

LRT Reserve Update

Introduction

The LRT Reserve was initially established in 2008 to partially fund debt servicing payments on the original South LRT extension. A portion of the federal Canada Community Building Fund received by the City each year is used to pay the debt servicing costs on the South LRT project, and any shortfall is covered by the LRT Reserve. In 2015, the LRT Reserve's role was expanded with the Valley Line Southeast ("VLSE") LRT Funding Plan. The funding plan, which was a requirement under the City policy C555 Public Private Partnerships (now known as the C555A Project Delivery Policy), required Council approval prior to awarding the contract. The funding plan included a phased-in 3.6 per cent dedicated tax levy increase over 2016 to 2022 to pay for VLSE operating expenditures. The LRT Reserve was used to manage the annual timing difference between the inflow of the dedicated tax levy and VLSE operating expenditures.

The LRT Reserve was identified as a key component to the funding plan for the following reasons:

- To manage the fluctuations in the expenditure streams that will occur over the term of the P3 agreement, thereby spreading the total cost of operating the LRT over the life of the contract;
- To allow the City to levy taxes in a phased in manner (avoiding tax spikes) and better manage the fluctuating cash requirements for all future VLSE costs; and
- To provide bidder certainty for the P3 project as the funding plan, which included the LRT Reserve, required Council approval prior to awarding the contract.

Recommendation

Phased Wind-Down of LRT Reserve

Administration is recommending to wind down and close the LRT Reserve in a phased approach over several years for the following reasons:

- The original purpose of the reserve (to partially fund debt servicing payments on the original South LRT extension) is no longer required beginning in 2027. The debt servicing costs will begin to decrease starting in 2027 with full repayment of the outstanding debt on the South LRT project by December 2030. The annual debt servicing costs starting in 2027 will be fully paid by the Canada Community Building Fund, and no additional funding from the LRT Reserve will be required.

Attachment 6

- With the Valley Line South East now fully operational, the current service levels and related funding requirements are known, consistent and predictable. Therefore, the LRT Reserve is no longer required to manage any timing differences between expenses to provide the service and approved tax levy funding. The current amount of annual tax levy (which is currently being transferred to the LRT Reserve) will be returned to general tax levy and operating expenses will continue to be recognized within the appropriate branches. This is in alignment with the normal budgeting practices for tax levy supported services.

The phased wind-down plan for the LRT Reserve is outlined below:

Phase 1 (Fall 2025 SOBA): Eliminate Transfers to and from the LRT Reserve and Redirect Funding

Currently, the LRT Reserve acts as an intermediary funding mechanism for several VLSE operating and rehabilitation items, where tax levy funding flows to the LRT reserve first, and then is subsequently withdrawn from the reserve to fund related expenditures across various branches. Due to the consistent and predictable nature of both operating and rehabilitation payments, the LRT Reserve is no longer necessary to manage unpredictable cash flows. As such, Administration recommends the removal of the LRT Reserve as an intermediary funding mechanism.

There is a \$79.7 million of tax levy that is collected annually and transferred to the LRT Reserve, and \$68.6 million of operating expenditures funded with transfers from the LRT Reserve for LRT related expenses across the corporation (Edmonton Transit Service, Community Services, and Corporate Programs). The \$11.1 million additional funding has historically been retained in the reserve on an annual basis as reflected in Table 1 below. These funds were retained in the reserve to manage inflationary impacts and future increases to service levels. Should expenditures for these services increase, such changes will be presented to City Council for deliberation, consistent with other service lines across the corporation.

Table 1 - Tax Levy Collected and Transferred Prior to Fall 2025 SOBA

\$millions	
Tax Levy Collected and Transferred to LRT Reserve	\$79.7
Operating Expenditures Funded by LRT Reserve:	(68.6)
Annual Amount Retained in LRT Reserve	\$11.1

The Fall 2025 SOBA includes the recommended adjustments to begin winding down the reserve. The entire \$79.7 million of tax levy collected is recommended to no

Attachment 6

longer be transferred to the LRT Reserve, but rather stay in general revenue (property tax revenue) to fund the \$68.6 million in expenditures across the corporation that were previously funded with these same revenues, however indirectly via a transfer from the reserve.

Additionally, the \$11.1 million in tax levy funding previously retained in the reserve, is being recommended to fund two new expenditures related to operating impacts of capital (OIC) for the VLSE of \$6.4 million with the remaining funding of \$4.7 million being allocated to Financial Strategies to manage future budget pressures across the corporation. This is reflected in Table 2 below.

