10-year Capital Funding Sources and Debt Forecast

TOTAL FUNDING PROJECTIONS

In the ten-year Capital Investment Agenda (2015-2024), total projected funding is $7.38 billion. This is compared with an identified renewal need totaling $5.50 billion, and $9.98 billion in identified growth projects. The gap of $8.10 billion means that despite significant levels of investment, keeping pace will remain a challenge.

The City estimates funding sources based on that which is known and committed at this time. As seen in Table 1, $7.38 billion in projected funding sources contains $2.18 billion in funding sources that have been identified and committed to projects Council has already approved, like the Downtown Arena and CRL and the Valley Line LRT Stage 1. In addition there is $2.04 billion in constrained funding, which is funding that is only available for specific types of infrastructure (e.g. fleet) or specific capital projects. It includes sources such as the dedicated tax levy for the Neighbourhood Renewal Program, local improvements, levies and developer/partner contributions.

2015-2024 - PROJECTED FUNDING ($ millions)

DRAFT DRAFT

FUNDING SOURCE	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2024
CONSTRAINED FUNDS											-
Neighbourhood Renewal Levy	106.0	125.7	146.3	167.8	167.8	167.8	167.8	167.8	167.8	167.8	1,552.3
PAYG - Pol/Lib/Traffic Safety [1]	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	170.0
Local Improvements [1]	-	-	-	-	-	-	-	-	-	-	-
Reserves (Fleet/Other) [1]	23.0	22.8	22.9	23.0	23.0	23.0	23.0	23.0	23.0	23.0	229.7
Developer/Partner [1]	14.5	14.1	8.9	6.8	7.0	7.0	7.0	7.0	7.0	7.0	86.3
Constrained Funds	160.5	179.6	195.1	214.6	214.8	214.8	214.8	214.8	214.8	214.8	2,038.3
NON-CONSTRAINED FUNDS											-
Pay-As-You-Go (PAYG) [2]	103.6	107.5	110.9	113.5	116.1	118.7	121.2	123.7	126.1	128.6	1,169.8
Pay-As-You-Go (PAYG) (repay fast-tracked) [3]	(29.0)	(29.0)	-	-	-	-	-	-	-	-	(58.0)
MSI Capital [4]	273.9	277.1	280.3	283.6	287.0	290.5	138.2	127.8	131.7	135.6	2,225.5
MSI Capital (repay fast-tracked) [3 4]	(149.6)	(67.5)	(19.5)	(16.5)	-	-	-	-	-	-	(253.1)
Grants - Federal Fuel Tax [5]	2.9	5.2	5.2	7.5	7.5	7.5	9.9	9.9	12.2	-	67.8
Non-Constrained Funds	201.7	293.3	376.9	388.0	410.6	416.7	269.2	261.3	270.0	264.2	3,151.9
ALLOCATED FUNDS											-
Quarters CRL - Debt	3.9										3.9
Downtown Arena & CRL - Debt	139.4	219.1	136.2	10.9	7.7	9.9	1.8				525.0
Downtown Arena - Partner, Other	19.0	19.0									38.0
Valley Line LRT - Debt	5.0	106.8	125.4	116.1	83.6	181.1					618.0
Valley Line LRT - Fed. - P3 Canada, BCF	-	25.0	25.0	25.0	25.0	300.0	-	-	-	-	400.0
Valley Line LRT - AB - GreenTRIP, BCF-Prov, Loan	-	123.0	123.0	123.0	123.0	108.0	-	-	-	-	600.0
Allocated Funds - Approved Profiles	167.3	492.9	409.6	275.0	239.2	599.1	1.8	-	-	-	2,184.9
	529.5	**965.7**	**981.6**	**877.6**	**864.6**	**1,230.5**	**485.7**	**476.1**	**484.7**	**478.9**	**7,375.0**

2015-2018 CONSTRAINED:	749.7	2019-2024 CONSTRAINED:	1,288.5
2015-2018 UNCONSTRAINED:	1,259.9	2019-2024 UNCONSTRAINED:	1,892.0
2015-2018 ALLOCATED:	1,344.8	2019-2024 ALLOCATED:	840.1
2015-2018 TOTAL:	**3,354.4**	2019-2024 TOTAL:	**4,020.6**

