

## 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 2025 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 2025 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 15, 2026, 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.

#### 2025 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 2025 is consistent with the amounts approved by City Council (Council) in April 2025 with the passing of Bylaw 21068 - 2025 Property Tax and Supplementary Property Tax Bylaw.

Edmonton's general government (tax-supported) operations ended the fiscal year with a \$31.1 million surplus, or 0.8 per cent of the tax-supported expense budget.

Favourable tax-supported budget variance included within the overall corporate results include:

- Lower than expected budget required for risk-adjusted estimates for centrally managing volatile costs (fuel, utilities, inflation and collective bargaining).
- Higher than budgeted EPCOR Power franchise fee revenue as a result of increased consumption from colder winter temperatures and high summer temperatures, as well as franchise fee revenues attributable to the City from the previous franchise fee agreement. A new EPCOR Power franchise agreement was approved by Council effective August 19, 2025.

- Higher membership and admissions revenue driven by increased demand for City recreation, attraction facilities and special events.
- Lower than budgeted increase in the City's long-term disability post-employment benefit obligation due to less than expected employees on the City's long-term disability program. The City must continue to pay the employer portion of benefit costs (continuation of pension, medical, dental and other benefits coverage) for employees on long-term disability and this is recognized as a long-term disability obligation within employee benefit obligations on the Statement of Financial Position.
- Higher tax penalties due to a larger number of properties with outstanding property tax balances.
- Lower than budgeted fuel expenses as a result of lower prices and volumes.

These were partially offset by unfavourable tax-supported budget variances, including:

- Increased personnel costs due to increased overtime in Edmonton Transit Services and Fire Rescue Services to maintain service levels while staff were on leave (sick leave and WCB)
- Increases in personnel and security costs in Community Recreation and Culture as a result of higher demand.
- Higher snow and ice control costs due to unbudgeted cul-de-sac clearing in the first quarter, contaminated sand removal and extensive December snowfall.
- Higher than budgeted operational expenses as a result of increased demand for recreation and attraction facilities, including equipment purchases, cost of materials, facility custodial costs, and special event and concert expenses, partially offset by higher revenues.
- Less than budgeted on street construction and maintenance (OSCAM) permit revenue as a result of lower industry demand.
- Slower than expected market recovery for transit advertising revenues.
- Lower ATCO Gas franchise revenue due to reduced customer usage and lower delivery rates.

Starting in 2023, the City began making adjustments to the 2023-2026 budget in response to challenges like inflationary pressures, rapid population growth and evolving service needs. These budget challenges have made service delivery much more expensive than what was forecast when the four-year budget was developed and approved in 2022. In 2025, the City continued to respond to these budget challenges by carefully monitoring our revenues and managing expenses. The City will continue to manage these challenges through an ongoing commitment to efficiency and continual improvement in 2026 and the next budget cycle.

With an overall accumulated surplus of \$20,427.9 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.

## FINANCIAL POSITION

### Consolidated Statement of Financial Position

(millions of \$)

	2025	2024	2023	2022 Restated*	2021
Financial Assets	\$ 9,964.1	\$ 9,433.6	\$ 8,873.7	\$ 8,511.1	\$ 8,093.8
Liabilities	6,763.3	6,348.3	6,041.7	5,804.0	5,370.8
Net Financial Assets	\$ 3,200.8	\$ 3,085.3	\$ 2,832.0	\$ 2,707.1	\$ 2,723.0
Non-Financial Assets	17,227.1	16,069.4	15,161.7	14,443.7	13,839.1
<b>Accumulated Surplus</b>	<b>\$ 20,427.9</b>	<b>\$ 19,154.7</b>	<b>\$ 17,993.7</b>	<b>\$ 17,150.8</b>	<b>\$ 16,562.1</b>

\* 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 \$3,200.8 million, an increase of \$115.5 million, or 3.7 per cent, compared to the 2024 balance. The primary components of the net financial asset balance are the City's investment in EPCOR of \$5,476.5 million and investments of \$2,958.2 million, partially offset by long-term debt of \$4,592.2 million, and accounts payable and accrued liabilities of \$1,223.8 million.

The City's **non-financial assets** at the end of 2025 were \$17,277.1 million, an overall increase of \$1,157.7 million, compared to 2024. 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 \$17,095.1 million. The City's non-financial assets have grown over the last five years, driven by continued investments in infrastructure. These investments include constructing new assets to meet the needs of a growing population and renewing existing infrastructure to extend its service life and reduce the risk of failure. In 2025 the City had the largest capital spend over the last five years. This was due to large infrastructure investments including the Lewis Farms Community Recreation Centre and Library, Valley Line West LRT, Capital Line South LRT, Terwillegar Drive Expressway Upgrade and Yellowhead Trail Freeway Conversion. The ability to build and maintain these assets ensures the City can deliver the services and programs residents rely on daily while also attracting new residents and businesses.

**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 2025 with a total accumulated surplus of \$20,427.9 million, an increase of 6.6 per cent compared to 2024. 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 prudent reserve management.

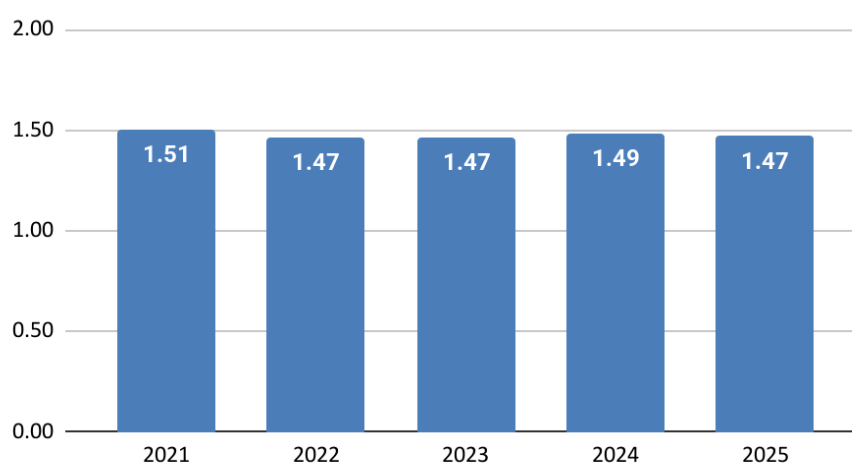
Refer to the Statistical Review section of the annual financial report for additional trending and other statistical data.

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 slightly decreased in 2025 to 1.47, mainly due to an increase in long-term debt and deferred revenue (largely composed of capital grants from other orders of government that are restricted by agreement until used for the purpose specified).

### Financial Assets to Liabilities



## CASH

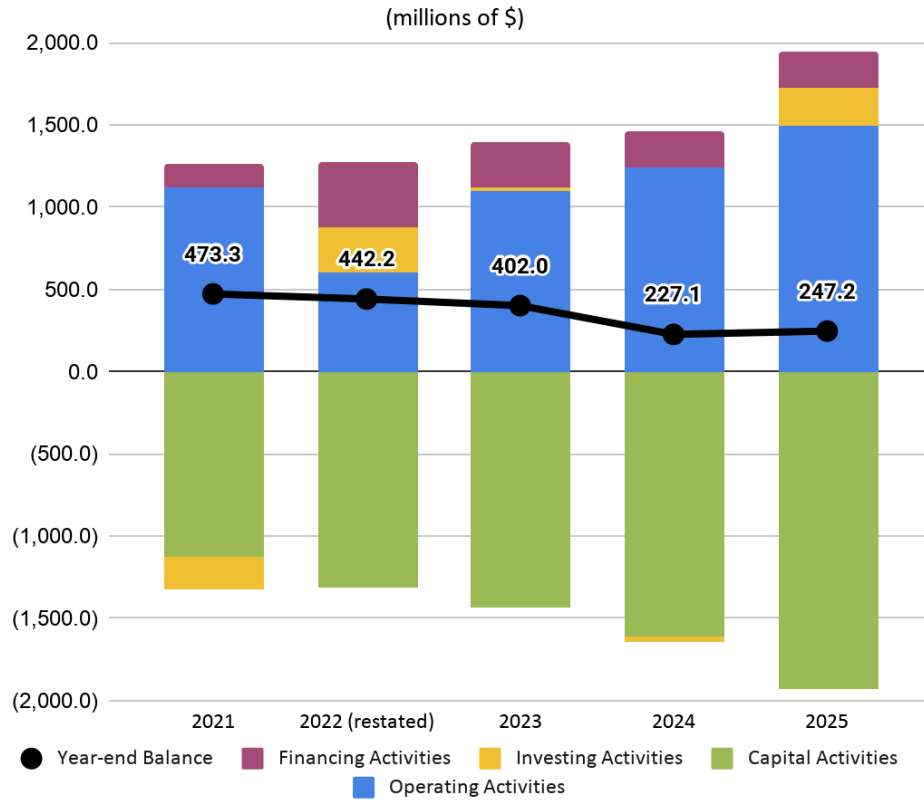
The City's cash position includes both cash and cash equivalents such as bankers' acceptances, treasury bills and commercial paper, which is used to ensure that sufficient cash and liquid assets are available to manage the timing of payments for the City's operating, capital, investing and financing activities. In 2025, the City's cash position increased to \$247.2 million from \$227.1 million in 2024, an overall increase of \$20.1 million, or 8.9 per cent.

