



2 FINANCIAL STATEMENT DISCUSSION + ANALYSIS

INTRODUCTION

The Annual Report provides information regarding the use of financial resources entrusted to the City of Edmonton for the purpose of providing municipal services and infrastructure.

In addition to providing an overview of the City's 2020 financial performance and position, this report describes significant fiscal policies, strategies and plans related to financial control, accountability, long-term sustainability and risk management.

The 2020 Annual Report includes the City's consolidated financial statements (financial statements), 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 should be read in conjunction with the financial statements. Both have been prepared by and are the responsibility of Management of the City of Edmonton. A five year statistical review of key information has also been provided.



2020 FINANCIAL HIGHLIGHTS

The City has approved a multi-year budget policy in which operating budgets are developed and approved for a four year period.

The 2019 – 2022 Operating Budget was originally passed in December of 2018. The multi-year budget process provides for adjustments to the four year budget on a semi-annual basis, in the Spring and in the Fall. Operating budget information is consistent with the amounts approved by City Council (Council) in April 2020 with the passing of Bylaw 19207 – 2020 Property Tax and Supplementary Property Tax Bylaw. In the early months of the pandemic, Administration recognized the impact COVID-19 could have on the normal operations of the City, particularly to transit and recreation revenues and these budgets were adjusted downward in the Spring of 2020. To mitigate the financial risk and uncertainty, Administration proposed adjustments to the budget that were approved with the spring Supplemental Operating Budget Adjustment (SOBA). Edmonton was one of the first municipalities in Canada to forecast impacts of the pandemic and to publicly adjust the budget. The strategies to address COVID-19 in the 2020 budget, in order of preference, were:

- Expense management and use of external financial support;
- + Redirection of capital funding to operating;
- + Financial Stabilization Reserve and other reserves; and
- + Repurposing of the corporate financial strategies budget.

Revenue budgets were reduced by \$142.6 million and partially offset with corresponding reductions in expense budgets. To balance the budget without impacting the 2020 tax rate, the remaining shortfall was addressed by reducing operating transfers to capital funding by \$46.5 million. Given the timing of the adjustments, assumptions were made that support from other orders of government would be limited. Use of the Financial Stabilization Reserve was not recommended or required. Given that neither health nor financial experts could fully predict the effect of the pandemic in the months ahead, making budget adjustments was the most responsible and transparent action.

In July 2020, the federal Safe Restart program was announced, which included \$2.0 billion in national support for municipalities. The federal government commenced discussions with provinces regarding funding distribution.

Throughout September and October the province worked with the federal government to formalize the Safe Restart Agreement and Municipal Operating Support Transfer (MOST) arrangements. The funding allocation for Edmonton was informally communicated in mid-October with the final agreement provided in mid-November.

The City of Edmonton's MOST allocation was \$158.2 million, comprising \$98.5 million for general operations and a transit-specific component of \$59.7 million. Municipalities may use MOST funding for incremental operating costs incurred due to the COVID-19 response and restart, as well as other operating losses or deficits incurred from COVID-19's impacts on revenues and operations. The deadline to spend funds is March 31, 2021.

The City ended the year with a \$40.4 million surplus (1.6 per cent of budgeted tax-supported expenses) for general government (tax-supported) operations relative to the operating budget. The surplus is primarily a result of higher revenues from items such as gas franchise fees, business licenses and tax penalties that did not decline to the level expected in the pandemic, as well as lower than anticipated costs for utilities and fuel. During the pandemic, many of the City's operations have become more expensive to deliver. Operating transit at regular service levels with significantly lower ridership results in less revenue from user fees and more expenses for personal protective equipment and cleaning. Transit fare revenue was lower than anticipated even when adjusting for the effect of the pandemic.

The variation in recreation facility operations creates different financial challenges. Operating recreation facilities during the pandemic requires the City to limit attendance in the facilities and programs, again resulting in less revenue from user fees and higher expenses for additional cleaning. Closing recreation centres completely results in financial savings as the majority of the recreation facilities operated by the City are subsidized by the tax levy and because of health guidance the City's recreation facilities were closed for longer than anticipated resulting in lower expenses.

In 2020, the City began the second year of the 2019–2022 multi-year operating budget. The 2020 operating budget saw a property tax decrease of 0.5 per cent to pay for civic programs and municipal services, and an increase of 1.0 per cent dedicated to the Edmonton Police Service (EPS), and 0.8 per cent for the Valley Line LRT, in alignment with City Council's priorities.

This year marks the second year of the City's four-year capital budget for 2019–2022. The 2019–2022 Capital Budget balances the infrastructure investment required to keep existing City assets in good repair while supporting ongoing growth needs. Approximately 31 per cent of 2019–2022 capital investment is earmarked for renewing roads, neighbourhoods, parks, City-owned buildings and transit vehicles, with the remaining 69 per cent to support planning and delivery of new infrastructure.

With an overall accumulated surplus of \$15,772.9 million, the City's financial position is 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 discussion.

FINANCIAL POSITION

Consolidated Statement of Financial Position (millions of \$)

		2020		2019		2018		2017		2016
Financial Assets	\$	7,527.5	\$	7,284.0	\$	7,237.7	\$	6,791.5	\$	5,715.8
Liabilities		5,027.5		4,796.5		4,699.5		4,334.4		4,652.7
Net Financial Assets	\$	2,500.0	\$	2,487.5	\$	2,538.2	\$	2,457.1	\$	1,063.1
Non-Financial Assets		13,272.9		12,441.0		11,758.3		10,842.2		13,638.9
Accumulated Surplus	\$	15,772.9	\$	14,928.5	\$	14,296.5	\$	13,299.3	\$	14,702.0

The City ended the year in a strong financial position with **net financial assets** of \$2,500.0 million, an overall increase of \$12.5 million compared to 2019. The primary components of the net financial asset balance are the City's investment of \$3,975.0 million in the EPCOR subsidiary, investments of \$1,983.2 million, long-term debt of \$3,407.1 million, and accounts payable and accrued liabilities of \$1,061.0. Net financial assets have held steady over the past 3 years due to capital appreciation on the City's investment holdings and the City's investment in EPCOR, resulting in a resilient and stable net financial asset position.

The City's **non-financial assets** at the end of 2020 were \$13,272.9 million, an overall increase of \$831.9 million, or 6.7 per cent, compared to 2019. Non-financial assets consist primarily of tangible capital assets such as buildings, roadways, and vehicles that are valued at \$13,195.6 million. The City's non-financial assets have grown over the last five years due to continued investments in infrastructure; these investments include the construction of new infrastructure to meet the needs of a growing population and repairs to existing infrastructure to maintain the service standards that Edmontonians expect. The ability to build and maintain infrastructure assets ensures that Edmonton can provide services and remain an attractive and cost-effective place to live and do business.

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 2020 with a total accumulated surplus of \$15,772.9 million, an increase of 5.7 per cent compared to prior year. This surplus includes the City's equity in tangible capital assets, investments 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 the accumulation of annual excess of revenues over expenses.

In 2017, City Council approved the transfer of the net assets and operations of the City's Drainage Utility to EPCOR, effective September 1, 2017. This transfer resulted in a decrease in the City's net financial assets, non-financial assets, and accumulated surplus in that year. In 2018, the City's financial position returned to the growth trend seen prior to the Drainage Utility transfer in 2017.

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.

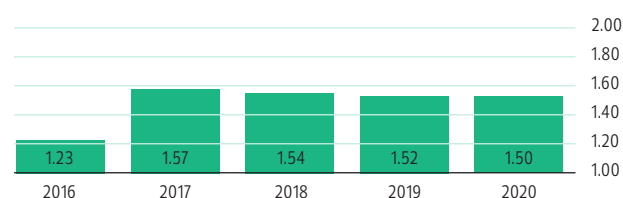
THE CITY ENDED THE YEAR IN A STRONG FINANCIAL POSITION WITH NET FINANCIAL ASSETS OF \$2,500.0 MILLION, AN OVERALL INCREASE OF \$12.5 MILLION COMPARED TO 2019.