(1) Based on 2014 Operating Budget
(2) Includes funding from the allocation of Education Tax Room in the 2013 & 2014 Operating Budgets
(3) Depicts Fast Tracked amounts to be paid back
(4) Includes Basic Municipal Transportation Grant
(5) Only incremental increases shown. Remaining Federal Fuel Tax at $43.6 million per year is allocated to paying debt on South LRT

Table 1 - Projected Funding 2015-2024

The types of funding available are an important consideration relative to the overall budget available for projects. Figure 1 depicts Capital funding levels from 2006 to 2024. It is worth noting the considerable increase in the dedicated funding for the neighbourhood renewal program over this period. Also worth noting is the sizable amount of the portion of the next capital budget that will be devoted to Transformation initiatives, specifically the Downtown Arena and Community Revitalization Levies and Valley Line LRT Stage 1.

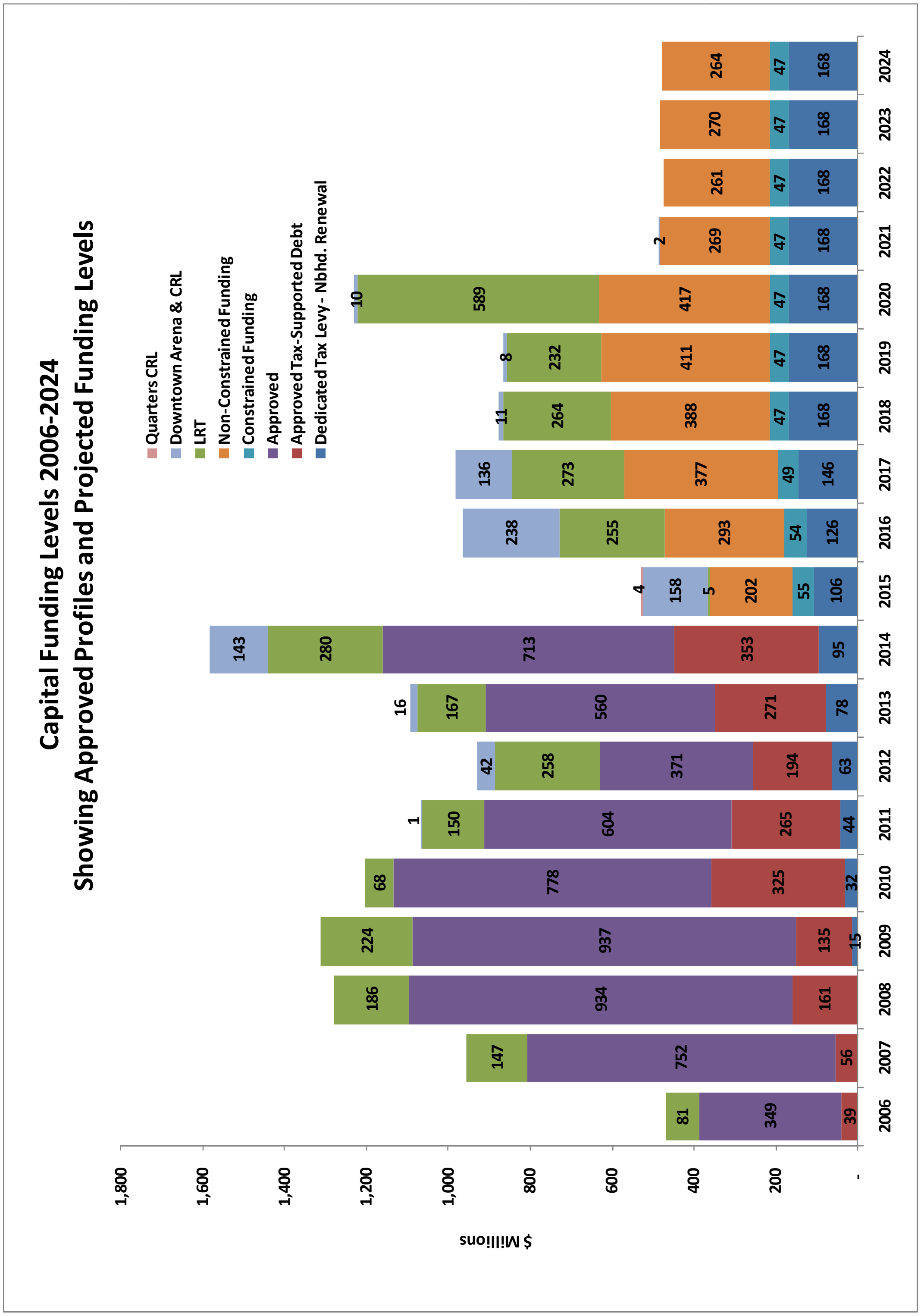

Figure 1 – Capital Funding Levels 2006 - 2024

FUNDING AVAILABLE FOR COUNCIL ALLOCATION IN 2015-2018

Though Table 1 includes all funding sources available in the 2015–2024 period, the reality is some of that funding is committed to projects already approved or, has been fast tracked and needs to be paid back. Table 2 subtracts these previously committed projects and depicts funding available for allocation to capital projects in the 2015-2024 period. For the 2015-2018 capital budget, the amount available for allocation by Council is $2.01 billion, or $500 million annually.

2015-2024 - PROJECTED FUNDING TO BE ALLOCATED ($ millions)

DRAFT DRAFT

FUNDING SOURCE	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2024
											-
CONSTRAINED FUNDS											
Neighbourhood Renewal Levy	106.0	125.7	146.3	167.8	167.8	167.8	167.8	167.8	167.8	167.8	1,552.3
PAYG - Pol/Lib/Traffic Safety [1]	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	170.0
Reserves (Fleet/Other) [1]	23.0	22.8	22.9	23.0	23.0	23.0	23.0	23.0	23.0	23.0	229.7
Developer/Partner [1]	14.5	14.1	8.9	6.8	7.0	7.0	7.0	7.0	7.0	7.0	86.3
