

OPERATING FINANCIAL UPDATE - DECEMBER 31, 2025

Recommendation

1. That the 2026 Operating Budget be adjusted to increase expenditures by \$7,181,000 offset by an equivalent transfer from amounts previously appropriated in the Financial Stabilization Reserve, to address the delay of expenditures into 2026, as outlined in Attachment 2, Table 1, Schedule A of the March 17, 2026, Financial and Corporate Services report FCS03314.
2. That the 2026 Operating Budget be adjusted to increase expenditures by \$11,905,000 and to transfer the equivalent amount from the Financial Stabilization Reserve, to fund the carryforward of expenditures where 2025 program commitments exist, as outlined in Attachment 2, Table 1, Schedule E of the March 17, 2026, Financial and Corporate Services report FCS03314.
3. That the 2026 Operating Budget be adjusted to increase expenditures by \$14,676,000 offset by an equivalent transfer from the Industrial Infrastructure Cost Sharing Reserve, to address the timing of Revolving Industrial Servicing Fund program rebates within Development Services, Urban Planning and Economy, as outlined in Attachment 2, Table 2, of the March 17, 2026, Financial and Corporate Services report FCS03314.
4. That the 2026 Operating Budget be adjusted to increase expenditures by \$4,899,000 offset by an equivalent transfer from the Affordable Housing Reserve, to address the timing of expenditures for the Rapid Housing Initiative - Project Stream (Coliseum Inn Hotel Conversion Project) within Social Development, Community Services, as outlined in Attachment 2, Table 2 of the March 17, 2026, Financial and Corporate Services report FCS03314.
5. That the 2026 Operating Budget be adjusted to increase expenditures by \$1,943,000 offset by an equivalent transfer from the Affordable Housing Reserve, to address the timing of expenditures for the Catholic Social Services Housing Project within Social Development, Community Services, as outlined in Attachment 2, Table 2 of the March 17, 2026, Financial and Corporate Services report FCS03314.
6. That the 2026 Operating Budget be adjusted to increase expenditures by \$1,025,000 offset by an equivalent amount of revenue (transfer from the Affordable Housing Reserve and federal grant), to address the timing of construction costs funded through

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the National Housing Co-Investment Fund within Social Development, Community Services, as outlined in Attachment 2, Table 2 of the March 17, 2026, Financial and Corporate Services report FCS03314.

7. That the 2026 Operating Budget be adjusted to increase expenditures by \$3,765,000 offset by an equivalent transfer from the Brownfield Reserve, to address the timing of grant expenditures for Brownfield Remediation and Redevelopment support within Economic Investment Services, Urban Planning and Economy, as outlined in Attachment 2, Table 2 of the March 17, 2026, Financial and Corporate Services report FCS03314.
8. That the 2026 Operating Budget be adjusted to increase expenditures by \$500,000 offset by an equivalent transfer from the Traffic Safety and Automated Enforcement Reserve (TSAER), to address the timing of expenditures for Safe School Drop Off initiative within Parks and Roads Services, City Operations, as outlined in Attachment 2, Table 2 of the March 17, 2026, Financial and Corporate Services report FCS03314.
9. That the 2026 Operating Budget be adjusted to increase expenditures by \$899,000 offset by an equivalent transfer from the Community Safety and Well-being Reserve, to address the timing of expenditures for various Community Safety and Well-being initiatives within various branches, as outlined in Attachment 2, Table 2 of the March 17, 2026, Financial and Corporate Services report FCS03314.
10. That the 2026 Operating Budget be adjusted to increase expenditures by \$3,500,000 offset by an equivalent transfer from the Community Safety and Well-being Reserve, to address the timing of expenditures for the Community Mobilization Task Force funding agreements within Social Development, Community Services, as outlined in Attachment 2, Table 2 of the March 17, 2026, Financial and Corporate Services report FCS03314.
11. That the 2026 Operating Budget be adjusted to increase expenditures by \$1,044,000 offset by an equivalent transfer from the Planning and Development Reserve, to address the timing of expenditures for the Future Growth Area Servicing Study within Development Services, as outlined in Attachment 2, Table 2 of the March 17, 2026, Financial and Corporate Services report FCS03314.
12. That the excess revenue of \$137,734 collected as part of the 2025 Alley Lighting Maintenance Special Tax be appropriated within the Financial Stabilization Reserve to be used to offset the 2027 special tax for alley lighting maintenance.
13. That \$1,452,000 previously appropriated in the Financial Stabilization Reserve (on January 27, 2026 through Urban Planning and Economy private report UPE03378) be released back to the unappropriated Financial Stabilization Reserve.
14. That the 2026 Economic Investment Services branch operating expenditure budget be decreased by \$2,000,000, on a one-time basis, with an offsetting decrease of \$1,452,000 in the transfer from the Financial Stabilization Reserve and \$548,000 from the Commercial Revitalization Reserve, to reflect the reversal of funding previously approved on January 27, 2026 through Urban Planning and Economy private report UPE03378.