FINANCIAL ASSETS

The financial assets-to-liabilities ratio is used to assess the sustainability of the City's financial position. A result 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 greater than one.

Financial Assets to Liabilities

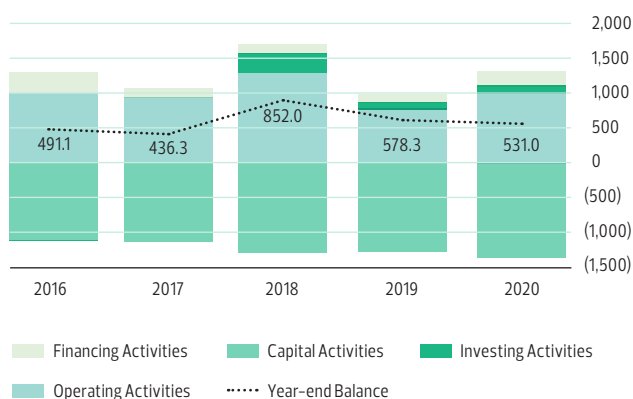


CASH

The City's cash position includes both cash and cash equivalents such as bankers' acceptances, treasury bills and commercial paper, which are used to ensure that sufficient cash and liquid assets are available to manage the timing of payments for the City's operating and capital expenditures. In 2020, the City's cash position decreased to \$531.0 million from \$578.3 million in 2019, an overall decrease of \$47.3 million, or 8.2 per cent.

The Consolidated Statement of Cash Flows summarizes the sources and uses of cash by the City in 2020. During the year, the City raised \$1,020.4 million from operations and \$184.4 million from net financing activities, as well as \$125.0 million in cash through investing activities due to a dividend from the EPCOR subsidiary of \$171.0 million during the year that offsets \$46.0 million reduction in investments. The City spent \$1,377.1 million to acquire tangible capital assets, net of proceeds on disposal.

Cash Flows (millions of \$)



RECEIVABLES

Receivables include amounts owed to the City related to the following categories: trade and other; local improvements; taxes; and government transfers. The 2020 receivables balance of \$787.2 million increased by \$118.3 million, or 17.7 per cent, from the prior year balance of \$668.9 million.

Trade and other as well as local improvement receivables increased by \$24.8 million due to normal operating fluctuations.

Government transfers receivable increased by a net \$55.9 million compared to the prior year as a result of the timing differences between expenditures related to the Valley Line Southeast LRT project and reimbursement of those expenditures through grant funding. The funding agreement is designed to match the timing of the grant payment with the completion of the project. From 2016 to 2020, design and construction work on the Valley Line Southeast LRT project has progressed and the grant receivable accumulates

SINCE 1995, THE ED TEL ENDOWMENT FUND HAS CONTRIBUTED \$872.7 MILLION TO THE CITY. IN 2020, THE FUND CONTRIBUTED \$40.1 MILLION IN DIVIDENDS TO THE CITY.

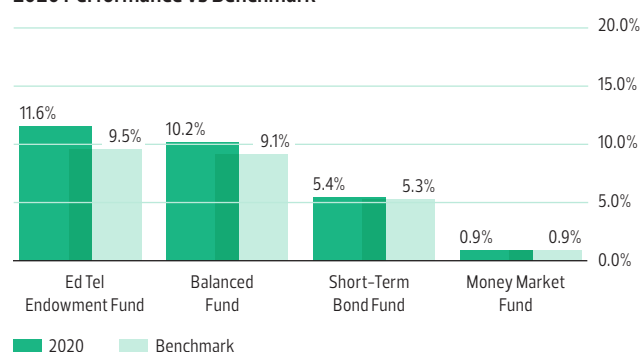
as capital expenditures are incurred on the project. Currently, the City is owed \$219.4 million from the P3 Canada Fund for expenditures incurred for the Valley Line Southeast LRT project for the construction period. The P3 Canada Fund grant will be paid to the City upon service commencement of the Valley Line Southeast LRT project, which is expected in 2021. Details on federal and provincial government transfers are provided in Note 18 to the financial statements.

Taxes receivable has increased by \$37.6 million reflecting reduced property tax collections in 2020 due mainly due to the financial hardship caused by the COVID-19 pandemic. The tax recovery process is set out in the Municipal Government Act and spans over a three year period. Generally, by the end of this three year period, close to 100 per cent of property taxes are collected.

INVESTMENTS

All investments held by the City must comply with the MGA, the *Major Cities 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.

2020 Performance vs Benchmark



Included in investments of \$1,983.2 million are amounts held as cash, amounts receivable (payable), fixed income, common and preferred shares, pooled infrastructure funds, and other investments. 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. As such, 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 is not currently needed to fund City operations but will be needed in less than five years. Therefore, 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, deferred revenue accounts and other similar funds. Because it has a longer-term investment horizon, the risk tolerance of this fund permits owning some equities.

The largest of the City investment funds is the Ed Tel Endowment Fund, established in 1995, with the sale of the City's municipally owned telephone company, Edmonton Telephones, to the 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 that 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 MARCH 2020,
THE WORLD HEALTH
ORGANIZATION
DECLARED COVID-19
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THE IMPACT
RESULTED IN THE
SHARPEST DROP IN
GLOBAL GDP SINCE
WORLD WAR II. ”



Since 1995, the Ed Tel Endowment fund has contributed \$872.7 million to the City. In 2020, the fund contributed \$40.1 million in dividends to the City. The fund ended the year with an investment book value of \$813.1 million compared to a market value of \$912.8 million.

Performance of the City's investment funds ranged from 0.9 per cent (Money Market Fund) to 11.6 per cent (Ed Tel Endowment Fund), depending on each fund's asset mix. In March 2020, the World Health Organization declared COVID-19 a global pandemic. The impact resulted in the sharpest drop in global GDP since World War II. Volatility reached extreme levels on the news of this shock, which led to equity markets falling by more than 30 per cent from their highs reached earlier in the year. In response governments and central banks announced historic levels of fiscal and monetary stimulus to counter what could otherwise have been a global depression. This, along with the rapid advancement of a number of successful vaccines, calmed investors and, in a significant reversal, financial markets ended the year in positive territory. U.S. equities were one of the strongest performers as they returned 18.4 per cent for the year and ended 2020 at an all-time high. Closer to home, Canadian equities followed a similar pattern, but finished the year up only 5.6 per cent. The Canadian dollar rose 2 per cent versus the U.S. dollar, ending the year at a three-year high, despite the price of oil falling by 21 per cent in 2020.

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 11.6 per cent and 10.2 per cent, respectively. Conversely, the Money Market Fund and Short-Term Bond Fund, which are invested solely in lower returning fixed income securities, had returns of 0.9 per cent and 5.4 per cent, respectively. Overall, the market value of the City's investment portfolio at year end was \$2,155.7 million, 8.7 per cent above the investment cost.

More detailed information about the investment performance and benchmarks are available in the 2020 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 public sector accounting standards, trust assets that are not owned by the City are excluded from the reporting entity. Note 21 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 infrastructure in Canada and the United States. 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 2020 consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). 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 2020, the City's investment in EPCOR increased to \$3,975.0 million from \$3,841.9 in 2019, a net increase of \$133.1 million, or 3.5 per cent. The net increase is due to EPCOR's reported net income of \$275.7 million for 2020, \$48.3 million of tangible capital assets contributed to EPCOR, offset by \$2.1 million in amortization of contributed assets, other comprehensive loss of \$17.8 million and a dividend of \$171.0 million paid to the City. Summary financial information for EPCOR is included in Note 20 to the financial statements.