Table 2 - Fall 2025 SOBA Adjustments - Elimination of Transfers to/from the LRT Reserve and Recommended Use of Funds Previously Retained in the Reserve

\$millions	Prior to SOBA	1.OIC Increase	2.Financial Strategies Adj.	Adj. Total
Tax Levy Collected and Transferred to LRT Reserve	79.7	-	-	\$79.7
Funding Transferred from LRT Reserve to fund Operating Expenditures	(68.6)	+(6.4)	+(4.7)	(79.7)
Difference (Retained by Reserve)	11.1	-	-	\$ -

1. Increase to Operating Impacts of Capital for VLSE

The Fall 2025 SOBA recommends a \$6.4 million increase related to operating impacts of capital for VLSE, which are recommended to be funded with tax levy funding previously retained within the reserve. The \$6.4 million increase is further broken down as follows:

- Edmonton Transit Service (\$5.7 million) - The \$5.7 million increase in operating impacts of capital for Edmonton Transit Service primarily relates to a \$4.1 million increase in rehabilitation payments as a result of a change in accounting treatment that now sees these payments recognized on a straight-line basis rather than a cash-basis. New accounting standards require the rehabilitation payments to be recognized on a straight line basis over the term of the contract (i.e evenly over the term of the contract), whereas the budget was based on the actual scheduled payments per the P3 contract. Overall the rehabilitation expenses are not impacted over the term of the P3 contract. In addition to this item, there is a \$1.8 million increase required for higher than anticipated relief event payments owned by the City

Attachment 6

under the P3 agreement. These two amounts are offset slightly by a \$0.2 decrease to annual expected service payments owed under the P3 agreement.

- Parks and Roads Services (\$0.1 million) - The \$0.1 million increase in operating impacts relates to additional costs for traffic signals.
- Parks and Roads Services (\$0.6 million) - The \$0.6 million increase relates to increased costs related to maintenance of sidewalks, pathways, site furniture, trees, and shrubs.

In addition to the above new operating increases, there is a net zero adjustment within the Edmonton Transit Service operating budget to remove \$2.2 million of fare revenue that had been budgeted to be collected as a result of incremental fares earned from the operations of the VLSE, and to be transferred to the LRT reserve.

2. Financial Strategies Adjustment

After factoring in the \$6.4 million of additional LRT reserve funded Operating Impacts of Capital described above, a difference of \$4.7 million remains between tax levy collected and transferred to the LRT reserve, and operating expenditures funded by the LRT reserve. The Fall 2025 SOBA recommends adjusting this \$4.7 million to go towards financial strategies on an ongoing basis, bringing the total net difference and annual amount retained by the LRT reserve to \$0 per year, as shown in table 3 below.

Table 3 - Reserve Funded Expenditures Prior to Wind-Down and Direct Funding Entries

\$millions		
Tax Levy Collected (previously transferred to the LRT Reserve)		\$79.7
Operating Expenditures:		
Previous Operating Expenditures (Edmonton Transit, Parks and Road Services, Corporate Programs)	(68.6)	
New OIC's Recommended in Fall 2025 SOBA (Table 2)	(6.4)	
Transfer of remaining difference to Financial Strategies (Table 2)	(4.7)	
Total Operating Expenditures		(79.7)
		\$ -

After consideration of the adjustments noted in table 2 and 3 above, \$79.7 million in tax levy funding will no longer be transferred to the LRT Reserve and will remain

within general tax levy revenues, to offset operating costs in the same amount across the organization. This is reflected in the diagram below.

Diagram 1 - Current State - Using LRT Reserve as Intermediate Step



Diagram 2 - Future State - Direct Funding Model



Phase Two (2027-2030 Budget Development): Remaining Funding

Administration recommends maintaining any one-time funding that remains in the LRT Reserve for 2025 and 2026 to be available and used on potential one-time items that still relate to the original purpose of the Valley Line South East Funding Plan. If the adjustments proposed are approved, Administration is projecting that \$109.9 million in one-time funding would remain in the reserve at the end of 2026.

Any additional one-time or ongoing funding related to the LRT Reserve will become available from 2027 onwards and will be prioritized as part of the overall 2027-2030 budget development process.

Phase 3 (during 2027-2030 budget cycle): Closing of LRT Reserve

Upon the completion of the reallocations and redirection of remaining funds, the LRT Reserve will be formally wound down and closed during the 2027-2030 budget cycle.

Should Council approve the LRT adjustments as outlined in Attachment 1, Administration will proceed with the phased approach to wind down the LRT Reserve and will seek formal approval from Council to close the reserve as part of phase three.