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15. That Attachment 4 of the March 17, 2026, Financial and Corporate Services report FCS03314 remain private pursuant to sections 29 (advice from officials), 30 (disclosure harmful to economic and other interests of a public body) and 32 (privileged information) of the *Access to Information Act*.

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	<ul style="list-style-type: none"> • 2023-2026 Operating Budget • C629A Financial Stabilization Reserve • C610A Fiscal Policy for the Planning and Development Business • C579B Traffic Safety and Automated Enforcement Reserve 		
Related Council Discussions	<ul style="list-style-type: none"> • April 22, 2025, Financial and Corporate Services report FCS02845, 2025 Municipal Tax Levy Confirmation • September 16, 2025, Financial and Corporate Services report FCS02854, Operating Financial Update - June 30, 2025 • December 8, 2025, Financial and Corporate Services report FCS02233, Operating Financial Update - September 30, 2025 • November 24, 2025, Financial and Corporate Services report FCS03158 - Fall 2025 Supplemental Operating Budget Adjustment - 2023-2026 Operating Budget 		

Executive Summary

- Tax-supported operations ended the year with a net favorable budget variance of \$31.1 million as of December 31, 2025.
- This report provides recommendations for the carryforward of \$7.2 million (Recommendation 1) of items previously approved by City Council with funding from the appropriated Financial Stabilization Reserve (FSR) and \$32.3 million (Recommendations 3 to 11) for items funded through other reserves and non-tax levy funding sources. These recommendations do not further impact the unappropriated FSR balance or tax-levy requirements.
- This report proposes carrying forward \$11.9 million from the unused 2025 operating budget into 2026 (Recommendation 2). These funds are intended for projects or initiatives outlined in the 2025 budget that were not completed within the fiscal year but require the remainder of the budget in 2026 to fulfill their commitments. The unused 2025 budget for these items contributes to the tax-supported surplus. In accordance with City Policy C629A, Financial

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Stabilization Reserve, the entire 2025 tax-supported surplus is transferred to the FSR. Therefore, Administration recommends funding the 2025 expenses requested for carryforward into 2026 from the FSR.

- The unappropriated FSR will be \$87.4 million after accounting for the \$31.1 million tax-supported surplus, recommended operating carry-forwards and other items of \$12.1 million of the 2025 unused expenditure budget into 2026 for project/initiative completion, the appropriation of the excess 2025 alley lighting maintenance special tax within the FSR, and \$6.5 million for Council-approved items from the FSR in 2026. This balance is \$63.0 million below the preliminary minimum required reserve of \$150.4 million.
- Through the Fall 2024 Supplemental Operating Budget Adjustment (SOBA) process, Council approved tax increases in 2025 and 2026 to restore the FSR back to the minimum balance over five years by the end of 2029. Considering the preliminary 2025 tax-supported surplus, recommended carry-forwards the FSR, appropriation of the excess 2025 alley lighting maintenance special tax within the FSR, and Council approved funding from the FSR in 2026, the FSR is forecasted to reach its minimum balance in 2028.
- Results are preliminary, unaudited and subject to change until the approval of the City's 2025 consolidated annual financial statements. Administration will provide the audited financial statements, presented on a public sector accounting basis as required for legislative reporting, to Audit Committee on April 10, 2026 and to City Council on April 15, 2026.
- Structural budget variances (SBVs) have been identified in the individual department and branch year-end financial results section of Attachment 1, with the action plans to address the variances explained in Attachments 3 and 4.
- A Q4 2025 economic update is also provided in Attachment 5.