Additional detail on EPCOR's strategies, financial performance and health, and significant events that occurred in 2020 are discussed in EPCOR's annual reporting for 2020, which is available on the company's website.



IN 2020, THE CITY'S INVESTMENT IN EPCOR INCREASED TO \$3,975.0 MILLION FROM \$3,841.9 IN 2019, A NET INCREASE OF \$133.1 MILLION, OR 3.5 PER CENT.

LIABILITIES

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities include the categories of trade and other, developer obligations, payroll and remittances, and accrued interest amounts owing. The balance of \$1,061.0 million at year-end has increased over the prior year balance of \$953.2 million by \$107.8 million, or 11.3 per cent.

The trade and other category has increased by \$97.6 million mainly due to an increase of \$61.3 million related to the P3 substantial completion liability to TransEd Partners General Partnership (TransEd), the P3 partner, expected to be paid in 2021 upon service commencement of the Valley Line Southeast LRT. Similar to the grant funding agreement with P3 Canada, under the contract, the liability increases annually, based on percentage of project completion, until final payment is made at service commencement. Accrued payables for projects such as Valley Line West LRT and Yellowhead Trail Freeway Conversion is also contributing to this increase as this has increased by \$39.5 million compared to 2019. These are partially offset by a net decrease in a variety of trade and other payables.

Payroll and remittance liabilities have increased by \$11.4 million over the prior year mainly due to the timing of the payroll period for 2020. The remainder of the variance was within developer obligations and accrued interest.

Information on the composition of the accounts payable and accrued liability balance is provided in Note 7 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 they are used for the purposes intended. The deferred revenue balance of \$280.2 million decreased by \$70.1 million, or 20.0 per cent, from the prior year balance of \$350.3 million. The decrease is mainly due to reduced Municipal Sustainability Initiative (MSI) grant funding received in 2020 compared to 2019, grant funding received in previous years and applied in to expenditures in the year for the Fort Edmonton Park Expansion program as this project reached completion in 2020, and Federal Gas Tax grant eligible expenditures incurred during the year; these are partially offset by grant funding received from Canada Mortgage and Housing Corporation (CMHC) in advance of eligible expenditures being incurred. Additional details about balances and changes in deferred revenue are included in Note 8 to the financial statements.

LONG-TERM DEBT

The City uses debt to finance capital expenditures under the principles and limits established by the City's Debt Management Fiscal Policy (DMFP), C203C. The policy supports the City's long-term capital plans and strategies while maintaining long-term financial affordability, flexibility and sustainability. The policy also provides for approval of multi-year debt guidelines with a corresponding debt repayment funding strategy and added flexibility for the application of funds used for debt servicing once debt is retired.

The City has three main types of long-term debt obligations: tax-supported debt funded by tax levy, self-supporting tax-guaranteed debt funded through dedicated non-tax levy revenues, and self-liquidating debt funded through programs that are self-sustaining, such as the Waste Services Utility, the Blatchford Redevelopment Project and local improvements. 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 White Paper that is available on the City of Edmonton's website. The Debt White Paper discusses the City's use of debt financing to optimize resources dedicated to the acquisition, creation, and rehabilitation of infrastructure.

From 1993 to 2019, borrowing completed by the City has generally been in the form of amortizing debentures in Canadian dollars administered through the Alberta Capital Finance Authority (ACFA), using the debt rating of the Government of Alberta and combined borrowing volumes across Alberta.

On October 24, 2019, the Province released the 2019 Provincial Budget which introduced legislation to dissolve ACFA by mid-2020, and transfer responsibilities to the Government of Alberta's department of Treasury Board and Finance. There have been no changes to active loans as a result of the October 31, 2020 dissolution of ACFA. It is not anticipated that the Province will change the substance of the program of lending to local authorities and the City still expects to access debentures using the debt rating of the Government of Alberta and the combined borrowing volumes across Alberta.

DURING THE YEAR, THE CITY ADDED A TOTAL OF \$246.8 MILLION THROUGH NEW DEBENTURE BORROWINGS AND MORTGAGES; \$222.8 MILLION IS CONSIDERED TAX-SUPPORTED AND \$24.0 MILLION IS CONSIDERED SELF-LIQUIDATING.

Debt Schedule (millions of \$)

	Tax-Supported	Self-Liquidating	Total Debt (net)
Opening	\$ 2,736.7	\$ 466.1	\$ 3,202.8
Borrowings	222.8	24.0	246.8
Increase in P3 term debt	122.2		122.2
Principal Payments	(130.9)	(33.8)	(164.7)
Ending	\$ 2,950.8	\$ 456.3	\$ 3,407.1

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 annually or semi-annually. The City continued to benefit from low interest rates for new borrowing during the year, with ranges as follows:

Borrowing Terms and Interest Rates

Term	Interest Rates
10 years	1.29% to 1.73%
15 years	1.61% to 2.03%
20 years	1.88% to 2.26%
25 years	2.06% to 2.41%
30 years	2.16% to 2.64%

The City's net long-term debt was \$3,407.1 million at December 31, 2020, an increase of \$204.3 million, or 6.4 per cent, compared to the 2019 balance. Long-term debt is comprised of debentures, mortgages and the P3 term debt. The gross amount of debentures, mortgages payable and P3 term debt of \$3,962.8 million is offset by \$555.6 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.

Of the total net long-term debt of \$3,407.1 million, \$2,950.8 million is tax-supported and \$456.3 million is self-liquidating. Tax-supported debt includes \$433.8 million of P3 term debt related to the portion of deferred capital costs owing to TransEd from 2021 to 2050 for the construction of the Valley Line Southeast LRT. Term debt is based on the percentage of project completion as of December 31, 2020.

During the year, the City added a total of \$246.8 million through new debenture borrowings and mortgages; \$222.8 million is considered tax-supported and \$24.0 million is considered self-liquidating. Self-liquidating borrowings during the year include \$14.3 million for the Waste Services Utility, \$2.5 million for the Blatchford Utility, \$6.8 million related to local improvement projects, and \$0.4 million in Non Profit Housing mortgages. Tax-supported debt was borrowed to finance various capital projects, including the Valley Line and Metro Line LRT construction, Yellowhead Trail Freeway Conversion, Stadium LRT Station upgrades, Kathleen Andrews Transit Garage construction, revitalization of the Stanley A. Milner Library, and continued construction of Downtown and Quarters Community Revitalization Levy funded projects.

Debt principal repayments of \$164.7 million were made during the year, comprising \$130.9 million for tax-supported debt and \$33.8 million for self-liquidating debt.

The City of Edmonton is subject to limits of total debt and debt servicing by the MGA Debt Limit Regulation AR 255/2000 which stipulates that the City's total debt limit is two times the revenue of the municipality, and that debt servicing costs are limited to 35 per cent of the revenue of the municipality. The revenue for the purposes of this calculation is the consolidated revenue of the City less capital government transfers and contributed tangible capital assets and excludes revenue from EPCOR. Debt servicing, for the purposes of calculating the MGA debt servicing limit, is the amount of principal and interest for the subsequent year relating to debt in place at the end of the year reported.

Debt and Debt Service Limits – MGA (millions of \$)

	2020	2019	2018	2017	2016
Debt limit	\$ 5,856.9	\$ 5,840.6	\$ 5,587.4	\$ 5,649.4	\$ 5,627.4
Debt limit used	\$ 3,407.1	\$ 3,202.8	\$ 3,046.2	\$ 2,912.1	\$ 3,339.0
Percentage used (%)	58.2	54.8	54.5	51.5	59.3
Debt service limit	\$ 1,025.0	\$ 1,022.1	\$ 977.8	\$ 988.6	\$ 984.8
Debt service limit used	\$ 313.2	\$ 301.1	\$ 284.3	\$ 264.6	\$ 341.0
Percentage used (%)	30.6	29.5	29.1	26.8	34.6

The City's level of debt is well below the legislated limit established in the MGA and has been relatively stable. Over the past five years, the debt limit has ranged from 51.5 per cent to 59.3 per cent of the established debt limit. Debt has been used strategically to move priority capital projects ahead while benefiting from low interest rates. The City's debt servicing in comparison to the MGA debt servicing limit is a measure of long-term fiscal sustainability and indicates the extent to which past borrowing decisions impact the City's current year expenditures and cashflow. The City's debt servicing limits over the past five years have remained well below the established limit.