Constrained Funds	160.5	179.6	195.1	214.6	214.8	214.8	214.8	214.8	214.8	214.8	2,038.3
											-
NON-CONSTRAINED FUNDS											
Pay-As-You-Go (PAYG) [2]	74.6	78.5	110.9	113.5	116.1	118.7	121.2	123.7	126.1	128.6	1,111.8
MSI Capital [3 4]	124.3	209.6	260.8	267.1	287.0	290.5	138.2	127.8	131.7	135.6	1,972.4
Grants - Federal Fuel Tax [5]	2.9	5.2	5.2	7.5	7.5	7.5	9.9	9.9	12.2	-	67.8
Non-Constrained Funds	201.7	293.3	376.9	388.0	410.6	416.7	269.2	261.3	270.0	264.2	3,152.0
											-
	362.2	**472.9**	**572.0**	**602.6**	**625.4**	**631.5**	**484.0**	**476.1**	**484.7**	**478.9**	**5,190.2**

2015-2018 CONSTRAINED:	749.7	2019-2024 CONSTRAINED:	1,288.5
2015-2018 UNCONSTRAINED:	1,259.9	2019-2024 UNCONSTRAINED:	1,892.1
2015-2018 TOTAL:	**2,009.7**	2019-2024 TOTAL:	**3,180.6**

(1) Based on 2014 Operating Budget
(2) Amounts are net of fast tracking and depicts funding from the allocation of Education Tax Room in the 2013 & 2014 Operating Budgets
(3) Amounts are net of fast tracking
(4) Includes Basic Municipal Transportation Grant
(5) Only incremental increases shown. Remaining Federal Fuel Tax at $43.6 million per year is allocated to paying debt on South LRT

Table 2 - Projected Available Funding to be Allocated

BALANCING GROWTH AND RENEWAL

Public infrastructure is essential to all residents and businesses in the City of Edmonton and critical to the competitiveness of our economy, the quality of life citizens enjoy, and the delivery of public services. The ability to build and properly maintain infrastructure assets is essential to ensure Edmonton can provide services and remain an attractive and cost-effective place to live and do business. One of the principles of any long-term capital plan is to optimize the investment in existing municipal infrastructure to ensure that all assets are in a condition that allows them to meet intended service levels. The best possible balance between growth and renewal should ensure that investments in infrastructure assets maximize benefits, reduce risk, and provide satisfactory levels of service to the public.

