2024, City Council meeting, the following motion was passed:

> That Administration provide a report outlining the impact of increasing funding for renewal vs growth projects as part of the development of the 2027-2030 Capital Budget.

Executive Summary

- The original approved 2023-2026 Capital Budget funded renewal, not related to bridges or projects with dedicated funding, at 30.7 per cent.
- Supplemental Capital Budget Adjustments have added $110.8 million to unfunded renewal projects/items with significant risks. However, the 2023 to 2026 renewal investment shortfall is still approximately $1.5 billion. Capital renewal investment only makes up 21.8 per cent of the approved capital budget for the years 2023 to 2026.
- The ideal renewal investment for 2027 to 2030 in 2025 dollars is estimated to be $4.4 billion.
- The 2027 to 2030 renewal eligible funding available is forecasted to be $2.6 billion.
- If all 2027 to 2030 renewal eligible funding was allocated to the estimated renewal requirement of $4.4 billion, the City would still be $1.8 billion short. However, the City cannot use all unconstrained funding and debt capacity to fund renewal.
- For the development of the 2027 to 2030 Proposed Capital Budget, Administration will focus on addressing the renewal funding gap and limiting growth project prioritization to projects that are mandated by legislation, required due to safety concerns, eligible for external funding or show significant benefit to the overall prosperity of the City.

REPORT

The City's capital budget aims to balance renewal and growth projects to maximize benefits, reduce risk and provide service levels that meet the public's expectations. Renewal capital investment involves replacing an asset with a new modern equivalent asset or applying a rehabilitation treatment that reinstates the asset (or a component of the asset) to a better physical condition that extends its service life. Growth reflects capital investment in new assets or projects that add to or enhance components of existing infrastructure assets to improve functionality or services provided.

The capital budget identifies "ideal renewal investment," which is defined as a combination of:

- renewal investment required to bring City assets to their target physical performance levels, and

- growth investment recommendations for renewal projects to address demand, capacity and functionality deficiencies to align assets with approved strategies, policies, standards and public expectations.

Types of Capital Funding

The capital budget generally has three types of capital funding as follows:

- *Constrained Funding:* Funding dedicated (for various reasons) to specific types of infrastructure. Examples include federal and provincial grants for specific projects, Neighbourhood Renewal, Fleet Replacement Reserve and Land Enterprise Retained Earnings.
- *Unconstrained Funding:* Funding available at Council's discretion and with no restrictions, for a variety of infrastructure needs. Examples include Municipal Sustainability Initiative and Local Government Fiscal Framework provincial grant funding, Canada Community-Building Fund grant funding and pay-as-you-go.
- *Debt Financing:* The Debt Management Fiscal Policy C203D provides parameters related to the use and management of debt to finance infrastructure projects.

2023-2026 Capital Budget Development

Development of the 2023-2026 capital plan took place throughout 2022, guided by the City's Strategic Planning Framework and Council priorities. Before beginning the capital budget process, Administration prepared the Capital Investment Outlook (CIO), a forecast of the City's infrastructure requirements for 2023-2032. It outlined how the City faced challenges to maintain existing infrastructure due to a combination of asset growth and reductions in sustainable infrastructure funding from the provincial government. The CIO indicated nearly all unconstrained funding should be directed to the City's renewal program over the next 10 years.

Capital budgets are constrained by the amount of available capital funding and debt capacity. The City aims to maximize financing from external sources such as provincial and federal grant funding, development fees and levies, sale of City-owned land, contributions from other specific purpose reserve funds and third party contributions, prior to utilizing internal sources such as pay-as-you-go and debt.

A total of $1.95 billion was originally allocated to renewal in the 2023-2026 Capital Budget, including $773 million of unconstrained funding. This amounted to 54 per cent of the ideal renewal investment. After isolating constrained renewal funding, including the Neighbourhood Renewal Program (NRP) and Fleet Vehicle Replacement Reserve, and funding allocated to bridges (which are funded to their ideal level to mitigate for increased risk of failure), the remainder of the renewal program was funded at 30.7 per cent of its ideal renewal investment. Since the approval of the 2023-2026 Capital Budget, a total of $110.8 million has been allocated through supplemental budget adjustments to unfunded renewal projects/items with significant risks. The 2023 to 2026 renewal investment shortfall is approximately $1.52 billion.