Debt is further restricted through the City's DMFP, which limits total debt servicing to 22 per cent of City revenues, and tax-supported debt servicing to 15 per cent of annual tax-supported revenues. In monitoring compliance with the DMFP, debt servicing is defined as debt principal and interest paid in the year. The City DMFP debt servicing limits are below the limits established in the MGA. The percentage of the debt servicing limit used for purposes of the DMFP increased in 2017 due to the repayment of \$60.0 million of short-term borrowing. The City undertook this short-term borrowing to finance fast-tracked capital expenditures for projects with approved funding through Municipal Sustainability Initiative grants and the provincial fuel tax.

Debt Service Limits – DMFP (millions of \$)

	2020	2019	2018	2017	2016
Total debt service limit	\$ 644.3	\$ 642.5	\$ 614.6	\$ 621.4	\$ 619.0
Debt service limit used	291.8	283.2	269.7	\$ 333.0	\$ 262.0
Percentage used (%)	45.3	44.1	43.9	53.6	42.3
Tax-supported debt service limit	\$ 405.9	\$ 397.8	\$ 380.0	\$ 361.9	\$ 348.6
Debt service limit used	\$ 241.2	\$ 232.4	\$ 219.0	\$ 264.1	\$ 170.8
Percentage used (%)	59.4	58.4	57.6	73.0	49.0

“ THE CITY’S LEVEL
OF DEBT IS WELL
BELOW THE
LEGISLATED LIMIT
ESTABLISHED IN
THE MGA. ”



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.

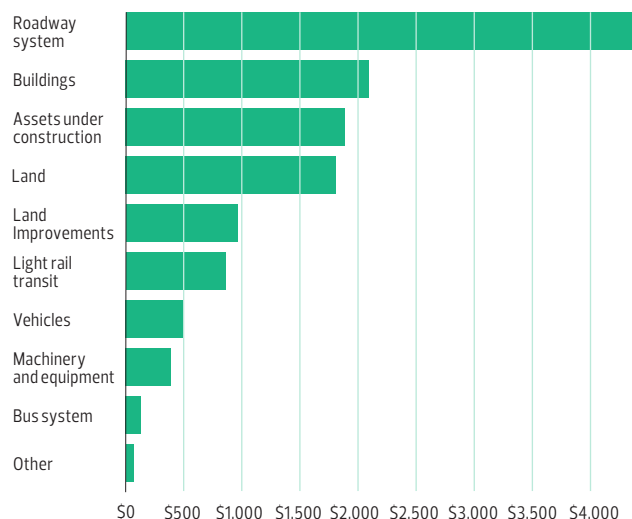
Tangible capital assets of \$13,195.6 million have increased by 6.7 per cent compared to the 2019 balance of \$12,365.0 million. The net increase of \$830.6 million is a result of acquisitions of tangible capital assets of \$1,379.4 million and contributions of tangible capital assets of \$118.2 million. This increase was partially offset by annual amortization of \$591.2 million, disposals and transfers of assets with a net book value of \$72.1 million and impairment of \$3.7 million.

Tangible capital assets placed in service were primarily in the asset categories of buildings, roadways, vehicles and land improvements. 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.

City Council approved the 2019–2022 capital budget in December 2018. During the second year of the 2019–2022 capital budget, capital spending during the year focused on key growth projects and infrastructure maintenance. The capital additions and contributions of \$1,497.6 million in 2020, compared to \$1,406.2 million in 2019, shows the City's continued commitment to investing in city infrastructure to accommodate both growth and renewal. The capital additions are similar in comparison to previous years. Roadways continue to be the largest asset category with a net book value of \$4,443.3 million. These are followed by buildings and assets under construction, with net book values of \$2,089.1 million and \$1,882.3 million, respectively.

In 2020, the City made progress on significant capital projects such as the neighbourhood renewal program, Yellowhead Trail Freeway Conversion, Fort Edmonton Park, and the Valley Line Southeast and West LRT lines.

Net Book Value of Tangible Capital Assets by Category
(millions of \$)



IN 2020, THE CITY MADE PROGRESS ON SIGNIFICANT CAPITAL PROJECTS SUCH AS THE NEIGHBOURHOOD RENEWAL PROGRAM, YELLOWHEAD TRAIL FREEWAY CONVERSION, FORT EDMONTON PARK, AND THE VALLEY LINE SOUTHEAST AND WEST LRT LINES.

“ THE CITY OF EDMONTON
RECEIVED \$158.2 MILLION
AS PART OF THE SAFE
RESTART AGREEMENT
AND MUNICIPAL
OPERATING SUPPORT
TRANSFER (MOST)
ARRANGEMENTS
WITH THE FEDERAL
AND PROVINCIAL
GOVERNMENTS TO HELP
OFFSET THE IMPACTS OF
THE COVID-19 PANDEMIC. ”



RESERVES

The City's Council-approved reserve policy, City Policy C217D 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.

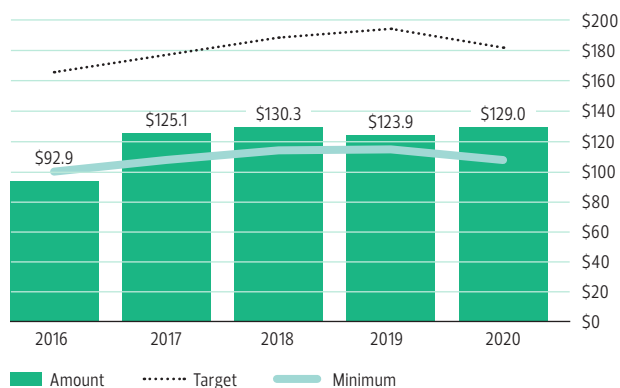
In accordance with the City Policy, C217D, the City completed a review of reserves in 2018. This review is completed at minimum once every three years and ensures that City reserves continue to support the City's financial goals and serve the highest priority needs of the City and its residents. The reserve policy and balances are monitored on an ongoing basis with the next formal review planned for 2021.

A schedule of reserves has been provided in Note 15 to the financial statements. The reserve balance of \$903.5 million at the end of 2020 has increased by \$145.2 million over the prior year balance of \$758.2 million. The net increase was primarily the result of a \$162.0 million increase for the Financial Stabilization - Appropriated Reserve mainly due to the appropriation of previous 2020 COVID-19 budget reduction strategies and the remaining balance of the Municipal Operating Support Transfer payment received from the Alberta Provincial Government for COVID-19 support. This funding will be used to offset potential 2021 financial impacts of the COVID-19 pandemic. The overall reserve balance includes reserves of the City of Edmonton Library Board, Edmonton Economic Development Corporation, Non-Profit Housing Corporation, and Fort Edmonton Management Company, as approved by their respective Boards.

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 citizens. The appropriated balance of the reserve represents funds that have been set aside by City Council to fund future commitments. 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 establishes that the FSR must have a minimum balance of 5 per cent with a target balance of 8.3 per cent of current general government expenses (excluding non-cash amortization). 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.

City Policy, C217D, Reserve and Equity Accounts requires that a risk-based review of the FSR be completed every three years to ensure the sufficiency of the minimum and target percentages. Administration conducted a risk-based review of the FSR in 2018 and concluded that the respective minimum and target balances of 5 per cent and 8.3 per cent of current general government expenses (excluding non-cash amortization) were appropriate.