The Consolidated Statement of Cash Flows summarizes the sources and uses of cash by the City in 2025. During the year, the City's raised \$1,493.2 million in cash from operations, \$231.8 million from investing activities, mainly due to a \$201.0 million dividend from EPCOR, and \$223.7 million from financing activities, largely due to net debenture borrowings to finance capital. The City used \$1,928.6 million in cash to fund capital activities, primarily the acquisition of tangible capital assets.

Cash and cash equivalents fluctuate throughout the year based on working capital needs. The City regularly monitors its working capital requirements to determine the optimal mix of cash and cash equivalents, which generally mature within 90 days and are capable of prompt liquidation (including cash on deposit, bankers' acceptances, treasury bills, and commercial paper), and short-term and long-term

investments. The City maintains a strong financial assets-to-liabilities ratio, a robust accumulated surplus, and monitors working capital to ensure sufficient cash funds are available to manage expenditures.

### Cash Flows



## RECEIVABLES

The 2025 receivables balance of \$998.4 million increased by \$41.8 million, or 4.4 per cent, from the prior year balance of \$956.6 million. A majority of the increase is related to increases in government transfers and taxes receivable, partially offset by a decrease in the GST receivable compared to prior year.

Government transfers receivable increased by \$34.7 million, primarily due to a net \$73.4 million increase in the Investing in Canada Infrastructure Program (ICIP) grant funding receivable, which corresponds to expenditures incurred in 2025 for both the Valley Line West and Capital Line Southeast LRT projects for which the corresponding grant funding will be received in future periods. This increase in receivables was partially offset by the receipt of Canada Community-Building Fund and Alberta Transportation Grant funding which were in receivable positions at the end of 2024 and related to eligible 2024 expenditures for the Yellowhead Trail Freeway Conversion.

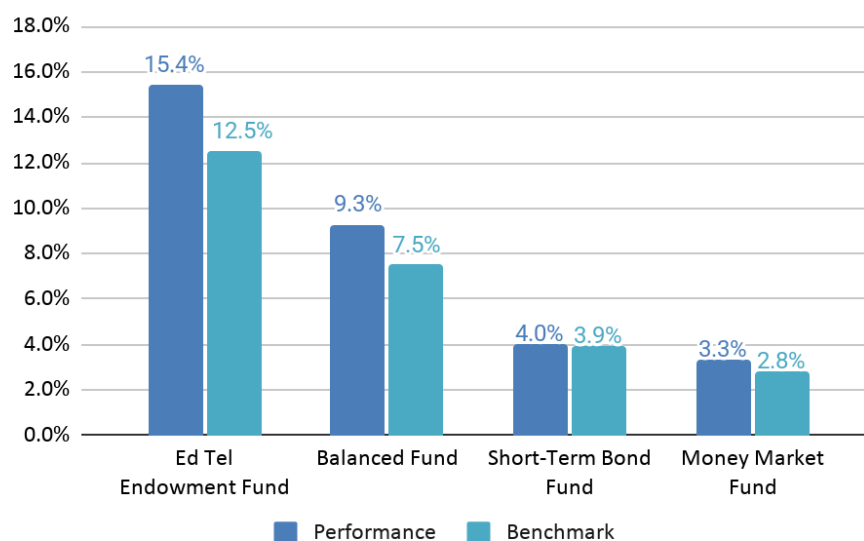
Taxes receivable increased by \$21.6 million, driven by a greater number of accounts in arrears. The increase in taxes receivable is directly influenced by economic conditions and tax tolerance. A slower economy and property owners reaching the limits of their tax tolerance results in an increase in unpaid taxes.

GST receivables decreased by \$17.7 million, primarily due to a timing variance, as the prior year's balance included two months of GST receivables, compared to only one month in 2025.

## 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.

### 2025 Performance vs. Benchmark



Included in investments of \$2,958.2 million are Canadian 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. 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. 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 Ed Tel Endowment Fund was established in 1995 with the sale of the City's municipally-owned telephone company, Edmonton Telephones, to 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 2025, the Ed Tel Endowment Fund contributed \$48.1 million in dividends to the City. Since 1995, the Ed Tel Endowment Fund has contributed a total of \$1,108.2 million to the City in the form of annual dividends. The fund ended the year with a market value of \$1,149.6 million.

Overall the City's portfolio investments increased over the prior year by \$149.0 million, or 5.3 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 3.3 per cent (Money Market Fund) to 15.4 per cent (Ed Tel Endowment Fund), reflecting each fund's asset mix.

In terms of general market conditions, global equities grew 18.1 per cent for the year, and U.S. equities gained 17.9 per cent. Canadian equities were up 31.7 per cent. The Canadian dollar appreciated about 5 per cent against the U.S. dollar. Finally, Canadian fixed income securities increased 2.6 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 15.4 per cent and 9.3 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 3.3 per cent and 4.0 per cent, respectively. Overall, the market value of the City's investment portfolio at year-end was \$3,004.2 million. By December 31, 2025, the unrealized gains on equity investments held was \$199.8 million (2024 - \$138.1 million).

More detailed information about the investment performance and benchmarks is available in the 2025 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 Canadian 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 2025 consolidated financial statements in accordance with International Financial Reporting Standards. 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 2025, the City's investment in EPCOR increased to \$5,476.5 million from \$5,172.1 million in 2024, a net increase of \$304.4 million, or 5.9 per cent. The net increase is due to EPCOR's reported net income of \$533.5 million for 2025, and \$51.6 million of tangible capital assets contributed to EPCOR by the City. This is offset by \$4.7 million in amortization of contributed assets, other comprehensive loss of \$75.0 million, and a dividend of \$201.0 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, health, and significant events that occurred in 2025 are available in EPCOR's 2025 annual report, 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, 2025, the City had three promissory notes totalling \$60.0 million with a discounted value of \$59.3 million and maturity dates ranging from June 3 to June 17, 2026.

## ACCOUNTS PAYABLE AND 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 \$1,223.8 million at year-end increased over the prior-year balance of \$1,178.8 million by \$45.0 million, or 3.8 per cent.

Trade payables reflect a net increase of \$142.7 million over the prior years, due to large capital infrastructure projects in the third year of the capital budget cycle, including Valley Line West and Capital Line Southeast LRT projects and Yellowhead Trail Freeway Conversion.

Payroll and remittance liabilities decreased by \$73.7 million, as salary adjustments accrued at the end of 2024 were paid in 2025 when collective bargaining agreements were approved.

Developer obligations are a mechanism to share in the costs of construction for new developments, including new arterial roads, and water and wastewater infrastructure. These funds are collected from developers and then used to reimburse developers that front-end the costs of this infrastructure. Developer obligations decreased by \$23.1 million over the prior year largely due to the timing of collections and disbursements and the annual pace of construction development.

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 \$396.0 million increased by \$123.6 million, or 45.4 per cent, from the prior year balance of \$272.4 million. The increase is mainly due to capital funding received in advance of eligible expenditures for the Local Government Fiscal Framework. Additional funding received in advance was from the Housing Accelerator Fund, a federal funding program administered by Canada Mortgage and Housing Corporation (CMHC) to rapidly create affordable housing for vulnerable populations. This was partially offset by a decrease in Canada Community Building Fund, as funds were used for a variety of capital projects, including 50th Street CPR grade separation and Wellington Bridge replacement.

## 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 \$14.4 million, or 6.8 per cent compared to 2024, reaching a year-end balance of \$227.2 million. The majority of this increase stemmed from higher accrued vacation and major medical and dental plan obligations.

Accrued vacation increased by \$8.3 million from the prior year. This was primarily due to an increase in unused vacation hours and an adjustment to unused vacation time to reflect higher hourly rates as a result of the settlement of all collective bargaining agreements to the end of 2026.

Major medical and dental plan obligations increased by \$6.3 million compared to 2024. The City sponsors these plans, along with other employee benefit plans, which are funded through employee and/or employer contributions. Premium contributions, interest earnings, payments for benefit entitlements, and administrative costs are applied to each respective plan. Although the City implemented increases to medical and dental premiums to meet the minimum funding requirements per the collective bargaining agreements, the benefit claim experience did not accelerate as much as expected. This resulted in excess funds within the plans available for future employee benefit payments.

### ASSET RETIREMENT OBLIGATIONS

Asset Retirement Obligations represent the estimated future obligation related to the removal of asbestos in City buildings at their retirement, landfill closure and post-closure care costs from the Clover Bar and Rundle Park landfill sites and remediation of underground storage tanks. As of December 31, 2025, the liability was \$190.7 million, a decrease of \$1.5 million, or 0.8 per cent, from the 2024 balance of \$192.2 million. The decrease in the obligation was mainly due to asset retirement expenditures incurred during the year of \$11.1 million, partly offset by increases to the liability of \$9.6 million resulting from changes in estimates, accretion expense and disposal of assets. 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 from S&P Global. The use of debt to finance capital expenditures is undertaken within the principles and limits established by the City's Debt Management Fiscal Policy C203D (DMFP). 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 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 \$4,592.2 million at December 31, 2025, an increase of \$223.7 million, or 5.1 per cent, compared to the 2024 balance. Long-term debt consists of debentures, mortgages and P3 term debt. The gross amount of debentures, mortgages payable and P3 term debt of \$4,987.3 million is offset by \$395.1 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	\$ 3,848.2	\$ 520.2	\$ 4,368.4
Borrowings	432.3	38.3	470.6
Principal Payments	(208.6)	(38.2)	(246.8)
<b>Ending</b>	<b>\$ 4,071.9</b>	<b>\$ 520.3</b>	<b>\$ 4,592.2</b>

Of the total net long-term debt of \$4,592.2 million, \$4,071.9 million is tax-supported and \$520.3 million is self-liquidating. Tax-supported debt includes \$441.2 million of P3 term debt related to the portion of deferred capital costs owing to TransEd from 2025 to 2050 for the construction of the Valley Line Southeast LRT.