REPORT

Preliminary Year-End Tax-Supported Position

Attachment 1 provides details on the preliminary 2025 operating financial results compared to the 2025 approved budget for tax-supported, enterprise/utility and Community Revitalization Levy (CRL) programs.

Preliminary year-end results for tax-supported operations show a net favourable variance of \$31.1 million as at December 31, 2025, equivalent to 0.8 per cent of the overall expense budget of \$3.8 billion.

Year-end favourable budget variances arise from a variety of factors, primarily due to:

- Financial Strategies' budget includes risk-adjusted estimates for centrally managing volatile costs like fuel, utilities, inflation on contracts, parts and materials, and collective bargaining risk.
- Power franchise fee revenue was greater than budgeted due to increased consumption caused by colder than expected weather in February and December, and extended high summer temperatures, as well as additional franchise fees from prior years recognized in 2025.

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- Membership and admissions revenue was higher than anticipated, driven by increased demand for City recreation, attraction facilities and special events.
- Estimated costs for Long-Term Disability (LTD) staff benefits (pension, medical, dental, etc.) are lower than anticipated as more employees are coming off the program and the expected cost of new claimants is lower.
- Tax penalties were higher than budgeted due to a large number of outstanding property tax balances.
- Fuel costs were lower than anticipated due to reduced prices and volumes.

These favourable variances are partially offset with unfavourable budget variances primarily due to:

- Increase in personnel costs largely due to increased overtime for Transit (due to sick time/Workers Compensation Board (WCB) claims) and Fire Rescue (to maintain minimum staffing and unbudgeted salary settlements), plus higher staffing/security in Community Recreation and Culture due to increased demand.
- Higher snow and ice control costs due to extensive December snowfall, unbudgeted Q1 cul-de-sac clearing and unbudgeted costs for contaminated sand removal.
- Higher operational costs for recreation/attraction facilities due to increased demand (offset by higher revenue).
- Less than budgeted on street construction and maintenance (OSCAM) permit revenue.
- Slower-than-expected market recovery for transit advertising revenues. A new RFP for transit advertising services will inform 2026 projections.
- Lower ATCO Gas franchise fees due to reduced customer usage and lower delivery rates.

Financial Stabilization Reserve

The Financial Stabilization Reserve (FSR) balance, prior to the approval of recommendations for operating budget carryforwards and consideration of the tax-supported surplus, is \$74.9 million. Considering the tax-supported surplus of \$31.1 million and recommendation to carry forward \$11.9 million in expenditures that were budgeted in 2025 but now anticipated in 2026 (Recommendation 2), the appropriation of \$0.1 million of the excess 2025 alley lighting maintenance special tax with the FSR (Recommendation 12), and \$6.5 million for Council approved items during 2026, a balance of \$87.4 million remains in the FSR. This is \$63.0 million below the preliminary required minimum balance of \$150.4 million.

In accordance with City Policy C629A - Financial Stabilization Reserve, in the event the unappropriated FSR balance falls below the minimum, a strategy will be adopted to achieve the minimum balance over a period not to exceed three years, starting with the subsequent year's operating budget.