Financial Stabilization Reserve
(millions of \$)



As of December 31, 2020, the FSR balance is \$129.0 million. During the year, the general government surplus from 2019 of \$20.1 million was transferred from the reserve, and \$16.5 million in funding was transferred to the appropriated balance to fund future project expenses. The 2020 general government surplus of \$40.4 million will be transferred to the Financial Stabilization Reserve in 2021 with \$7.8 million then appropriated for funding within the 2021 operating budget, \$25 million appropriated to cover future potential costs related to the COVID-19 pandemic and \$7.6 million in funding set aside to address losses within the non-regulated operations of Waste Services as approved by City Council. After reflecting the approved transactions, the reserve balance will remain at \$129.0 million and will exceed the minimum level as set within the policy of \$110.4 million but will be below the target level of \$183.2 million.

As of December 31, 2020, the appropriated FSR balance is \$213.3 million, which is an increase of \$162.0 million from the 2019 balance of \$51.3 million. Throughout 2020, City Council approved \$179.6 million in funding from the appropriated balance to fund future project expenses including the amount to fund future potential impacts of the COVID-19 pandemic, and \$16.1 million was withdrawn to fund expenses. Amounts within the appropriated FSR of \$1.5 million were released back to the FSR as the funding was no longer required.

As of December 31, 2020, the City had five reserves that were in deficit balances. The City maintains reserves that are used to accommodate differences between expenses and related funding sources. These include the Interim Financing, three Community Revitalization Levy reserves and the Brownfield Redevelopment Reserve. In accordance with City Policy C217D 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. A review of the City's deficit reserve balances was included as part of the 2018 Reserves Review and confirmed that all reserves are performing consistent with long-term plans, with existing shortfalls to be recovered through future funding sources.

A Community Revitalization Levy (CRL) is a funding source the City can use to dedicate future property tax revenue in a specific area to fund public projects designed to encourage new development and revitalize a specific area of the City. The City currently has CRLs approved for Belvedere, the Quarters and Capital City Downtown. An annual update on the progress of the CRLs was presented to City Council on February 22, 2021. The annual update noted that market conditions in the Belvedere Community Revitalization Levy area have been weak and private development progress has been slow and projections indicate revenues from the Community Revitalization Levy and land sales will be insufficient to cover all outstanding principal and interest charges before the expiry of the Levy in 2032. The shortfall is projected to be \$11.9 million. Ongoing municipal tax revenues that continue beyond 2032 would retire the remaining debt by 2038. The Quarters and Capital City Downtown CRLs are performing consistent with long-term plans.

The Interim Financing Reserve is used to accommodate timing differences between operating expenses and receipt of future revenue intended to fund these costs including differences that arise between the timing of budgeted expenses and payment of expenses. At the end of 2020, the reserve has a deficit balance of \$37.8 million, which will be replenished upon receipt of future revenues.

**“THE APPROPRIATED
BALANCE OF THE
RESERVE REPRESENTS
FUNDS THAT HAVE
BEEN SET ASIDE
BY CITY COUNCIL
TO FUND FUTURE
COMMITMENTS.”**



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 \$)

	2020 Actual	2019 Actual	2018 Actual	2017 Actual	2016 Actual
Operating Revenues	\$ 3,170.6	\$ 3,120.0	\$ 3,050.3	\$ 3,023.8	\$ 3,043.2
Capital Revenues	717.4	749.8	941.8	687.0	758.7
Operating Expenses	3,023.5	3,189.7	3,029.4	2,956.1	2,836.6
Excess of Revenues over Expenses	\$ 864.5	\$ 680.1	\$ 962.7	\$ 754.7	\$ 965.3

Consolidated revenues exceeded expenses for the year by \$864.5 million after accounting for government transfers for capital, contributed tangible capital assets, developer and customer contributions for capital and local improvements. Operating revenues have remained fairly consistent, with a majority of revenue coming from property taxes, user fees and the City's growing investment in EPCOR. Capital revenues vary from year to year based on fluctuations in development activities and timing of significant capital projects. Expenses over the past five years reflect the demand for additional services and infrastructure that comes with a growing population. Tax-supported expenses have been increasing with the growth in taxable property assessments, indicating that expenses are growing at a consistent and sustainable rate with the economy. The COVID-19 pandemic impacted many services provided by the City of Edmonton. Due to facility closures and reduced services from public health orders related to the COVID-19 pandemic, costs were lower in 2020 compared to the prior year.

Significant year-over-year variances and variances from budget are discussed in the following sections. The budget is based on the 2020 operating budget approved by Council on December 13, 2019, including any supplementary budget adjustments approved by Council on

April 27, 2020 and the capital budget approved on December 14, 2018. The original budgets are adjusted to comply 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 29.

**OVER 110 EDMONTON
BUSINESSES SIGNED
UP FOR A PERMIT- AND
FEE-FREE PROGRAM TO
ALLOW RESTAURANTS
AND RETAIL SHOPS TO
TEMPORARILY CREATE
AND EXPAND PATIOS.**

OPERATING REVENUES

Operating Revenues (millions of \$)

	2020 Budget (A)	2020 Actual (B)	Variance (B-A)	2019 Actual (C)	Variance (B-C)
Net taxes available for municipal purposes	\$ 1,723.3	\$ 1,726.2	\$ 2.9	\$ 1,671.8	\$ 54.4
User fees and sales of goods and services	545.7	461.7	(84.0)	623.3	(161.6)
Government transfers – operating	108.7	277.4	168.7	122.0	155.4
Subsidiary operations – EPCOR	278.3	275.7	(2.6)	231.1	44.6
Franchise fees	169.7	177.1	7.4	171.8	5.3
Fines and penalties	79.4	81.9	2.5	97.9	(16.0)
Investment earnings	101.3	78.2	(23.1)	102.2	(24.0)
Licenses and permits	47.7	69.1	21.4	74.3	(5.2)
Developer/ customer contributions – operating	28.0	23.3	(4.7)	25.6	(2.3)
Operating Revenues	\$ 3,082.1	\$ 3,170.6	\$ 88.5	\$ 3,120.0	\$ 50.6

COMPARISON TO BUDGET

Operating revenues were higher than budget by \$88.5 million, or 2.9 per cent of the revenue budget, due to higher than budgeted government transfers – operating, and higher licenses and permit revenues. These were partially offset by lower user fees and sales, and investment earnings.

Government transfers – operating were higher than budget mainly due to the \$158.2 million received as part of the Safe Restart Agreement and Municipal Operating Support Transfer (MOST) arrangements with the Federal and Provincial governments to help offset the impacts of the COVID-19 pandemic.

Licenses and permits were higher than budgeted due to greater than anticipated applications for development and building permits and business licenses as activity was higher than anticipated during the COVID-19 pandemic.

User fees and sales were lower than budgeted mainly due to fewer than expected land sales due to market conditions, lower transit fare revenue as ridership was reduced significantly and for a longer period than anticipated as a result of the COVID-19 pandemic, and lower convention and tourism revenue for Edmonton Economic Development Corporation as the pandemic cancelled events and closed facilities in 2020.

Investment earnings were lower in 2020 due to the global impact of the COVID-19 pandemic. The pandemic declared in March of 2020 resulted in a sharp drop in global GDP and equity markets fell by more than 30 per cent from their highs reached earlier in the year. Fiscal and monetary stimulus from governments and central banks as well as advancement in vaccines helped to ease this impact but this still resulted in lower investment earnings than originally anticipated.

THE CITY TEMPORARILY INSTALLED OVER 19 KM OF SHARED STREETS IN RESPONSE TO THE COVID-19 PANDEMIC.