During the year, the City added a total of \$470.6 million through new debenture borrowings and mortgages; \$432.3 million is considered tax-supported and \$38.3 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 (\$113.5 million), Lewis Farms and Coronation Community Recreation Centres (\$107.5 million), continued progression of Downtown and Quarters Community Revitalization Levy funded projects (\$40.6 million), William Hawrelak Park Rehabilitation (\$32.3 million), Ambleside Integrated Site (\$30.5 million), Terwillegar Drive Expressway (\$25.9 million), Active

Transportation Implementation Acceleration (\$21.6 million) and and Yellowhead Trail Freeway Conversion (\$15.3 million). Self-liquidating borrowings during the year include \$22.0 million in Non-Profit Housing Corporation mortgages, \$9.4 million for Waste Management and \$6.9 million related to local improvement projects.

Debt principal repayments of \$246.8 million were made during the year, comprising \$208.6 million for tax-supported debt (including \$9.5 million of P3 term debt) and \$38.2 million for self-liquidating debt.

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 \$)

	2025	2024	2023*	2022*	2021*
Total debt servicing limit - emergency purposes (26%)	\$ 1,007.3	\$ 939.2	\$ 871.2	\$ 799.0	\$ 777.2
Debt servicing limit	\$ 418.4	\$ 391.9	\$ 420.7	\$ 341.9	\$ 289.1
Percentage used (%)	41.5	41.7	48.3	42.8	37.2
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Total debt servicing limit (21%)	\$ 813.6	\$ 758.6	\$ 703.7	\$ 645.3	\$ 627.7
Debt servicing limit	\$ 418.4	\$ 391.9	\$ 420.7	\$ 341.9	\$ 289.1
Percentage used (%)	51.4	51.7	59.8	53.0	46.1
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Tax-supported debt servicing limit (18%)	\$ 541.6	\$ 514.6	\$ 481.7	\$ 446.1	\$ 406.5
Tax-supported debt servicing	\$ 363.6	\$ 337.1	\$ 366.8	\$ 270.0	\$ 239.6
Percentage used (%)	67.1	65.5	76.1	60.5	58.9

\*The limits outlined in the table above for 2021 - 2023 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 *Asset Retirement Obligation*, and 2023 has been restated to reflect changes in debt servicing classification between self-liquidating debt and tax-supported debt.

## NON-FINANCIAL ASSETS

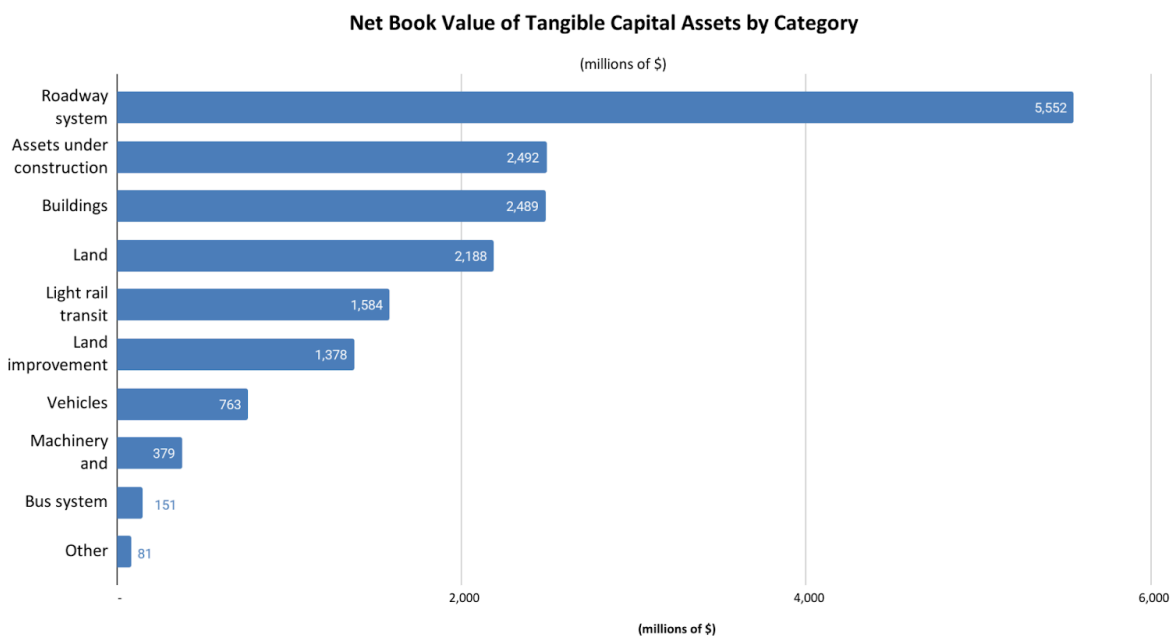
### TANGIBLE CAPITAL ASSETS

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 2024 balance of \$15,956.0 million, tangible capital assets of \$17,095.1 million have increased by 7.1 per cent. The net increase of \$1,139.1 million is a result of acquisitions of tangible capital assets of \$1,920.8 million (excluding a \$0.8 decrease in asset retirement estimates) and contributed tangible capital assets of \$46.0 million, partially offset by annual amortization of \$735.8 million and disposals and transfers of assets with a net book value of \$91.1 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 2025, the third year of the 2023-2026 capital budget, spending focused on key growth projects and infrastructure maintenance. The capital additions and contributions of \$1,966.0 million in 2025, compared to \$1,647.9 million in 2024, reflect 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 the Valley Line West and Capital Line South LRT, Yellowhead Trail Freeway Conversion, Lewis Farms Community Recreation Centre, Terwillegar Drive, William Hawrelak Park Rehabilitation and Ambleside Integrated Site Phase 1. Roadways remain the largest asset category, with a net book value of \$5,552.4 million. These are followed by assets under construction and buildings with net book values of \$2,492.1 million and \$2,448.9 million, respectively.



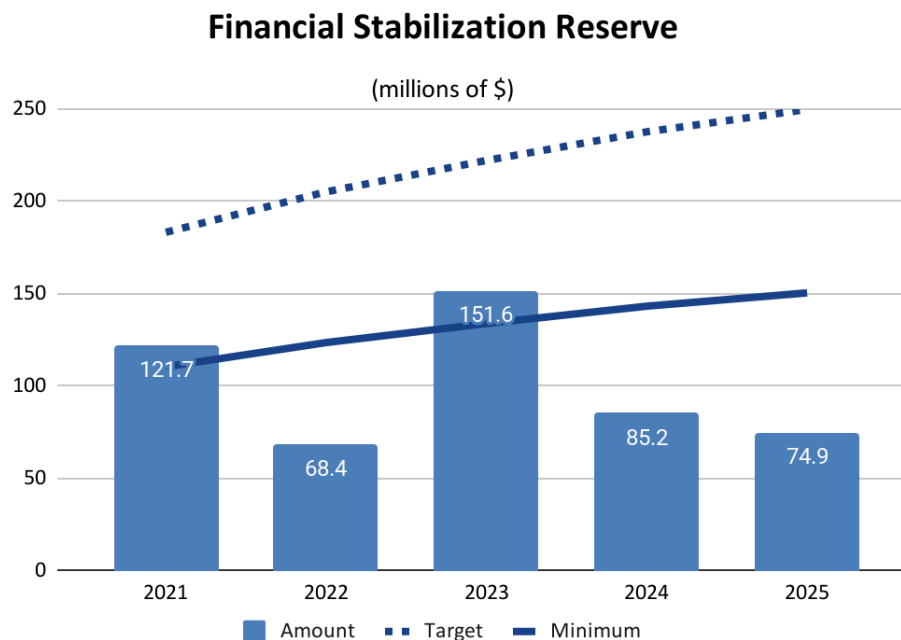
## RESERVES

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 City Policy C217F, a review is required every three years to ensure that City reserves continue to support the City's financial goals and serve the highest priority needs of the City and its residents. The reserve policy and balances are monitored on an ongoing basis. The most recent review was completed in 2024 and the next formal review is planned for 2027.

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 \$1,021.0 million at the end of 2025 decreased by \$7.6 million over the 2024 balance of \$1,028.6 million.

The unappropriated and appropriated Financial Stabilization Reserve (FSR), along with deficit reserves and any reserves that experienced significant balance changes from the previous year 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 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. 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.