The approved capital budget for 2023 to 2026 is $9.44 billion, of which $2.06 billion is allocated to the ideal renewal investment. Capital renewal investment only makes up 21.8 per cent of the approved capital budget for the years 2023 to 2026.

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2027 to 2030 Renewal Investment

The City of Edmonton owns an inventory of assets with a combined replacement value of over $34 billion, which includes facilities, roads, open spaces, vehicles, technology and equipment.

The June 7, 2022, Financial and Corporate Services report FCS01169, 2023-2032 Capital Investment Outlook, identified an ideal renewal investment over the 10-year period of $10 billion and a forecasted funding level of $5.2 billion, leaving a $4.8 billion renewal gap. As part of the 2023-2026 Capital Budget approved by Council in December 2022 and based on the available funding, the assets with renewal funded through unconstrained funding received approximately 31 per cent of their ideal renewal investment requirements. Consequently, the City's overall inventory of assets is forecasted to deteriorate such that 20 per cent or more will be in poor or very poor condition within approximately 20 years.

Based on data used for the 2023-2032 Capital Investment Outlook, the ideal renewal investment requirement for 2027 to 2030 was identified to be $3.8 billion (in 2021 dollars) with $3.4 billion in renewal investment and $0.4 billion in renewal associated growth investment. The equivalent value in 2025 dollars is estimated to be $4.4 billion.[1]

As part of the 2027-2030 Capital Budget development, Administration will be updating the ideal renewal investment forecast, which may be significantly different from the amounts presented above due to changes in inventory, asset condition and inflation.

2027 to 2030 Renewal Funding

The majority of renewal is funded from unconstrained funding, the Neighbourhood Renewal Reserve and the Fleet Replacement Reserve. In addition, the City will introduce a Dedicated Universal Renewal Fund in the 2027 to 2030 operating and capital budget cycles. The Dedicated Universal Renewal Fund is expected to generate $66.8 million in 2027 to 2030 of additional funding for renewal work.

<u>Unconstrained Funding</u>

The City's unconstrained funding sources consists of the following:

- Local Government Fiscal Framework provincial grant funding
- Canada Community-Building Fund grant funding
- Pay-As-You-Go

There is no major adjustment expected to the forecast of these funding sources. The table below shows the expected total funding from 2027 to 2030 for each funding source.

[1] The inflation factor used for this calculation is based on changes in Statistics Canada's Implicit Price Index of Alberta gross domestic product for non-residential structures. Historical values up to 2023 come from Statistics Canada. Forecast values for 2024 and 2025 come from the City of Edmonton's spring 2025 outlook.

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Funding Sources ($ millions)	2027 to 2030 Forecast
Local Government Fiscal Framework	$732.7
Canada Community-Building Fund	$264.9
Pay-As-You-Go	$729.7
Unconstrained 2027 to 2030 Funding Forecast	$1,727.3

Neighbourhood Renewal Program
Council approved a dedicated tax levy for the NRP starting in 2009. In 2017, Council endorsed the addition of the Alley Renewal Program, which expands the NRP to include residential alleys. This component of the program was phased in starting in 2019. For 2023-2026, the total annual NRP levy collected and designated for capital is $174.4 million per year. The NRP will collect $697.6 million for 2027 to 2030.

Fleet Replacement
Council approved the establishment of a dedicated Fleet Vehicle Replacement Reserve in 2010. This reserve helps to ensure that the long-term funding of capital replacement needs is adequately maintained. However, this reserve does not cover bus or light rail vehicles (LRVs) replacement. Administration uses a pricing model that includes both variable rate charges for maintenance costs and fixed rate charges for vehicle replacement funding. The reserve is critical in renewal of the existing fleet. Assuming the same level of contribution to the reserve as 2026, the 2027 to 2030 contribution would be forecasted at $127.2 million.

Debt Financing

Borrowing is another method of financing capital projects. It is not a funding source itself. The City has three main types of long-term debt obligations:

- tax supported debt funded by tax levy,
- self-supporting tax-guaranteed debt funded through dedicated non-tax levy revenues, and
- self liquidating debt funded through programs that are self-sustaining, such as the Waste Services Utility, the Blatchford Redevelopment Project and local improvements.