COMPARISON TO PRIOR YEAR

Overall, operating revenues increased by \$50.6 million from the prior year due to an increase of \$155.4 million in government transfers – operating as part of the Safe Restart Agreement and Municipal Operating Support Transfer (MOST) arrangements with the Federal and Provincial governments to help offset the impacts of the COVID-19 pandemic, \$54.4 million in taxation revenue from a combined rate increase and growth, and an increase of \$44.6 million in EPCOR earnings; partially offset by a decrease of \$161.6 million in user fees and sales of goods and services revenues and \$24.0 million in investment earnings. There was a net decrease of \$18.2 million from various other revenue sources.

Government transfers – operating increased by \$155.4 million mainly due to a \$158.2 million transfer from the Alberta Provincial government as part of the Safe Restart Agreement and Municipal Operating Support Transfer (MOST) arrangements with the Federal and Provincial governments to help offset the impacts of the COVID-19 pandemic.

Net taxes available for municipal purposes (property taxes) are the primary source of revenue available to the City to pay for municipal services. Total tax revenues in 2020 were \$2,225.7 million, with \$495.5 million collected on behalf of the Province for education school tax and \$4.0 million for business improvement areas. Net taxes for municipal services are collected annually to support operations, with certain amounts directed towards specific programs such as neighbourhood renewal, community revitalization and LRT construction. The remaining tax revenues are applied generally across all departments. Note 17 to the financial statements provides further detail with respect to tax revenue.

Subsidiary operations – EPCOR increased by \$44.6 million from the prior year primarily due to higher water and wastewater customer rates, customer growth and higher water consumption for residential and multi-residential customers. This was mostly offset by lower water consumption for commercial customers, and higher transmission system access service charges.

User fees and sales were lower than the prior year mainly due to lower transit fare revenue as ridership reduced significantly year over year because of the COVID-19 pandemic, lower convention and tourism revenue for Edmonton Economic Development Corporation as the pandemic cancelled events and closed facilities in 2020, and reduced parking revenue in 2020 due to the COVID-19 pandemic.

Investment earnings were lower in 2020 due to the global impact of the COVID-19 pandemic. The pandemic resulted in a sharp drop in global GDP and equity markets fell by more than 30 per cent from their highs reached earlier in the year. Fiscal and monetary stimulus from governments and central banks as well as advancement in vaccines helped to ease this impact but this still resulted in lower investment earnings than earned in 2019.

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 City Council as funding sources for capital projects through the capital budget process.

Capital Revenues (millions of \$)

	2020 Budget (A)	2020 Actual (B)	Variance (B-A)	2019 Actual (C)	Variance (B-C)
Government transfers – capital	\$ 658.2	\$ 565.5	\$ (92.7)	\$ 571.5	\$ (6.0)
Contributed tangible capital assets	129.0	118.3	(10.7)	146.9	(28.6)
Developer and customer contributions – capital	115.8	8.9	(106.9)	18.4	(9.5)
Local improvements	12.4	24.7	12.3	13.0	11.7
Capital Revenues	\$ 915.4	\$ 717.4	\$ (198.0)	\$ 749.8	\$ (32.4)

COMPARISON TO BUDGET

Capital revenues of \$717.4 million were \$198.0 million lower than budget during the year due to \$106.9 million fewer than expected capital developer and customer contributions, and \$92.7 million lower than budgeted government transfers.

Developer and customer contributions were lower than budget largely due to the timing of capital expenditures.

Government transfers – capital were lower than budget as the Valley Line Southeast LRT project was originally planned to be completed in 2020 but has been delayed until 2021. This resulted in the full budget being recorded in 2020 and only the portion of government transfers related to the percentage of the project completed this year recognized as revenue. This is partially offset by recognizing the new Investing In Canada Infrastructure Program (ICIP) grant which is used to build inclusive and prosperous communities while supporting a low carbon, green economy, and higher than budgeted revenue for the Public Transit Infrastructure Fund grant due to timing of capital expenditures for public transit systems.

COMPARISON TO PRIOR YEAR

Capital revenues decreased from the prior year by \$32.4 million mainly due to a decrease of \$28.6 million in contributed tangible capital assets, partially offset by an increase of \$11.7 million for local improvements.

Contributed tangible capital assets decreased from prior year due to fewer developer contributed infrastructure assets such as roads, sidewalks, and streetlights for new neighbourhoods constructed. In addition, the 2019 contributed tangible capital assets were higher due to the annexation of land, buildings, and roads from Leduc County, effective January 1, 2019.

Local improvements increased over the prior year as the construction on the Aurum Industrial project was completed in 2020.



OPERATING EXPENSES

Operating Expenses by Function (millions of \$)

	2020 Budget (A)	2020 Actual (B)	Variance (A-B)	2019 Actual (C)	Variance (B-C)
Transportation services	\$ 912.1	\$ 910.5	\$ 1.6	\$ 983.7	\$ (73.2)
Protective services	792.4	776.0	16.4	734.7	41.3
Community services	690.7	592.1	98.6	701.8	(109.7)
Waste Services Utility	218.4	206.2	12.2	240.9	(34.7)
Land Enterprise	47.4	15.5	31.9	23.7	(8.2)
Blatchford Renewable Energy Utility	2.7	1.4	1.3	1.6	(0.2)
Fleet Services	44.0	45.8	(1.8)	36.3	9.5
Corporate administration, general municipal and other	489.7	476.0	13.7	467.0	9.0
Operating Expenses	\$ 3,197.4	\$ 3,023.5	\$ 173.9	\$ 3,189.7	\$ (166.2)

COMPARISON TO BUDGET

Operating expenses of \$3,023.5 million were lower than budget by \$173.9 million, or 5.4 per cent of the consolidated expenses budget.

Community services expenses were lower than budget mainly due to lower Revolving Industrial Servicing Fund debt servicing costs with less than expected borrowing of \$9.9 million. There were lower than budgeted reimbursements of \$8.6 million to EPCOR for Sanitary Servicing Fund projects due to slower than expected progress on projects. The City also paid \$4.2 million lower than budgeted grant expenses for Phase I and II Economic Recovery grant programs; Phase II is planned to occur in 2021. There are also lower operating costs for recreation centres, libraries, and also facilities managed by the Edmonton Economic Development Corporation, as throughout the year these facilities were either closed or operating with restricted capacity due to the public health orders related to the COVID-19 pandemic. While the budget contemplated closed facilities, more facilities were closed for a longer period.

Land Enterprise cost of land sold was lower than budget as market conditions resulted in lower than anticipated land sales volumes.

Corporate administration, general municipal and other expenses were lower than anticipated due to lower amortization costs as significant capital projects, such as the Lewis Farms Recreation Centre, were postponed or delayed in 2020. This is also a result of lower expenses for Corporate financial strategies expenses, which is budgeted to provide flexibility for emerging items or contingencies for fluctuating costs such as fuel or utilities.

COMPARISON TO PRIOR YEAR

In 2020, operating expenses decreased by \$166.2 million over the prior year mainly due to decreases in Community Services of \$109.7 million, \$73.2 million in Transportation Services and \$34.7 million in Waste Services Utility.

Community Services had decreased expenses in 2020 mainly due to lower operating costs for recreation centres, libraries, and facilities managed by the Edmonton Economic Development Corporation, as these facilities were either closed or open with restricted capacity due to the public health orders related to the COVID-19 pandemic; this includes lower personnel costs as facilities were closed and staff were temporarily laid off. The year over year variance also includes a 2019 compensation payment of \$8.5 million related to the annexation of an area of land from Leduc County.

Transportation Services costs decreased over the prior year mainly due to an asset impairment in 2019 of \$55.9 million related to the impairment of the Metro Line LRT signalling system assets. Personnel costs were also lower in 2020 due to staff temporarily laid off and delayed hiring of seasonal staff due to reduced activity and closures from the COVID-19 pandemic.

Waste Services Utility expenses decreased from the prior year as there was a non-cash expense related to an increase in the Clover Bar Landfill post closure liability for future closure expenses and the impairment of the Edmonton Composting Facility recorded in 2019.