Since 2024, the FSR has been below the minimum required balance. In accordance with Policy C629A, when the reserve balance is below the minimum, a strategy is required to restore the FSR to its minimum balance within a maximum of three years, starting with the subsequent year's operating budget. This strategy can involve several measures including, using unplanned one-time revenues, achieving savings through one-time cost reduction strategies, repurposing previously committed one-time appropriated FSR items no longer needed and transferring funds from other reserves that are no longer required for their original purposes. In December 2024, as part of the Fall Supplemental Operating Budget Adjustment process, Council approved \$10.0 million in one-time savings for 2025 to support FSR replenishment and approved tax increases of 0.5 per cent in 2025 and an additional 0.6 per cent in 2026. These measures aim to restore the FSR to its minimum balance over a five-year period, from 2025 to 2029. To implement this longer timeline, Council approved an exemption to Policy C629A, allowing the repayment strategy to span five years instead of three years.

As of December 31, 2025, the unappropriated FSR balance was \$74.9 million, representing a \$10.3 million decrease from the 2024 balance of \$85.2 million. The decrease in the reserve during 2025 was due to several factors including, funding the \$4.2 million general government deficit from 2024, appropriating an additional \$23.3 million within the FSR for 2025 projects and initiatives that were not completed in 2024, and utilizing \$9.3 million from the unappropriated FSR to fund priority items for 2026 and 2027 on a one-time basis. Contributions to the reserve included \$20.7 million in funding transferred into the FSR as part of the replenishment strategy previously discussed (comprising \$10.0 million in one-time savings and 2025 tax levy funding from the 0.5 per cent tax levy increase), and \$5.8 million in funding for previously appropriated FSR projects that were released back to the unappropriated FSR after being deemed no longer necessary. Consequently, the reserve concluded the year with a balance of \$74.9 million as of December 31, 2025.

After accounting for the \$31.1 million 2025 tax-supported surplus, Council-approved operating budget carry-forwards of \$12.1 million, and the use of \$6.5 million to fund priority items in 2026, the projected unappropriated FSR balance for 2026 is \$87.4 million. This amount is \$63.0 million below the required minimum balance of \$150.4 million. Considering the 2025 tax-supported surplus, the recommended carry-forwards, and the FSR replenishment strategy, the FSR is forecasted to reach its minimum balance in 2028. Once the FSR achieves its minimum balance, the funds used for replenishment will be reallocated to a dedicated renewal fund to address the City's capital infrastructure renewal deficit.

The **Pay-As-You-Go (PAYGO) 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 \$211.0 million is fully allocated to capital and reflects the approved PAYGO funding for capital projects with expenditures in future years.

The **Planning and Development Reserve** is a financial stabilization reserve established to ensure the long-term fiscal sustainability of the Planning and Development Business. The reserve balance reflects the accumulated, appropriated surplus of the Planning and Development Business over time. The balance increased by \$13.6 million from 2024, reaching \$69.9 million by year-end. This growth is primarily attributable to sustained development activity, particularly residential construction and infill redevelopment, and higher per-permit revenues. The current balance exceeds the target of \$52.7 million, which is calculated as 75 per cent of budgeted expenditures. In accordance with City Policy C610, Fiscal Policy for the Planning and Development Business, if the balance exceeds the target, Administration is required to develop and implement a strategy to reduce the fund balance over a period not to exceed three years, beginning with the subsequent year's operating budget. The City is currently pursuing strategies to manage the reserve balance, including increasing staffing levels to meet business demands, shifting eligible expenses previously covered by the tax levy to Planning and Development revenues (subject to Council approval), and conducting a cost of service study. This study will help determine the true cost of providing these services and may lead to revised minimum and target balances for the reserve.

The **Light Rail Transit Reserve** ended the year with a balance of \$125.3 million, a decrease of \$13.5 million from 2024. 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, passenger service operating costs, and to offset passenger service revenue shortfall.

The **Neighbourhood Renewal Reserve**, funded by dedicated tax revenue, is designed to cover the Neighbourhood Renewal Program's net annual expenditures. In 2025, the reserve ended the year with a

\$10.4 million deficit, a reversal from the \$2.4 million surplus recorded in 2024. This deficit is primarily attributable to the timing of neighbourhood renewal capital projects, as capital expenditures funded by the reserve in 2025 surpassed the incoming tax-levy funding. This situation is anticipated to be temporary, with tax-levy funding projected to exceed capital expenditures in future years, thereby resolving the deficit.

The **Edmonton Police Service Reserve** was established to manage operational surpluses and deficits of the Edmonton Police Service (EPS) over time. At the end of 2025, the balance in the EPS operating reserve is a deficit of \$4.9 million. 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 and Edmonton Police Commission (EPC), 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 City maintains reserves that are used to accommodate differences between expenses and related funding sources. These include the Interim Financing and the Community Revitalization Levy reserves (Capital City Downtown, Belvedere and Quarters). 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.

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 2025, the reserve had a deficit balance of \$32.1 million compared to a deficit of \$33.4 million in 2024. The deficit will be repaid through external funding sources.

A **Community Revitalization Levy (CRL)** is a provincially legislated financing tool that provides a stable funding for public infrastructure investments in the approved redevelopment areas for the life of the CRL. The City has three CRL's: the Quarters CRL, the Belvedere CRL and the Capital City Downtown (Downtown) CRL. The Quarters and Belvedere CRLs each have terms of 20 years from their start dates, ending in 2031 and 2032, respectively. On June 27, 2025, Council approved Bylaw 21158, to amend the Capital City Downtown CRL Plan by extending the duration of the CRL by 10 years to 2044 (total term of 30 years), and adding new catalyst projects. This amendment was approved by the Government of Alberta on July 31, 2025.

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 \$64.5 million in 2025 compared to \$49.5 million in 2024.

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 or 30 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 Executive Committee on March 26, 2026. The annual update projects that the Quarters CRL will end its 20 year term in a deficit position, the Belvedere CRL will break even over its 20-year term, and the Downtown CRL will end its 30 year term with a surplus based on currently approved projects.

### **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 \$910.8 million for 2025, 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 \$12,591.2 million.

### **ADVANCES FOR CONSTRUCTION (CAPITAL TO BE FINANCED)**

At the end of 2025, \$36.1 million of capital funding was in place in advance of incurring capital expenditures. The debt proceeds will be used early in 2026 to finance related project expenditures.

### **OBLIGATIONS TO BE FUNDED IN FUTURE YEARS**

Obligations to be funded in future years ended at \$143.1 million. 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 changes in the 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 \$)

	2025 Actual	2024 Actual	2023 Actual	2022 Actual Restated	2021 Actual
Operating Revenues	\$ 4,383.1	\$ 4,001.6	\$ 3,674.1	\$ 3,433.8	\$ 3,358.5
Capital Revenues	957.6	800.3	762.5	633.5	527.1
Operating Expenses	4,044.0	3,819.8	3,658.7	3,426.0	3,093.5
<b>Excess of Revenues over Expenses</b>	<b>\$ 1,296.7</b>	<b>\$ 982.1</b>	<b>\$ 777.9</b>	<b>\$ 641.3</b>	<b>\$ 792.1</b>

Consolidated revenues exceeded expenses for the year by \$1,296.7 million after accounting for government transfers for capital, contributed tangible capital assets, developer and customer contributions for capital and local improvements.

Operating revenues increased 9.5 per cent from the prior year, with increases in revenue from property taxes, subsidiary operations - EPCOR, user fees and sales of goods and services, franchise fees and investment earnings. These revenue increases were partially offset by decreases in operating developer and customer contributions and operating government transfers.

Capital revenues vary from year-to-year based on the timing of capital projects and the 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 2025, including Valley Line West and Capital Line South LRT, Yellowhead Trail Freeway Conversion, Lewis Farms Community Recreation Centre, Terwillegar Drive, William Hawrelak Park Rehabilitation and Ambleside Integrated Site Phase 1.

Operating expenses have increased since 2021, reflecting the costs to maintain and improve existing infrastructure and core services associated 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 supplementary budget adjustment via the 2025 Tax Levy Confirmation (formerly the Spring Supplemental Operating Budget Adjustment) approved by Council on April 22, 2025 which incorporates the 2024 operating budget carry-forwards, and related adjustments made in December 2024 and finalizes the 2025 operating budget. The capital budget line items are based on the 2023-2026 capital budget approved in December 2022, as part of the overall 2023-2026 capital budget, plus carry-forward of unspent capital budget from previous years. 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 \$)

	2025 Budget (A)	2025 Actual (B)	Variance (B-A)	2024 Actual (C)	Variance (B-C)
Net taxes available for municipal purposes	\$ 2,317.8	\$ 2,333.0	\$ 15.2	\$ 2,136.9	\$ 196.1
User fees and sales of goods and services	685.8	711.9	26.1	652.3	59.6
Subsidiary operations - EPCOR	520.1	533.5	13.4	426.5	107.0
Franchise fees	238.3	248.9	10.6	222.4	26.5
Investment earnings	138.8	221.9	83.1	201.7	20.2
Government transfers - operating	146.6	153.8	7.2	165.8	(12.0)
Licences and permits	91.7	98.5	6.8	94.0	4.5
Fines and penalties	51.0	60.2	9.2	69.2	(9.0)
Developer and customer contributions - operating	20.9	21.4	0.5	32.8	(11.4)
<b>Operating Revenues</b>	<b>\$ 4,211.0</b>	<b>\$ 4,383.1</b>	<b>\$ 172.1</b>	<b>\$ 4,001.6</b>	<b>\$ 381.5</b>

## COMPARISON TO BUDGET

Operating revenues were higher than budgeted by \$172.1 million, or 4.1 per cent of the revenue budget, mainly due to higher than budgeted investment earnings, income from user fees and sale of goods and services, property taxes and subsidiary operations (EPCOR).