With both an aging and growing city and with limited funding, balancing investment choices between renewal and growth is a significant challenge. As infrastructure ages, more maintenance and rehabilitation are required to ensure that assets are performing well and continuing to meet the needs of citizens. At the same time, demands arise for new infrastructure to support growth.

The City of Edmonton has a good track record of keeping actual renewal investment on track with required spending. Figure 2 compares actual renewal spending from 2006-2014 to renewal targets at the time. Also shown are the recommended renewal budget and renewal targets for the next Capital cycle. If Council endorses fully funding renewal investment, it will maintain a trend of keeping pace with renewal requirements for over a decade.

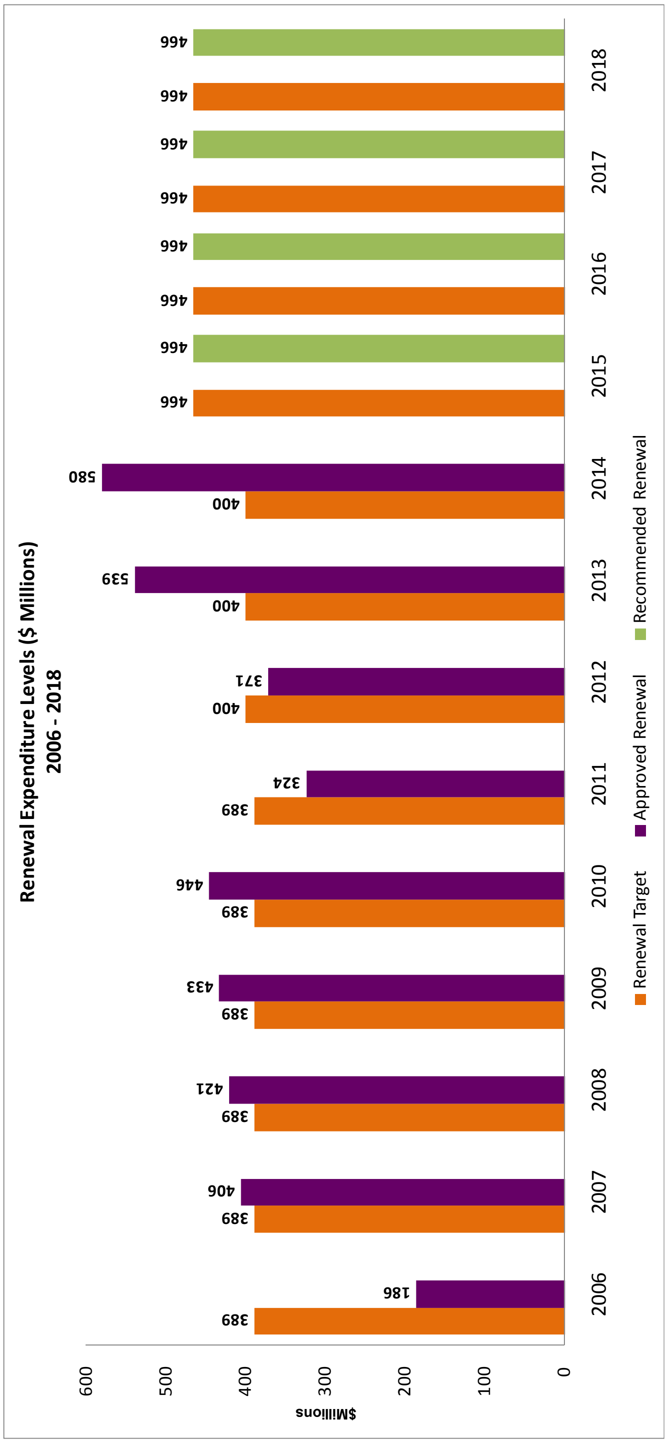

Figure 2 – Historical and Projected Renewal Expenditure Levels

PROJECTED CAPITAL EXPENDITURES

In the implementation of a capital budget, the actual timing of the investment may differ from the budget. Unspent capital budget is “carry forwarded” from previous cycles into the current cycle in order to manage spending overall. Currently, Administration is conservatively forecasting that approximately $775 million of capital budget unspent in the 2012-2014 capital cycle will be carry forwarded into the 2015-2018 cycle. The resulting effect of this, and the large transformative projects Council has recently approved (Downtown Arena and CRL, Valley Line LRT Stage 1) will result in a very similar projected expenditure in the 2015-2018 cycle compared with the previous actual expenditure.

Figure 3 illustrates the distribution of actual expenditures and projected expenditures. The projected expenditures include an extrapolation of carry forward budget anticipated at the end of 2014, as well.

It is anticipated that, given the funding realities in the 2015-2018 capital budget, Administration will budget closer to what can actually be spent, and work through the $775 million anticipated carry forward in the next cycle.