Operating Expenses by Object
(millions of \$)

		2020 Actual (A)		2019 Actual (B)		Variance (A-B)
Salaries, wages and benefits	\$	1,577.6	\$	1,636.5	\$	(58.9)
Materials, goods and utilities		284.2		300.8		(16.6)
Contracted and general services		276.1		347.8		(71.7)
Interest and bank charges		171.6		142.1		29.5
Grants and other		97.8		118.3		(20.5)
Amortization of tangible capital assets		591.2		558.4		32.8
Loss on disposal, impairment and transfer of tangible capital assets		25.0		85.8		(60.8)
Operating Expenses	\$	3,023.5	\$	3,189.7	\$	(166.2)

Operating expenses by type decreased from the prior year by \$166.2 million. This was mainly related to net decreases in contracted and general services of \$71.7 million, loss on disposal of tangible capital assets of \$60.8 million, and personnel costs of \$58.9 million.

Contracted and general services decreased mainly as a result of closures of facilities managed by the Edmonton Economic Development Corporation as well as lower costs for turf and horticulture activities due to hiring delays related to the COVID-19 pandemic. In 2019 there was also an unbudgeted non-cash expense related to an increase in the Clover Bar Landfill post closure liability for future closure expenses and a compensation payment of \$8.5 million to Leduc County related to the annexation of land that did not occur in 2020.

Loss on disposal, impairment and transfer of tangible capital assets decreased over the prior year mainly due to an asset impairment of \$55.9 million recorded in 2019 related to the Metro Line LRT signalling system, offset by an additional \$3.7 million asset impairment recorded in 2020 related to the Edmonton Compost Facility.

Salaries, wages and benefits decreased over the prior year directly related to layoffs from facility closures and intentional vacancy management strategies due to the COVID-19 pandemic.

Schedule 2 – Consolidated Schedule of Segment Disclosures, provides an analysis of revenues and expenses (by object) for each of the significant business groupings within the reporting entity. A description of each of the segments is provided in Note 28 to the financial statements.

**FORESTRY
CREWS PRUNED
26,648 TREES
AND PLANTED
3,236 TREES AS
PART OF THE
REPLACEMENT
PLANTING
PROGRAM.**

“

PAGE 44

**THE CITY'S FINANCIAL
GOVERNANCE
POLICIES AND
PRACTICES ENSURE
EDMONTON'S
CONTINUED SOUND
FISCAL MANAGEMENT
AND LONG-
TERM FINANCIAL
SUSTAINABILITY.**

”

THE CITY OF EDMONTON FARE POLICY GIVES DIRECTION FOR SETTING PUBLIC TRANSIT FARES BASED ON CONSIDERATIONS OF EQUITY, FAIRNESS AND AFFORDABILITY AND ENCOURAGING MODE SHIFT TO PUBLIC TRANSIT.

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 several policy and strategy topics. The City has drafted White Papers to provide a foundation for discussing the key financial issues and questions related to debt, franchise fees, investments. The City has policies in place for various reserves, including the Financial Stabilization Reserve, that ensure sufficient funds are in place to satisfy the financial needs of the operations being supported by the reserve.

On November 2, 2020, City Council approved City Policy, C624, Fiscal Policy For Revenue Generation. The City of Edmonton provides various services and infrastructure for the community. Some provide 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. The City of Edmonton Fare 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, a prudent level of risk given the investment time horizon, while ensuring that the City of Edmonton's investments comply with statutory requirements.

City Policy, C579B, Traffic Safety and Automated Enforcement Reserve, was established to address the revenue variability associated with automated traffic enforcement. This reserve also accumulates annual traffic safety program surpluses and funds an annual traffic safety program deficit when necessary. Annual automated enforcement revenue funds ongoing traffic safety initiatives and other programs approved by City Council through the budget process. The reserve helps manage this process and supports transparency related to the use of automated enforcement revenues to fund City operations.

City Policy, C604, Edmonton Police Services (EPS) Funding Formula was established to provide guidelines and the approach for the planning and approval of the multi-year funding formula for the EPS. This funding formula provides funding certainty to allow for long-term budgeting and workforce planning for EPS and other tax-supported operations. It allows the City to sustainably allocate budget funds based on predictable indicators that reflect police cost inflation and changes in demand. To this end, an EPS Reserve fund was established to allow for the management of police operational surpluses and deficits over the long term through City Policy C605, Edmonton Police Services Reserve. At the July 6, 2020 City Council meeting, Council requested that Administration prepare adjustments to suspend the Edmonton Police Service Funding Formula Policy C604 pending review and reframing as an Edmonton Community Safety and Well-being Funding Policy. On August 31, 2020 City Council established a Community Safety and Well-being Task Force. The task force's objective is to enable greater community engagement and input in the evolution of community safety in the City of Edmonton.

Council also requested that the funding formula be revisited and reframed as an Edmonton Community Safety and Well-being Funding Policy. The taskforce will be providing recommendations to Council in 2021. Administration will also introduce a revised funding formula in 2021, based on the task force's recommendations.

City Policy, C610, Fiscal Policy for the Planning and Development Business, 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 the City of Edmonton. The policy clarified 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 helps ensure land management decisions are made from an integrated perspective that includes input from across the corporation. This model also provides for on-going monitoring of City land holdings 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.

The City's Debt Management Fiscal Policy, C203C, provides guidelines for prudent debt management and ensures that debt is used responsibly to advance key infrastructure projects. Administration is currently reviewing the Debt Management Fiscal Policy with a plan to bring forward an update to Council in 2021.

**TRAFFIC OPERATIONS
AND TRAFFIC SAFETY
INSTALLED 28 RAPID
FLASHING BEACONS AT
SCHOOLS TO MAKE IT
SAFER FOR CHILDREN
TO CROSS THE ROAD.**

City Council's Waste Management Utility Fiscal policy, C558A, 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.

The Fiscal Policy, C597, for the Blatchford Renewable Energy Utility provides the overarching framework that outlines the financial parameters that will guide the long-term financial sustainability of the utility. Bylaw 17943, which established the Blatchford Renewable Energy Utility, outlines requirements for properties receiving energy service through the utility and the relevant rates, fees and charges.

EPCOR water and wastewater rates were approved by City Council in 2016 through the related Performance Based Regulation (PBR) Plans which set these rates for the period April 1, 2017 to March 31, 2022. The Drainage Utility was transferred to EPCOR in 2017 at which time the utility's rates for the period January 1, 2018 to March 31, 2022 were approved through the related PBR Plan. The PBR framework and annual PBR progress reports allow City Council to have oversight and governance over water, wastewater and drainage rates over a longer term and provides incentives to ensure that EPCOR operates more efficiently while providing appropriate service levels. The next Performance Based Regulation (PBR) Plans will be presented to Council for approval in 2021 and will set rates for the next five years beginning in April 2022.

STRATEGIC PLANNING

The City follows a strategic planning framework that enables a consistent and integrated approach to strategy development, planning and performance evaluation. The framework has six components that work together to support the organization in making transformational impacts in our community, delivering excellent services to our community and managing the corporation for our community.

After extensive public consultation, Council approved ConnectEdmonton, Edmonton's strategic plan 2019–2028, which provides community direction, aspiration and inspiration. This is the City's highest level plan and it's about making transformational change within our community. It is intended to provide direction for the next ten years.

THE CORPORATE BUSINESS PLAN OUTLINES THE ACTIONS THE CITY WILL TAKE AND PRESENTS AN INTEGRATED OVERVIEW OF THE CITY'S WORK.

The City Plan, approved in 2020, articulates the choices the City will make to become a healthy, urban and climate resilient city of 2 million people that supports a prosperous region. A plan for people, places and prosperity, The City Plan policies will be reviewed and refined annually and larger growth management strategies associated with phasing and staging the plan will be updated at key population growth thresholds (1.25, 1.5 and 1.75 million people).