**Investment earnings** were higher than budgeted as a result of investment funds being rebalanced to capitalize on the robust equity markets, alongside overall stronger-than-anticipated world market conditions.

**User fees and sales of goods and services** revenues were higher than budgeted, primarily due to increased attendance at recreation facilities and other city attractions, resulting in higher than expected membership and admission revenues. Additionally, Waste Services' utility revenues were higher than anticipated, driven by customer growth.

**Property Taxes** were higher than budgeted due to several factors. These include greater-than-expected assessment growth, primarily resulting from new construction, upzoning and subdivision. There were also fewer non-residential complaints and fewer mid-year exemption changes than anticipated.

## COMPARISON TO PRIOR YEAR

Overall, operating revenues were higher when compared to last year by \$381.5 million, due to increases in revenue from property taxes, subsidiary operations - EPCOR, user fees and sales of goods and services, franchise fees and investment earnings. These increases were partially offset by a decrease in operating government transfers and developer and customer contributions.

**Net taxes available for municipal purposes** increased from the prior year, mainly due Council approving a 5.7 per cent tax increase for 2025. As well, property taxes increased due to assessment growth (growth resulting from new construction, upzoning and subdivision).

**Subsidiary operations (EPCOR)** increased from the prior year due to several factors, including a one-time transfer fee of \$84 million upon the transfer of the Blue Sky Water Reclamation Facility (located in Taylor, Texas) to Samsung Austin Semiconductor. Both Energy Services and Water Services experienced increased revenue due to higher rates, increased usage, and customer growth, as well as higher transmission system access service changes (net of collections, distribution and transmission rates) and distribution volumes. This increase was partially offset by higher amortization from the placement of new assets into service and higher income tax payments associated with increased taxable income.

**User fees and sales of goods and services** increased from the previous year, principally due to higher land sales within Land Enterprise compared to the prior year, an increase in membership and admission revenues at the recreation facilities and other city attractions due to increased attendance and higher transit fare revenue as ridership increased from last year and for the first time surpassed pre-pandemic levels. Waste Services experienced an increase in utility services revenue, driven by customer growth. This is partially offset by a decrease in wildfire support cost recoveries, as the request for, and subsequent refunding of, costs related to wildfire assistance is highly variable from year to year.

**Franchise Fees** increased compared to the previous year, driven by several factors including, higher consumption due to population growth leading to increased site counts; abnormal weather conditions, specifically unusually cold weather in February and December, and prolonged high summer temperatures, which also increased consumption.

**Investment earnings** increased compared with the prior year, mainly due to funds being rebalanced to capitalize on strong equity market performance.

**Government transfers - operating** decreased compared to the prior year due to higher grant revenues recognized in 2024, including the Alberta Transit System Cleanup Grant and the 2 Billion Trees Program.

**Developer and customer contributions - operating** saw a decline due to the temporary halt in fee collection during the review of the Sanitary Servicing Strategy Fund program.

**Fines and penalties** decreased compared to prior year due to lower traffic safety and automated enforcement fines revenue, related to changes in provincial legislation, which included certain prohibitions. This was partially offset by an increase in arrears and tax penalties in 2025 due to a large number of accounts with outstanding balances from previous years.

## 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 \$)

	2025 Budget (A)	2025 Actual (B)	Variance (B-A)	2024 Actual (C)	Variance (B-C)
Government transfers - capital	\$ 1,539.5	\$ 887.0	\$ (652.5)	\$ 701.5	\$ 185.5
Contributed tangible capital assets	119.3	46.0	(73.3)	61.6	(15.6)
Developer and customer contributions - capital	42.7	17.7	(25.0)	30.2	(12.5)
Local improvements	15.0	6.9	(8.1)	7.0	(0.1)
<b>Capital Revenues</b>	<b>\$ 1,716.5</b>	<b>\$ 957.6</b>	<b>\$ (758.9)</b>	<b>\$ 800.3</b>	<b>\$ 157.3</b>

### COMPARISON TO BUDGET

Capital revenues of \$957.6 million were \$758.9 million lower than budget due to lower capital government transfers, contributed tangible capital assets, and developer and customer contributions.

**Government transfers - capital** were lower than budget by \$652.5 million due to timing of spending related to 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. Grant eligible spending related to Yellowhead Freeway Conversion projects, Terwillegar Drive Expressway Upgrades, Housing Accelerator Fund Initiatives as well as various projects funded by the Local Government Fiscal Framework funding, occurred at a slower rate than originally planned.

**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 budget, largely due to the timing of capital expenditures that are partner or developer funded.

### COMPARISON TO PRIOR YEAR

Capital revenues were higher than 2024 by \$157.3 million, mainly due to increases in government transfers, partly offset by lower contributed tangible capital assets and developer and customer contributions.

**Government transfers - capital** revenues increased due to an overall increase in capital activity in 2025, with the increased grant revenue primarily related to LRT construction on Valley Line West, the extension of the Capital Line South and the Yellowhead Freeway Conversion project.

**Contributed tangible capital assets** were lower than prior year due to the contribution of the Citadel Theatre building in 2024, partially offset by an increase in contributed infrastructure assets such as roads, sidewalks and streetlights for new neighbourhoods during 2025.

## OPERATING EXPENSES

### Operating Expenses by Function

(millions of \$)

	2025 Budget (A)	2025 Actual (B)	Variance (A-B)	2024 Actual (C)	Variance (B-C)
Transportation services	\$ 1,219.5	\$ 1,158.9	\$ 60.6	\$ 1,114.0	\$ 44.9
Protective services	958.6	983.9	(25.3)	909.2	74.7
Community services	912.3	901.2	11.1	839.8	61.4
Waste Services Utility	233.1	237.2	(4.1)	236.9	0.3
Land Enterprise	47.0	50.0	(3.0)	30.4	19.6
Renewable Energy Systems Utility	3.9	4.9	(1.0)	3.2	1.7
Fleet services	33.9	47.0	(13.1)	43.2	3.8
Corporate administration, general municipal and other	714.1	660.9	53.2	643.1	17.8
<b>Operating Expenses</b>	<b>\$ 4,122.4</b>	<b>\$ 4,044.0</b>	<b>\$ 78.4</b>	<b>\$ 3,819.8</b>	<b>\$ 224.2</b>

## COMPARISON TO BUDGET

Consolidated operating expenses of \$4,044.0 million were higher than budget by \$78.4 million, or 1.9 per cent of the consolidated expenses budget, primarily related to protective services, fleet services and corporate administration, general municipal and other, partially offset by lower-than-budgeted costs in transportation services and community services.

**Protective services**, largely comprising Fire Rescue Services and Police Services, exceeded budget primarily due to higher than budgeted salary costs due to collective bargaining settlements, and increased overtime to meet required service levels. A part of the variance from budget is due to operating expenditures incurred by Police Services during the year, for which the original budget is included within the City's capital budget. This is partially offset by lower amortization due to fewer assets being placed into service, a result of ongoing supply chain issues.

**Fleet services** expenses exceeded budget primarily due to increased amortization resulting from increased costs for equipment and vehicles than originally budgeted. The purchase costs were higher than expected due to cost escalation on equipment and vehicles experienced over the last two years.

**Corporate administration, general municipal and other** is lower than the budget for a variety of factors, including: collective bargaining settlements held corporately, with actual expenses recognized in other areas across the corporation; lower than budgeted employee benefit obligation costs (continuation of benefits for staff on long-term disability), mainly due to fewer staff than expected on long-term disability; and lower than expected budget required for risk-adjusted estimates for centrally managing volatile costs (fuel, utilities, inflation, and collective bargaining). These favorable variances are offset by higher disposal charges related to contributed assets and higher amortization expenses reflecting new facilities, such as

the Coronation Community Recreation Centre and the Peter Hemingway Leisure Centre, being placed into service.

**Transportation services** expenses were under budget, largely due to lower amortization. This reduction stemmed primarily from slower-than-anticipated construction progress on the Yellowhead Trail and Terwillegar Drive assets, as well as less than expected developer contributed roadway assets. However, these savings were partially offset by higher personnel costs due to increased overtime required to maintain service levels amid staff shortages. Benefit expenses also rose for Short-Term and Long-Term Disability, along with a sustained increase in Workers Compensation Board (WCB) claims that require further overtime to fill shifts. Furthermore, snow and ice control expenses exceeded the budget due to significant snowfall events in late 2025.

**Community services** experienced lower-than-budgeted costs primarily due to delays in grant and rebate programs. These delays stemmed from slower-than-anticipated project progress, driven by supply chain issues and general construction delays, resulting in missed project milestones and therefore delayed grant payments towards these projects. Additionally, numerous housing grants were reclassified as capital expenses due to the nature of the costs, resulting in a favourable variance compared to the original approved budget, which included the expenses within the operating budget. This was partially offset by higher personnel and material costs at the City's facilities driven by higher than expected demand for recreation programs and services, including bookings, rentals and special events. Expenses related to the Federal 2 Billion Trees program were recognized as operating expenses, however, the budget was originally approved in capital. This resulted in an unfavourable budget variance due to the differing recognition of costs compared to budget. Lastly, amortization expense was higher than budgeted due to higher than expected capitalized assets over the last two years.