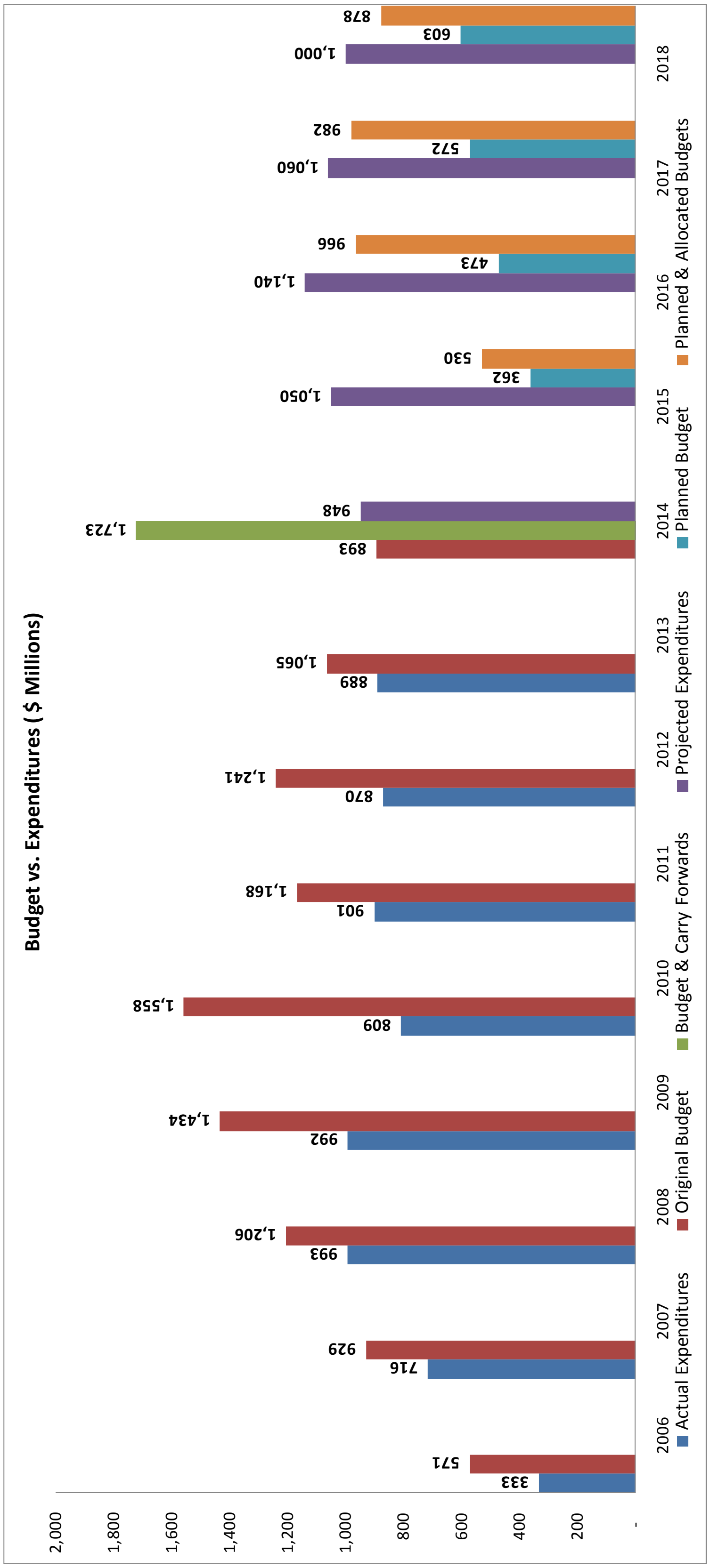

Figure 3 – Budget vs. Expenditures 2006 - 2018

DEBT

Debt and debt servicing limits are imposed by the *Municipal Government Act (MGA)* and to a more conservative degree the parameters of the City's Debt Management Fiscal Policy (DMFP). This policy limits debt servicing for tax-supported debt to 15 per cent of tax supported revenues and City total debt servicing not to exceed 22 per cent of City total revenues. Since 2007, with substantial investment in City infrastructure, debt has been a key financing tool to advance high priority, large scale projects. Figure 4 depicts the Debt Management Fiscal Policy debt servicing forecasts over the 2015-2024 Capital Investment Agenda. Note that no assumptions have been made as to the use of debt for additional projects from those that Council has already approved.