The City has used debt financing strategically to advance significant capital projects, particularly those related to growth and transformational initiatives. This approach has been crucial in leveraging grant opportunities from other orders of government, where the City's ability to provide matching funds through debt has been essential. Edmonton's Debt Management Fiscal Policy C203D outlines the permissible uses of debt, with specific mention of its application to "major rehabilitation of existing assets as a short-term strategy to eliminate a significant infrastructure renewal backlog." This was a key factor in the decision to use debt in the 2023-2026 Capital Budget for backlogged large-scale renewal projects such as the Light Rail Vehicle replacements, the High Level Bridge rehabilitation and the William Hawrelak Park rehabilitation.

As the City moves towards the 2027-2030 capital budget cycle, a considerable infrastructure renewal backlog persists. This ongoing need suggests that the strategic use of debt for major rehabilitation projects remains a relevant consideration. However, it is important to note that the policy does not typically identify debt financing as a tool for smaller, routine renewal projects, which constitute the majority of the City's overall renewal program. The application of debt towards the broader renewal deficit, encompassing these smaller initiatives, would likely not align with the current principles of the Debt Management Fiscal Policy.

Looking at the City's overall debt capacity, the Capital Financial Update as of December 31, 2024, indicated approximately $1.1 billion in available debt room under the tax-supported debt servicing limit of 18 per cent of tax-supported net operating expenditures, the City's most restrictive internal limit. The City is projected to get its closest to this limit in 2029, although additional capacity is anticipated to emerge within the 2027-2030 timeframe. Greater capacity exists under the less restrictive total debt servicing limits of 21 per cent and 26 per cent of City revenues. However, the practical availability of debt within the 18 per cent limit will be influenced by other critical capital needs in the upcoming cycle, such as securing funding for projects requiring grant matching and advancing self-supported debt projects like those within Community Revitalization Levy areas. Even if debt capacity appears available, its allocation towards general infrastructure renewal, beyond major rehabilitation as defined by policy, presents a potential conflict with the established Debt Management Fiscal Policy framework.

Impacts of Underfunded Renewal Investment

The City’s infrastructure, including roads, bridges, transit systems, facilities and buildings requires ongoing renewal to maintain functionality and safety. When these assets are not adequately maintained or replaced at the end of their life cycle, they deteriorate, leading to higher long-term maintenance costs, increased risk of infrastructure failure, reduced service quality, safety concerns and potential social disruptions.

Adequate renewal funding is necessary to ensure critical City assets including the transportation network (e.g. roads and active pathways), transit vehicles (bus and LRT) and facilities are proactively replaced to reduce negative impacts to service levels.

A persistent renewal deficit has several negative consequences including:

- Increased renewal liabilities: As the City continues to grow and expand its asset inventory, there will be a compounding effect on renewal requirements.
- Service level decline: As older infrastructure continues to age without reinvestment, residents experience reduced service levels, safety concerns and increased service disruptions. Issues such as less bus availability, increased City vehicle downtime (e.g. buses, mowers, snow plows and waste collection vehicles) and more frequent unscheduled maintenance and repairs would impact City service levels.
- Erosion of public trust: When the City fails to maintain existing assets while funding new projects, public confidence in municipal financial management and service delivery declines. Examples of visual results of underfunded renewal include an increase in the number of potholes and deteriorating City facility conditions.
- Funding pressure on future Councils: A continued focus on growth diverts funds away from renewal when there is already a substantial gap, and it expands the City’s infrastructure

inventory, increasing future renewal requirements that are already in a deficit. Over time, a growing renewal deficit forces future Councils to make difficult budgetary decisions, potentially leading to drastic service cuts or significant tax increases.

2027 to 2030 Capital Budget Development

The following table combines the expected 2027-2030 renewal requirement and renewal eligible funding.

($ millions)	2027 to 2030 Forecast
2027 to 2030 Renewal Requirement*	$4,448
2027 to 2030 Renewal Eligible Funding	
• Dedicated Universal Renewal Fund	$67
• Local Government Fiscal Framework	$733
• Canada Community-Building Fund	$265
• Pay-As-You-Go	$730
• Neighbourhood Renewal Program	$698
• Fleet Replacement Reserve	$127
2027 to 2030 Renewal Eligible Funding**	$2,620
Renewal Funding Gap	$1,828

** This is an extrapolation from FCS01169 2023-2032 Capital Investment Outlook*

*** This does not include other minor funds such as Library or Police Pay-As-You-Go. It is not possible for the City to allocate all unconstrained funding and debt financing towards renewal.*

Even if the City allocated all eligible funding towards renewal, there would still be an expected renewal funding gap of $1.8 billion. At the same time, the City has new growth projects that it must do or consider.