## COMPARISON TO PRIOR YEAR

In 2025, operating expenses increased by \$224.2 million from the prior year, mainly due to higher expenditures in Protective services, Community services, Transportation services and Land Enterprise.

**Protective Services** experienced increased personnel costs stemming from several factors, including collective bargaining agreements for both Edmonton Police Association and Edmonton Fire Fighters Union, increased benefit and Workers' Compensation Board (WCB) premiums, and higher overtime and staffing needs to address growing population demand. This was partially offset by lower wildfire cost recovery, reflecting lower wildfire activity in 2025.

**Community services** experienced increased recreation facility costs, driven by higher than expected demand for programs and services, including bookings, rentals and special events, as well as higher personnel costs due to collective bargaining agreements. Additionally, there were higher borrowing costs associated with capital work, including recreational facilities and higher grant payments.

**Transportation services** costs increased from the previous year, primarily due to higher wages due to collective bargaining settlement, increased overtime hours due to staff shortages and the need to maintain required service levels, and rises in Short-Term and Long-Term Disability (STD/LTD) costs alongside sustained increases in Workers Compensation Board (WCB) claims further increasing overtime to fill shifts. In addition, increased capitalization of transportation-related assets led to higher amortization, including significant ongoing LRT construction, the Yellowhead Trail Freeway Conversion, the Terwillegar Drive Expressway and neighbourhood road renewal.

**Land Enterprise** costs were higher than the previous year due to the timing of land sales.

**Corporate administration, general municipal and other** costs were greater than prior year largely due to higher wages resulting from collective bargaining agreements, and associated benefit costs, as well as debt interest charges increased due to greater borrowing undertaken for various capital infrastructure projects.

### Operating Expenses by Object

(millions of \$)

	2025 Actual (A)	2024 Actual (B)	Variance (A-B)
Salaries, wages and benefits	\$ 2,074.2	\$ 1,885.0	\$ 189.2
Materials, goods and utilities	420.3	378.7	41.6
Contracted and general services	422.7	524.9	(102.2)
Interest and bank charges	188.6	164.4	24.2
Grants and other	168.8	151.5	17.3
Amortization of tangible capital assets	735.8	686.6	49.2
Loss on disposal, impairment and transfer of tangible capital assets	33.6	28.7	4.9
<b>Operating Expenses</b>	<b>\$ 4,044.0</b>	<b>\$ 3,819.8</b>	<b>\$ 224.2</b>

When considering operating expenses by object category, the operating expense increase of \$224.2 million compared to prior year was largely due to higher salaries, wages and benefits, amortization of tangible capital assets, and an increase in materials, goods and utilities, and interest and bank charges. This is partially offset by a decrease in contract and general services compared to the prior year.

**Salaries, wages and benefits** increase is primarily attributed to higher salaries resulting from settlement of collective bargaining agreements in 2025, as well as increased Workers' Compensation Board (WCB) premiums throughout the City. Edmonton Transit Services (ETS) and Fire Rescue Services experienced increased overtime costs to maintain service levels during periods of staff shortages related to short-term and long-term disability. ETS also incurred additional overtime to fill shifts as a result of sustained increase in WCB claims.

**Amortization of tangible capital assets** was higher than the previous year as the City continued to progress in its capital plan and more assets are capitalized, including for ongoing major projects in LRT construction, the Yellowhead Trail Freeway Conversion, Terwillegar Drive Expressway and neighbourhood road renewal. This also includes additional assets placed in service related to Coronation Community Recreation Centre, Peter Hemingway Leisure Centre and Blatchford Fire Station.

**Materials, goods and utilities** increase primarily due to higher land sales and expanded forestry, landscaping, and naturalization efforts across the city. Furthermore, general inflationary pressures led to higher costs for fleet maintenance and software.

**Interest and bank charges** increased, driven by borrowing to finance various capital projects, including Valley Line West, Lewis Farms Community Recreation Centre, William Hawrelak Park Rehabilitation and Ambleside Integrated Site Phase 1.

**Contracted and general services** decreased from the prior year, primarily because the estimated costs related to unsettled collective bargaining agreements were accrued centrally in 2024 within contracted and general services. In 2025, upon settlement of the agreements for all union groups, these cost impacts were then recognized within salary, wages, and benefits. The City centrally manages the budget and estimated salary settlement impacts (year-end accruals) until the agreements are finalized. Additionally, a 2025 adjustment reduced the estimated cost for the Clover Bar Landfill post-closure liability due to revised estimates. These decreases from the prior year were partially offset by an increase in contract costs due to inflation.

Schedule 2 – Consolidated Schedule of Segment Disclosures provides a summary 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.

## 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 and 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, C610A, 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.** This 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 landholdings 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.** This policy 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 this four-year budget term 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 C631, Downtown District Energy Utility Fiscal Policy.** The purpose of this policy is to ensure the Downtown District Energy Utility is operated in a manner that reflects Council's overall vision and philosophical objectives, establish a consistent approach for financial planning, budgeting and rate setting and long-term financial sustainability. This is further intended to support the objectives of The City Plan and the Community Energy Transition Strategy. The utility shall base customer rates on the cost of service in consideration of "Business As Usual" costs. It is anticipated that positive net income and robust cash flow will be achieved through a phased implementation strategy, with debt financing reserved solely for capital expenditures.

**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 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 and wastewater rates over a longer term, providing incentives to ensure that EPCOR operates more efficiently with appropriate service levels. Bylaw 19626 sets the rates for water services charged by EPCOR for the period April 1, 2022 to March 31, 2027, with annual review of rates. Bylaw 20865 sets the rates for wastewater services charged by EPCOR for the period April 1, 2025 to December 31, 2027 with annual review of rates. For 2027 only, EPCOR water will prepare a rate filing for April 1, 2027 to December 31, 2027 including new rates. Beginning January 1, 2028 both rate filings will be combined and submitted together under the One Water strategy.

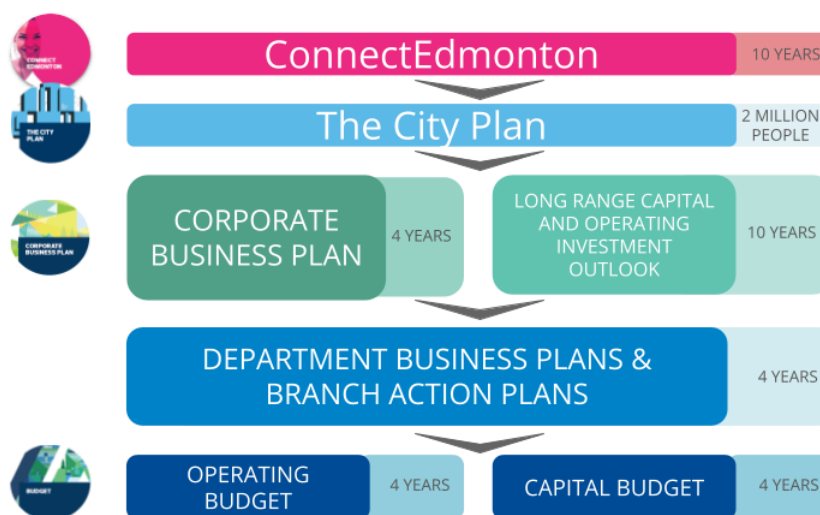
## STRATEGIC PLANNING

The City uses the Strategic Planning Framework to manage overall corporate direction. It is the collection of plans and processes that guide how the City works to demonstrate the corporate promise to enable a better life for all Edmontonians. The City's Strategic Planning Framework is composed of six interconnected plans and processes that direct the growth and evolution of Edmonton: ConnectEdmonton, The City Plan, the Corporate Business Plan, the Budget, Enterprise Performance Management and Enterprise Risk Management. Broadly, the framework answers three main questions: Where are we now? Where are we going? How will we get there?

## STRATEGIC PLANNING FRAMEWORK



City Administration puts ConnectEdmonton (direction), and The City Plan (choices) into action each four-year planning and budget cycle through the Corporate Business Plan which integrates the corporation’s work, resource allocation, performance measurement and risk management. The 10-year Operating and Capital Investment Outlooks provide a longer-term financial planning framework that informs the development of the four year Operating and Capital Budgets.