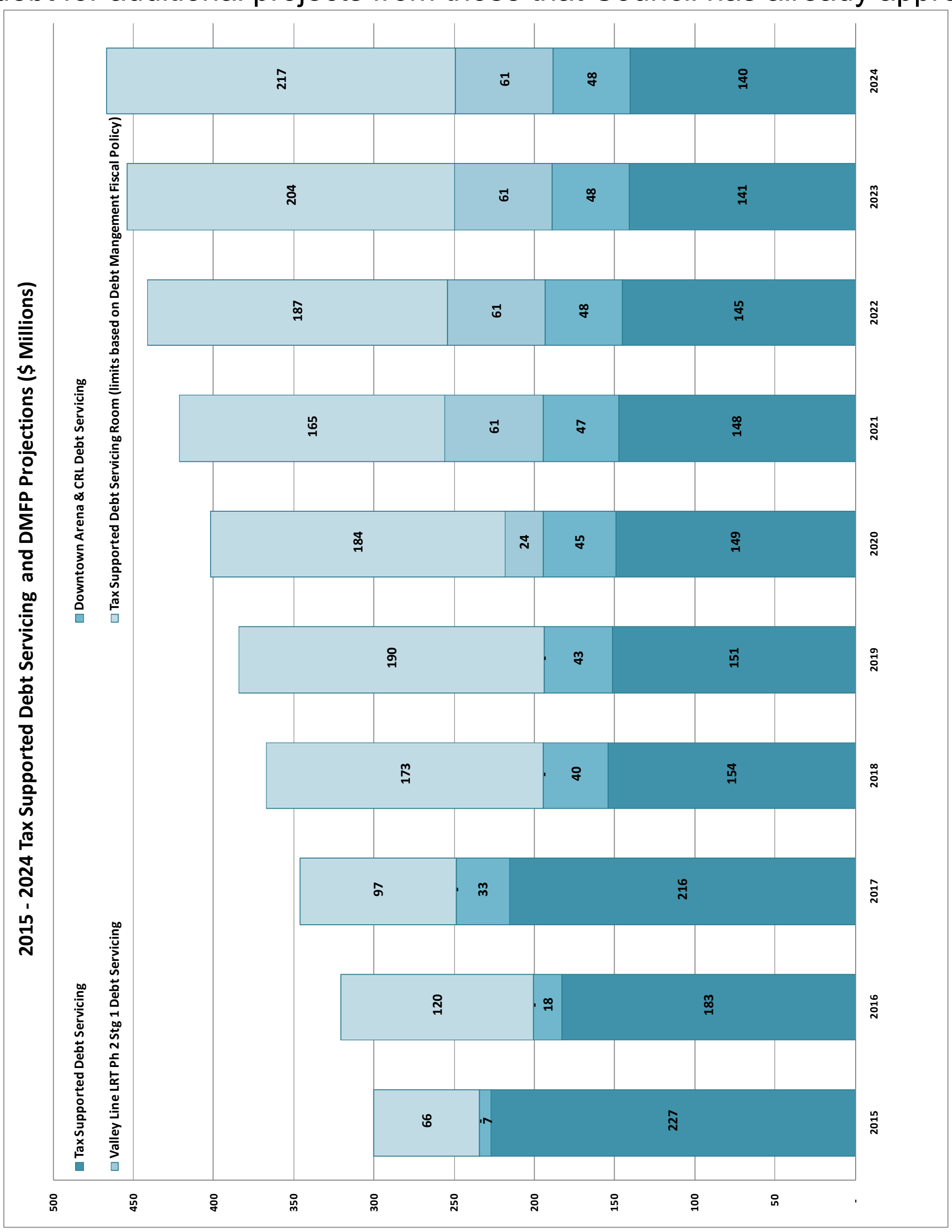

Figure 4 2015 – 2024 DMFP Debt Servicing Projections

GLOSSARY OF FUNDING SOURCES

Capital Funding Sources available to the City over the coming four-year Capital Budget and 10-year investment agenda are outlined below and are derived from a range of sources, with only currently announced estimates included.

1. Pay As You Go (PAYG) - Funds (i.e. cash) allocated each year from the operating budget for general capital expenditures; the annual amount available is determined by Council and tied to projected revenues from investments and tax levy allocations. Pay As You Go has traditionally used to pay for projects or project expenditures that were not eligible for reimbursement under federal and provincial grant programs. Note that the operating budget may fund other capital, for example the Fleet reserve and the Neighbourhood Renewal Program, but these are funds designated to specific assets or capital programs and not considered as Pay As You Go.

2. Grants - About 38 per cent of the available funding in the 2015-2024 Capital Investment Agenda is reliant on grant funding from other orders of government, representing a significant source of revenue for the City. Grants presently available for capital funding include:

- **Municipal Sustainability Initiative (MSI)** - a provincial program with broad eligibility guidelines across almost every infrastructure category – both core infrastructure and soft infrastructure, such as parks, recreation, protective services, and libraries. Exceptions include Information Technology and public art, land development, and purchase of heavy equipment. The City has its use of Municipal Sustainability Initiative grants to only tax levy (non-utility) programs. Municipalities receive an annual allocation that is distributed through a hybrid formula that includes population (48%), education tax requisition (48%) and local roads (4%). The current program is expected to end in 2021. The City's total anticipated allocation over 10 years is $2.1B.