In December 2024, through the Fall 2024 Supplemental Operating Budget Adjustment process, Council identified \$10 million in one-time savings in 2025 to help replenish the FSR, and approved tax increases in 2025 of 0.5 per cent and in 2026 of an additional 0.6 per cent to restore the FSR back to the minimum balance over five years, from 2025 to 2029. To facilitate this, Council approved an exemption to Policy C629A to allow the repayment strategy to occur over five years instead of three. The FSR repayment strategy is based on an assumption of a balanced position

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from 2025 to 2029 (i.e. no tax-supported surplus or deficit), with no additional spending from the FSR.

Considering the preliminary 2025 tax-supported surplus and recommended carry-forwards the FSR is forecasted to reach its minimum balance in 2028. Once the FSR reaches its minimum balance, the funds used to replenish the FSR will be redirected towards a dedicated renewal fund to support the City's capital infrastructure renewal deficit.

Structural Budget Variances

Administration has focused on addressing SBVs through the development and implementation of action plans designed to tackle the underlying causes of these budget challenges. The timeline for implementing these action plans and eliminating the SBVs will vary. If not appropriately managed, recurring unfavourable budget variances pose a threat to the financial sustainability of the organization, evidenced by the diminishing balance of the FSR, which currently falls below its established minimum threshold.

As of December 31, 2025 Administration had identified a total of \$42.2 million in structural budget variances. Concurrent with the implementation of these action plans, various one-time strategies have been implemented across the organization to generate budget surpluses in order to mitigate the impact of the structural budget variances while the comprehensive action plans are being finalized.

During the Fall 2024 Supplemental Operating Budget Adjustment process, City Council passed a motion requesting that Administration enhance the quarterly financial reporting to encompass all unfunded variances (i.e., structural budget variances) exceeding \$1.5 million to Council, along with a corresponding mitigation plan to prevent the accumulation of unfunded liabilities in future budget cycles. Administration has responded to this directive by identifying structural budget variances within the individual department and branch year-end financial results section of Attachment 1 and by including the action plans to address these structural budget variances in Attachments 3 and 4.

A formal comprehensive update on all structural budget variances (including those below the \$1.5 million threshold) was included in the November 24, 2025 Financial and Corporate Services report, FCS03158 Fall 2025 Supplemental Operating Budget Adjustment. More comprehensive updates on structural budget variances will continue to be provided through the supplemental budget adjustment reports and through the 2027-2030 budget discussions.

While the City ended 2025 with a net favourable tax-supported budget variance of \$35.0 million it is imperative to maintain caution; this one-time surplus does not resolve the City's financial challenges. Continued management of discretionary spending across the organization is critical, with Administration actively reviewing and curtailing expenditures where feasible across the corporation in order to mitigate the impacts of the structural budget variances. The City must continue to manage its finances carefully given that the FSR remains significantly below its minimum requirement.

As recurring unfavourable budget variances can erode the financial sustainability of the organization, it remains necessary for the corporation to manage SBVs through corporate-wide savings until these variances are permanently resolved through the identified action plans. The favourable variances contributing to the current surplus are often singular in nature, such as

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higher-than-expected EPCOR Power franchise fees due to unusual weather or less than budgeted tax appeal losses. This means they cannot be relied upon to reduce future tax-levy requirements or permanently address underlying structural budget variances. While achieving a surplus is advantageous, it is not a position the City can expect to sustain.

Operating Budget Carry-Forward Recommendations

Attachment 2 includes recommendations for:

- Carryforward of items previously appropriated in the FSR into the 2026 operating budget (Recommendation 1 - \$7.2 million).

These are items that had previously been approved with funding from the FSR, with expenditures originally expected to occur in 2025. Expenditures are now expected in 2026. This adjustment is reallocating the expenditure and the previously approved funding from the FSR into 2026.

- Carryforward of 2025 budgeted expenditures committed but not utilized during the year into the 2026 operating budget, with matching funding from the FSR (Recommendation 2 - \$11.9 million).