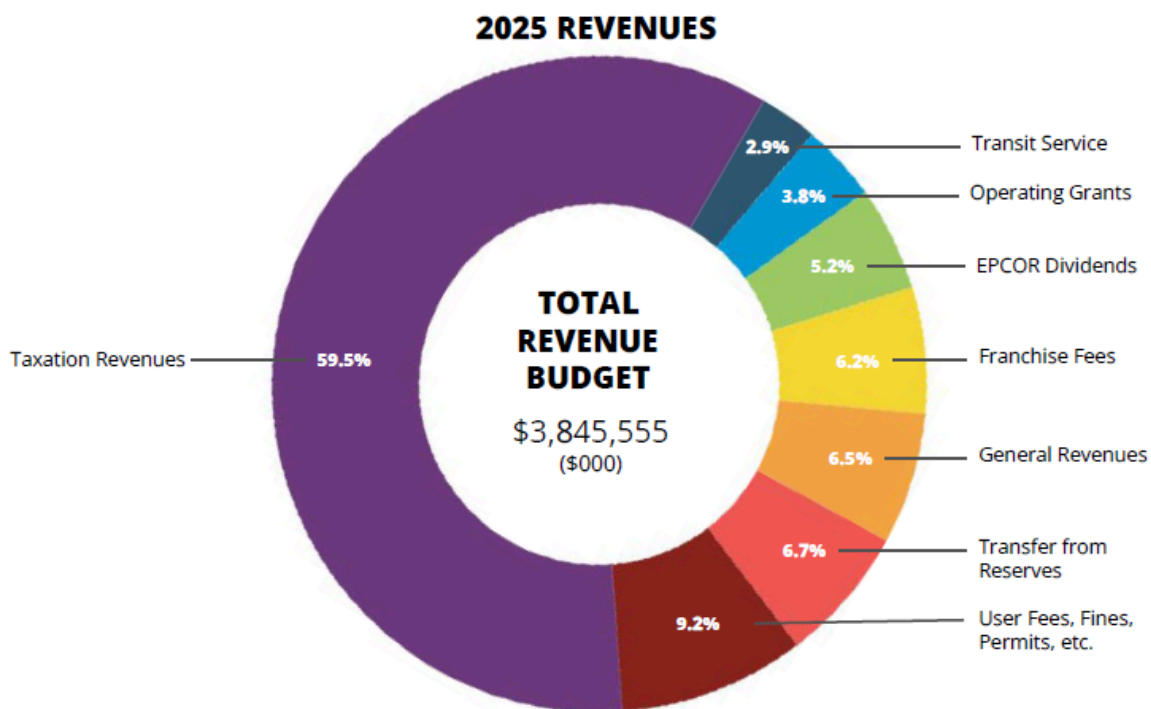


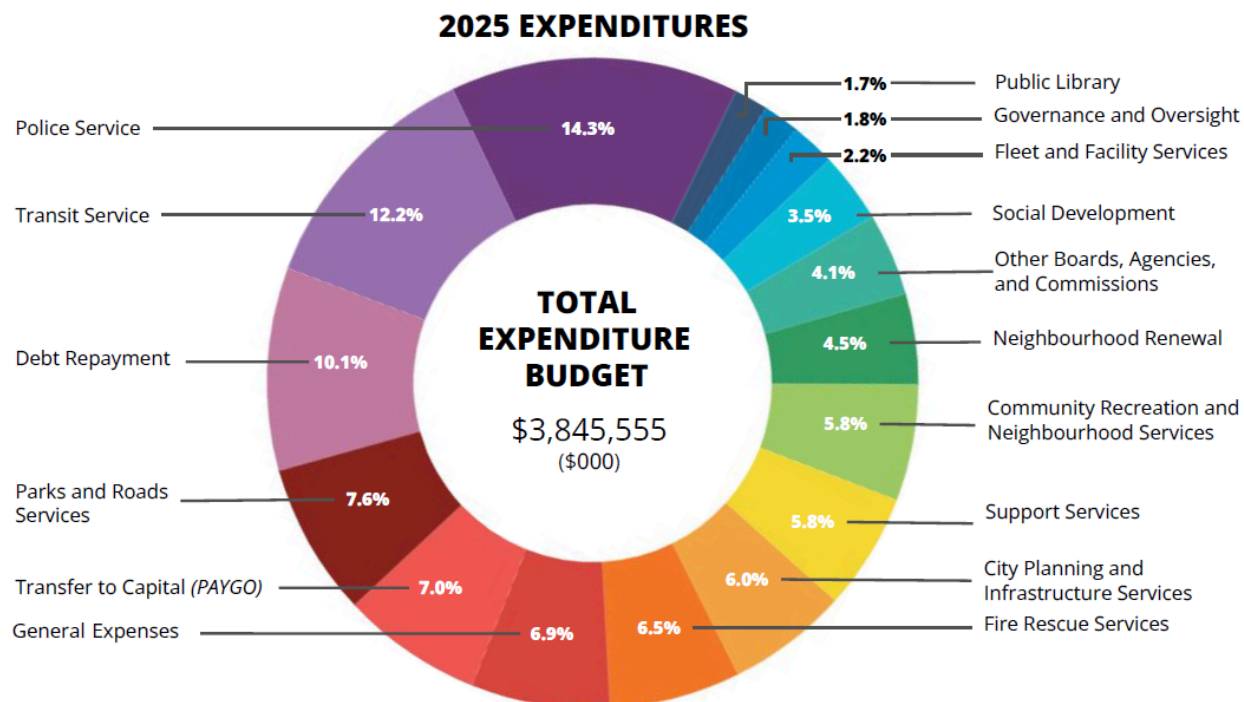
### BUDGETING

Guided by Edmonton’s strategic plans ConnectEdmonton and The City Plan, the 2023-2026 Operating and Capital Budgets guide 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 2025, Council finalized the 2025 budget through the spring tax levy confirmation 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 5.7 per cent general property tax increase in 2025. The chart below shows the City's total revenue budget 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 include Automated Enforcement. Capital Project Financing and corporate wide expenditures.*

*Support Services includes Communications and Engagement. Employee Services and Financial and Corporate Services*

*The revenue and expenditure pie charts reflect the revenues and expenses as approved by Council in the 2025 operating budget. The budget presentation in the financial statements is adjusted for various items to adhere to public sector accounting requirements, including the elimination of internal revenues, transfers to and from reserves and other transactions (i.e. EPCOR and Ed Tel Endowment fund dividends), recognition of EPCOR's budgeted net income, elimination of debt principal payments, and consolidation of other entities controlled by the City but not included in the budgeting process. Net taxes available for municipal purposes reflected within the legislated financial statements include property taxation revenue for tax-supported operations, community revitalization areas and supplementary taxes. The net taxes figure is reduced by tax appeals and allowances. The expenses are reflected by functional areas for financial statement reporting purposes, which may differ from the City's organizational hierarchy as reflected in the budget.*

The bylaw to establish the 2026 municipal tax rate for all property types will be set by Council in April 2026. Changes to the operating budget that will impact the tax levy will be completed prior to the taxation bylaw approval.

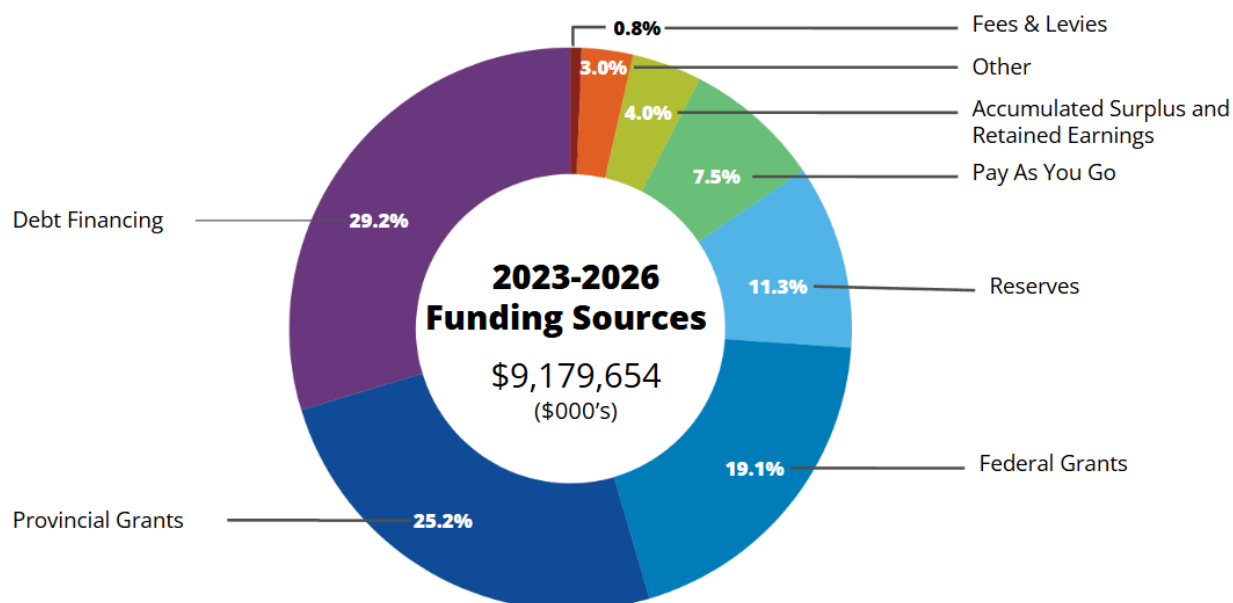
As a part of the 2023-2026 budget deliberations, Council directed the removal of \$60.0 million and the reallocation of \$240.0 million towards housing, climate change, public transit and core services between 2023-2026. This was implemented through a seven-stream project, which included a review of 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.

In 2025, Council continued 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. These action plans specify the steps and timeline for identifying the root cause and identifying potential solutions with the intention of resolving the budget issues. Actions to remedy the budget for many of the structural budget variances 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 up to two to three years. As of December 31, 2025, approximately \$42.0 million in structural budget variances have been managed through a combination of implementation of action plans, reallocation of budget from other areas of the corporation and through additional tax levy funding.