- As of Budget 2014, the **Basic Municipal Transportation Grant** (City Transportation Fund) is now included under the Municipal Sustainability Initiative eligibility umbrella and included under Municipal Sustainability Initiative in Tables 1 and 2. The grant allocation is based on total provincial fuel volumes and distributed using a formula equivalent to 5 cents per litre. In 2011, the City committed to fast track fuel tax funded projects by borrowing $35 million against future grant payments; this fast tracking strategy requires the short-term borrowing to be repaid in 2015. While the City's funding allocation beyond 2014 is unknown, based on an inflation factor of three per cent per year, it is projected that after debt repayment (and interest), about $515 million in fuel tax payments, which the City has not yet allocated, could be available for new capital transportation projects in 2015-2019
- **Green Transit Incentives Program (GreenTRIP) -** a one-time provincial capital funding program that supports new and expanded public transit; its main objective is to help reduce vehicle usage on Alberta roads and reduce greenhouse gas emissions. Program requires cost sharing (1/3

applicant and 2/3 province), and is merit based; projects also need Capital Region Board (CRB) and Council resolution. Total value of GreenTRIP is $2.0 billion, with $800 million allocated to the Edmonton Capital Region, of which Edmonton's share is $732 million. Program will remain active until all funding has been committed and expended. The City expects to secure a commitment of $250 in support of the SE LRT which is comprised of part of the $732 million plus an additional $15 million.