For the development of the 2027 to 2030 Proposed Capital Budget, Administration will focus on decreasing the renewal funding gap while limiting growth projects to consider and prioritize to the following:

- Projects mandated by legislation
- Projects required due to safety concerns
- Projects that are eligible for external funding
- Projects that show significant benefit to the overall prosperity of the City

Multi-year major growth projects such as LRT expansion (Valley Line West and Capital Line South Phase 1), two recreation centres (Lewis Farms and Coronation), the Yellowhead Trail Freeway Conversion, Blatchford Redevelopment, New Transit Bus Garage and Terwillegar Drive Expressway Upgrades will still be included as part of the 2027 to 2030 Capital Budget.

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Additional Funding Allocations

As with the 2023-2026 Proposed Capital Budget, Administration's recommendations for the 2027-2030 Capital budget will allocate as much funding as possible towards renewal in order to mitigate the growing renewal funding gap. There is expected to be a significant renewal funding gap in 2027-2030 and any additional funding or additional debt capacity should be directed to address this issue.

Community Insight

Administration conducted extensive public engagement in summer 2022 to support the implementation of the 2023-2026 budget, as well as subsequent budget adjustment recommendations. Those insights were also shared with Council to support their decision-making through the October 31, 2022, Communications and Engagement report CE01489, Budget 2023-2026 Community Insights.

The City engaged with the general public, organizations and community groups, and harder-to-reach communities, tailoring the engagement approach to each group. Themes that emerged, and continue to apply to the 2023-2026 budget include:

- A need to focus on improving community safety.
- Increased cost of living and Edmontonians facing financial pressures.
- Transit safety and connectivity are important.
- Participants want to connect with each other and celebrate Edmonton.
- Long-term solutions to climate challenges are needed.
- Participants are concerned about the overlapping nature of federal, provincial and municipal responsibilities.
- An overall sentiment of empathy among participants, who expressed an understanding that some individuals may be impacted by service reductions or fee increases more than others, including vulnerable populations and those on low and fixed incomes.

The complexity of these results illustrates that there is no single combination of priorities that will satisfy all Edmontonians.

GBA+

The 2023-2026 Capital Budget incorporated input from the public engagement activities described above. This engagement applied a GBA+ approach to do targeted outreach and ensure the City captured input from Edmontonians experiencing unique barriers and challenges and those whose voices are heard less often. Administration conducted targeted outreach and engagement with 2SLGBTQ+ community members, non-English speakers, youth, seniors, racialized community members, women, people with disabilities, Edmontonians experiencing or at risk of homelessness, and people experiencing mental health and addiction challenges.

In the context of capital infrastructure planning, design and delivery, the following provides some examples of GBA+ application:

- In planning and design, Administration and consultants endeavor to research and address three fundamental GBA+ questions within their designs: Who is excluded or differentially

impacted? What contributes to this exclusion or impact? What will be done about possible exclusion?
- Designs are reviewed from multiple perspectives including but not limited to race, colour, place of origin, ethnicity, immigration status, language, religious beliefs, gender, gender identity, and gender expression, appearance, physical and mental disability, political viewpoint, marital and family status, occupation, source of income, employment status, sexual orientation, age, poverty and homelessness.

For renewal work, a detailed GBA+ report is commonly initiated during the planning and design phases of a project. GBA+ work is conducted to identify interested parties through the development of public engagement plans and identify meaningful ways of connecting with those interested parties to gather input that will help shape the plans. The process supports Administration in identifying any interested parties who may be impacted by the project and those who may be less likely to participate in traditional engagement methods.

Environment and Climate Review

The environment and climate impacts of specific renewal or development projects are evaluated individually and are not in scope of this report. The environmental and climate impacts of the 2027-2030 Capital Budget will be explored further in the 2027-2030 Carbon Budget.

In general, renewal of existing infrastructure may have fewer environmental impacts, as it focuses on already-developed areas, and may provide opportunities to implement more environmentally friendly design or materials than were previously used. All construction projects undertaken by the City follow strict environmental guidelines and procedures to ensure environmental impacts are limited, regardless of whether they are renewal or growth.