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 \$11.7 billion on infrastructure based on the approved capital budget with cash flows extending beyond 2026, with \$9.2 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:

## CAPITAL BUDGET FUNDING SOURCES



Administration is implementing two key initiatives to enhance fiscal sustainability, optimize resources, and improve strategic planning and decision-making: Total Cost of Ownership (TCO) and the Capital Infrastructure Plan Program (CIPP).

The City is integrating the Total Cost of Ownership (TCO) approach into its capital planning process to enhance fiscal resilience and long-term financial sustainability by accounting for an asset's full life-cycle costs—including initial construction, operations, maintenance, renewal, and disposal—not just the upfront capital cost. By embedding TCO analysis, the City aims to develop a consistent methodology for monitoring the Operating Impact of Capital (OIC), improve business case development, promote sustainable growth by balancing new investment with renewal, and enable informed Council decisions, with phased implementation focusing on OIC starting in the 2027-2030 budget cycle.

To enhance fiscal sustainability by improving and coordinating long-term infrastructure planning for both capital growth and ongoing renewal, Administration has initiated the development of the Capital Infrastructure Plan Program (CIPP). The CIPP is designed to be a proactive, integrated capital investment strategy that will develop city-wide plans, support transparent project prioritization, and inform future capital budgets and outlooks. It aims to align infrastructure development and renewal with The City Plan, balancing growth aspirations with financial and operational realities, and will guide investment decisions with a focus on being financially viable, environmentally responsible, and socially equitable. CIPP recommendations will be limited in the 2027-2030 budget as the program is in development but will support where data and analysis has been completed.

## 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 Canadian public sector accounting standards (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 PSAS 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 32nd 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, 2024. 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 Canadian 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 2024 Financial Report to Residents for the 11th 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 2025, 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 21111, 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.

**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 and financial constraints, environment and climate, 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

Continued robust construction activity, moderating uncertainty and improving household finances (e.g. moderating price growth, rising wages) led to strengthening in the Edmonton and census metropolitan area (CMA) economies in 2025. Employment grew 2.7 per cent in 2025, marginally trailing labour force growth, which led to a modest increase in the Edmonton CMA unemployment from 7.5 per cent in 2024 to 7.7 per cent in 2025. The strength in the Edmonton CMA labour market was accompanied by solid wage growth, which helped increase purchasing power for households amid slowing consumer price inflation. New housing construction in Edmonton reached its highest annual level in 2025 since at least 1990 with apartments playing a large role, particularly rentals.

Policy uncertainty related to housing and international relations are key risks to the City's economic outlook for Edmonton and the CMA in 2026. On housing, federal policy choices intended to expand housing supply in recent years through new home construction have been effective in Edmonton, particularly in the apartment segment. This presents an upside risk to the City's housing starts forecast should current strength in apartment construction persist. Regarding international relations, trade policy announcements from the US government since early 2025 have increased uncertainty, affecting consumer and business confidence. While the revised, narrower scope of tariff action in 2025 could support economic growth in 2026, a full restoration of confidence will take time and substantial reassurance. Uncertainty will likely remain high until a reliable and permanent resolution to the Canada-US trade dispute is achieved, with the upcoming Canada-US-Mexico trade agreement review in summer 2026 being a key factor. Additionally, geopolitical conflicts intensifying or expanding pose risks to trade and commodity prices that could materially impact expenditures for the City of Edmonton and economic activity, including in the broader region.

The City 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.

## ASSET RENEWAL INVESTMENT

The City owns an inventory of assets with a combined replacement value of over \$39.8 billion, which includes facilities, roads, open spaces, vehicles, technology and equipment. These assets support the delivery of services to Edmontonians, such as public transit, recreation, police and fire rescue services. The most recent asset condition report indicates 54.2 per cent of City assets are in very good/good condition, 33.2 per cent are in fair condition, 10.2 per cent are in poor or very poor condition and 2.3 per cent are not rated.

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 2027–2036 Capital Investment Outlook presented to Council in January 2026 identified a \$10.0 billion infrastructure gap, with an ideal 10-year renewal investment of \$17.6 billion compared to a forecasted \$7.6 billion. Currently, the renewal investment shortfall in 2027-2030 is approximately \$2.7 billion. Excluding renewal programs that are fully funded at 100 per cent (such as bridges and assets with constrained funding from neighbourhood renewal and fleet reserve), the unconstrained remainder of the renewal program is funded at 30.1 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 0.5 per cent in 2029, 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

Edmonton's intergovernmental landscape is dynamic, complex and constantly evolving, requiring close collaboration with provincial and federal governments, other municipalities and the City's Indigenous partners. These relationships are essential particularly in areas where jurisdictional limitations affect our fiscal capacity and policy authority, and also for advancing the City's policy goals and securing the funding necessary to serve our diverse and growing population.

The City Plan emphasizes the importance of leveraging these relationships to meet the City's long-term strategic goals. As a regional service hub and a gateway to the north, Edmonton faces a disproportionate fiscal burden as social issues, such as homelessness, addiction and mental health, concentrate within the City. Addressing these complex challenges requires sustained support from other orders of government and regional partners. Changing dynamics have reduced regional-level collaboration, but new MGA requirements for Intermunicipal Development Plans and Intermunicipal Collaboration Frameworks offer new opportunities to work with neighbouring municipalities to address challenges facing our region.

While the role of municipalities has expanded significantly over the last few decades, the fiscal and legislative frameworks in which municipalities operate have not kept pace. The City continues to face fiscal sustainability pressures, made worse by inflation, rising labour costs and previous reductions to provincial Grants in Place of Taxes (GIPOT), which removed a cumulative total of \$80 million from the City's budget from 2019 through to 2024. Although the restoration of GIPOT to 100 per cent in the 2026 provincial budget is a positive step, historical funding gaps remain a challenge.

Furthermore, Edmonton has seen declining per capita levels of unconstrained capital funding in recent years.<sup>1</sup> While project-specific funding for large growth initiatives like the LRT expansion is at historical highs, unconstrained funding for infrastructure renewal remains insufficient. To address these needs, the City has advocated for increased unconstrained funding and dedicated programs for municipal infrastructure maintenance and renewal through the Local Government Fiscal Framework (LGFF) and other federal and provincial funding programs.

The new federal government's policy agenda, including the \$51 billion Build Communities Strong Fund, offers significant opportunities for investment in infrastructure and economic growth. To fully leverage these programs, Administration continues to work with the provincial government to ensure the prompt review and approval of federal agreements as required by the *Provincial Priorities Act*.

Finally, the City remains mindful of rising global volatility, such as the international "tariff wars" and the potential trade impacts from the upcoming 2026 Canada-United-States-Mexico Agreement (CUSMA) review. These developments underscore the importance of collaborating with other municipalities to advocate for modernized fiscal frameworks that reflect Edmonton's responsibilities as a fast-growing city.

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<sup>1</sup> 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

In 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*.<sup>2</sup> 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 share of non-tax revenues), infrastructure funding challenges (e.g. reliance on provincial and federal transfers for capital projects, lack of funding certainty and 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.

In 2025, Council was presented with the *Fiscal Gap Strategies Work Plan*, which 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.<sup>3</sup>

The City faces a multifaceted fiscal gap that demands 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 Gap* and *Fiscal Gap Strategies Work Plan* reports emphasize 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.

## 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 C627A* 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

<sup>2</sup> October 9, 2024 Executive Committee meeting, Report FCS02218 Capital and Operating Funding Shortfall Analysis, Attachment 1

<sup>3</sup> March 5, 2025, Executive Committee meeting, report FCS02746 Fiscal Gap Strategies Work Plan.

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 (FSR) 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

The City of Edmonton maintained a strong and healthy financial position throughout 2025. This resilience is a direct result of our commitment to prudent financial management, underpinned by robust policies, strategies, and guiding principles designed for sound fiscal stewardship and long-term sustainability.

In July 2025, Edmonton's credit rating was upgraded by the credit agency Standard and Poor's (S&P) from 'AA' to 'AA+', with a stable outlook. This rating reflects the City's strong budgetary performance despite facing pressures from rising capital project costs and the increasing debt required to meet the City's ambitious capital program. The stable outlook reflects S&P's confidence that the City can maintain its strong financial position and execute its large capital program, thanks to a steady economy and prudent management, without materially increasing its debt.

Despite facing financial challenges, including sustained inflationary pressures, rapid population growth, and evolving demands for City services, we have navigated these challenges with a steadfast focus on financial discipline. Our strategy prioritizes the delivery of core municipal services and essential capital projects, ensuring we maintain and enhance the quality of life that Edmontonians expect. The solid financial foundation we have built is absolutely essential for delivering the services

and hundreds of construction projects required to support our current population and prepare for future growth.

Although we ended 2025 in a healthy state, the structural and systemic financial challenges facing the City are growing. We recognize there is much more work to do to manage these increasing pressures and ensure our financial health endures. Moving forward, we will continue to protect this financial foundation through rigorous financial processes, ongoing efforts to address systemic challenges, and the strategic, responsible management of all City revenues and expenses. Our commitment remains to safeguard the City's finances for today and for future generations of Edmontonians.

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