- **Gas Tax Fund (GTF)** - A permanent measure since 2011, the renewed federal Gas Tax Fund (GTF) is being indexed at two per cent per year starting in 2014. Currently valued at $2 billion per year, indexing will see the program grow by $1.8 billion over 10 years, providing $21.8 billion in total funding Canada-wide over the next decade. Funding is provided up front, twice-a-year, to provinces and territories, which in turn flow the funding to their municipalities to support a broad cross-section of local infrastructure priorities. Municipalities can pool, bank and borrow against this funding. Under the existing Gas Tax Fund the City has received $43.6 million per year over the past five years (2009-2014).

  Based on Alberta's per capita allocation of $1.08 billion over the next five years (2015-2019), the City's per capita allocation is expected to grow to about $48.3 per year over the same timeframe. Given the program is being indexed at two percent annually going forward, it is expected that payments would increase incrementally each year rather than be equalized over the five years. The City's specific allocation and payment schedule will be determined through a new contribution agreement when the existing agreement expires in December 2014. The City's current and future Gas Tax Fund allocations are earmarked for South LRT debt repayment until the debt is fully retired in 2031. Indexing the Gas Tax Fund by two per cent annually along with population increases will contribute to a cumulative increase to the City of about $28.3 million in the first five years (2015-2019), and an estimated additional $39.5 million over the next four years (2016-2023). This incremental increase could be available for new capital projects that meet program eligibility.

- **New Building Canada Fund (BCF)** - Municipalities are able to access funding for eligible projects under both the National Infrastructure Component and the Provincial-Territorial Infrastructure Component. The City's per capita allocation under the Provincial-Territorial Infrastructure Component has been earmarked for the Valley Line Stage 1; the City is currently seeking $150 million for the Valley Line Stage 1 from the new BCF to supplement the $250 million approved for the project under the P3 Canada Fund, to bring the total federal contribution to the required $400 million.

3. Fees and Levies

- **Neighbourhood Renewal Program (NRP) Tax Levy** – is a dedicated tax levy of 1.5 to 2 per cent annually for neighbourhood renewal. Started in 2009, the dedicated tax levy is designed to increase annually until such time as sufficient dedicated tax allocations are established to sustain the neighbourhood renewal program. Currently, the funding from the dedicated tax is supplemented with Municipal Sustainability Initiative to meet the level of funding required for the program. The program is planned to be self-sustaining by 2018.
- **Local Improvement Fees** – for tax-supported operations, local improvements (typically sidewalks) are used exclusively through the Transportation Services capital program. The City borrows money through a formal borrowing bylaw to front-end specific projects, which are then recovered over time from residents benefiting from these improvements.
- **Developer Fees/Partner Financing** – these funds are contributed by developers or partners for specific civic infrastructure, such as buildings, parks, recreation facilities, and arterial roads.

4. Land Enterprise - As the development arm of the City, Land Enterprise acquires raw land, services, markets, and sells the serviced lots with one of its primary goals being to earn a financial return for the City. The development activities are financed by the reinvestment of past profits (retained earnings) in the acquisition of raw land and the associated site servicing costs. We will be projecting future revenues for Land Enterprise after the June 2014 reports on Land Enterprise go to Council.

5. Reserves (Fleet/ LRT)

- **Fleet Reserve** - is a dedicated Vehicle Replacement Reserve initiated within the Fleet Services enterprise as part of a financial business model change in 2010. This reserve helps to ensure that the long-term funding of capital replacement needs for city fleet assets is adequately maintained.
- **LRT Reserve** - is a portion of the tax levy which is used for LRT construction and debt servicing. At $5.1 million annually, it was created in 2005 and funded via two successive one-time tax levy increases of 0.25% in 2006 and 2007.

6. Utility Operations - Utility funding sources largely include retained earnings, self-liquidating debentures, Local Improvement Fees, and the Sanitary Servicing Strategy Fund (SSSF).

7. Community Revitalization Levies (CRL) - A program wherein the City borrows money to pay for the construction of a project(s) within a defined geographic area - typically a community boundary. Once constructed, projects funded by the Community Revitalization Levies will promote additional development and increase the assessment base within its defined area. The increase in municipal and provincial property tax revenue from the new development and rising property values will be dedicated to paying for the projects listed in the Community Revitalization Levies Plan over a 20 year period.