This adjustment is related to operating expenditures that were originally approved in the 2025 operating budget, with funding from tax-levy, that were not fully utilized during the year and require the remaining funding to complete the project or initiative during 2026. The recommendation is for carryforward of unused expenditure budget, with funding from the FSR, into 2026 .

- Carryforward of operating commitments into the 2026 operating budget previously approved with funding through numerous reserve funds, totalling \$32.3 million (Recommendations 3 to 11).

These are items that had previously been approved with funding from other reserves, or non-tax levy sources, with expenditures originally expected in 2025. Expenditures are now expected in 2026. This adjustment reallocates the expenditure and the previously approved funding from applicable reserve sources into 2026.

2025 Alley Lighting Maintenance Special Tax Excess Revenue

The costs to construct alley lighting are paid in whole or in part by benefitting property owners through a local improvement tax. These property owners are also subject to a special tax to cover the ongoing costs for the repair, maintenance, and energy consumption of the alley lights. The special tax rate is recalculated annually by the Parks and Roads Services branch to accurately reflect the overall costs of repairing, maintaining, and powering alley lights across the City.

In 2025 the special tax requirement was budgeted at \$796,608. However, the actual costs incurred for the year to maintain and power the alley lights was \$658,874, resulting in excess revenue of \$137,734, which is captured as a part of the overall 2025 tax-supported surplus.

In accordance with section 386 of the *Municipal Government Act* (MGA), special tax revenue must be applied to the specific purpose stated in the special tax bylaw.

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As a result the 2025 excess alley lighting maintenance special tax revenue of \$137,734, an amount originally collected to fund the estimated 2025 maintenance costs, is being recommended to be appropriated within the Financial Stabilization Reserve (Recommendation 12) to offset the 2027 special tax for alley lighting maintenance. Administration will present a separate report later this year to propose the use of the excess 2025 revenue to offset the 2027 special tax for alley lighting maintenance, which must be advertised and followed by a 60-day petition period, as required by legislation. Once the advertising period passes and if the petition period concludes without a sufficient petition, the 2025 excess revenues can be applied to the 2027 special tax for alley lighting maintenance in the first quarter of 2027 through the related taxation bylaw.

Economic Update

Key indicators suggest that the Edmonton census metropolitan area (CMA) economy continued to strengthen in Q4 2025. Edmonton CMA employment growth accelerated in Q4 2025 and was matched by continued strength in annualized wage growth, which outpaced consumer price inflation. New housing construction in Edmonton performed strongly in Q4, especially for multi-family dwellings (i.e. semi-detached, row and apartments). Details of 2025 demographic trends, and Q4 2025 developments in the Edmonton CMA labour market, CMA price inflation and building construction and housing market trends are provided in Attachment 5.

Community Insight

The City of Edmonton's budgets are one of the ways that Council can achieve the goals of ConnectEdmonton and the Big City Moves of The City Plan. Through various channels (including formal public engagement, community conversations/tables, 311, social media and speakers at Committees of Council), the City of Edmonton listens to the needs, desires and financial realities of Edmontonians as it delivers programs and services on behalf of the community. The City of Edmonton's programs and services should enable a better life for all Edmontonians.

Administration is committed to providing financial reporting back to Council and residents that demonstrates how the City has delivered on the goals and objectives set out in the budget.

GBA+

As the financial updates reflect the reporting of actual results that provide the quantitative progress of programs and services that each have individual implications for GBA+, additional GBA is not completed for financial update reports.

Environment and Climate Review

This report was reviewed for environment and climate risks. Based on the review completed no significant interactions with the City's environmental and climate goals were identified within the scope of this report.

Attachments

1. Operating Financial Update - December 31, 2025
2. Financial Stabilization Reserve and Operating Carryforward Recommendations

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3. Structural Budget Variances - December 31, 2025 Operating Financial Update
4. PRIVATE - Structural Budget Variances - December 31, 2025 Operating Financial Update
5. City of Edmonton Q4 2025 Economic Update