The Corporate Business Plan outlines the actions the City will take and presents an integrated overview of the City's work. It communicates the transformational projects, daily programs and services, improvement initiatives and capital infrastructure projects the City will deliver over the next four years. The Plan will be updated each year in response to changes that may arise.

Enterprise Performance Management is about the City's performance and managing the City's work by continuously measuring and monitoring our progress towards achieving results Edmontonians care about. When Council approved the Enterprise Performance Policy on May 8, 2018, it set the foundation for a new way of managing the City.

Enterprise Risk Management (ERM) is about the City's assurance and plan to achieve its objectives by preparing for uncertainty and obstacles by seizing emerging opportunities. ERM helps the City understand uncertainty and envision new ways to view the world. It focuses on the shift to opportunities, helping the City stay ahead based on insights about uncertainty and how to manage it to the City's advantage.

The Capital and Operating budgets are essential tools in allocating resources to achieve the City's goals and objectives and are approved by City Council. The budgets are prepared by Administration every four years and updated twice annually.

PROGRAM AND SERVICE REVIEW (PSR)

In 2016, City Council directed Administration to review all 73 services across departments at the City for relevance, effectiveness and efficiency. The PSR was designed to assist City Council build a culture of accountability and continuous improvement, including improving the City's financial position, operations, and optimizing service levels.

By the end of 2020, reviews of 36 services were complete, excluding the 22 reviews which were paused in March of 2020 due to COVID-related redeployments. PSRs resumed in February 2021 and will leverage the Reimagine work.

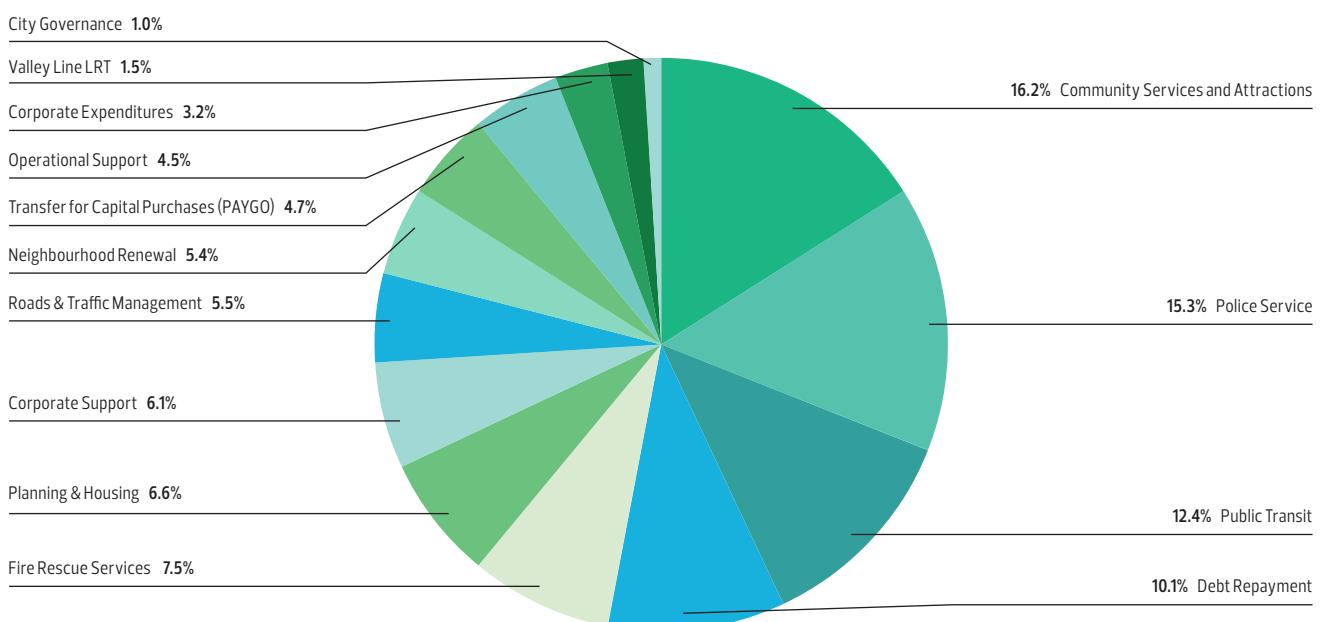
BUDGETING

Guided by Edmonton's strategic plan, the 2019-2022 Operating and Capital Budgets assist Council in making strategic decisions about how to allocate City resources. This multi-year approach allows the City to align strategic plans, business plans, and operating and capital budgets, to ensure the dollars are spent to achieve City Council's vision. It also allows for better alignment with Councillor 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 twice a year through the supplemental budget adjustment process approved by City 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. On December 14, 2018, City Council approved the 2019-2022 Operating and Capital budgets.

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 a 1.3 per cent general property tax increase in 2020. The 1.3 per cent increase includes a (0.5) per cent decrease for all civic operations, a 0.8 per cent increase for Valley Line LRT and a 1.0 per cent increase for the Edmonton Police Service. The chart below shows the City's total tax supported expenditure budget that is spent on each major expense category:

2020 Budget by Major Expense Category

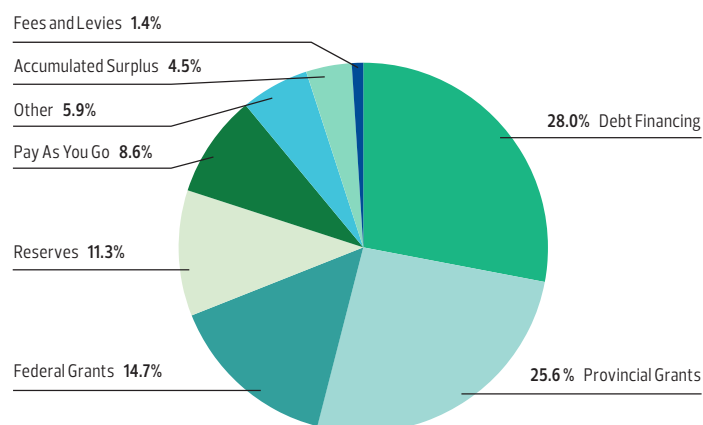


The Bylaw to establish the 2021 municipal tax for all property types will be set by City Council in May 2021. Changes to the operating budget that will impact the tax levy may be completed prior to the taxation bylaw approval.

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 hard infrastructure, including the construction of buildings such as recreation centres and libraries, and transportation assets including LRT lines and bridges. The foundation of the 2019–2022 Capital Budget is the 2019–2028 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 will see investments of \$7.4 billion on infrastructure based on the approved capital budget. Capital requirements directly related to EPCOR are not included in the capital budget. The funding and financing sources are as follows:

2019–2022 Capital Budget – Funding Sources



“THE CITY OF EDMONTON LIBRARY BOARD, THE EDMONTON POLICE SERVICE, WASTE RE-SOLUTIONS EDMONTON AND EDMONTON COMBATIVE SPORTS COMMISSION USE THE SAME ACCOUNTING SYSTEM AS THE CITY BUT REPORT THROUGH THEIR OWN BOARDS OR COMMISSIONS.”

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, Waste RE-solutions Edmonton and Edmonton Combative Sports Commission use the same accounting system as the City but report through their own boards or commissions. EPCOR, Edmonton Economic Development Corporation, Non-Profit Housing 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. Quarterly operating reporting includes economic updates that are reviewed by Administration and provided to City Council along with recommendations to address opportunities and challenges. City Council reviews capital reporting for second, third and fourth quarters, which 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 are used to help guide budget strategies.

The operating budget is also presented in a format consistent with audited annual financial statements that are amended for adjustments required to adhere to PSAS. The objective is to provide City Council and other users of the financial statements and budget documents with an improved understanding of the budget approved by City Council compared to the actual results reported in the audited financial statements.

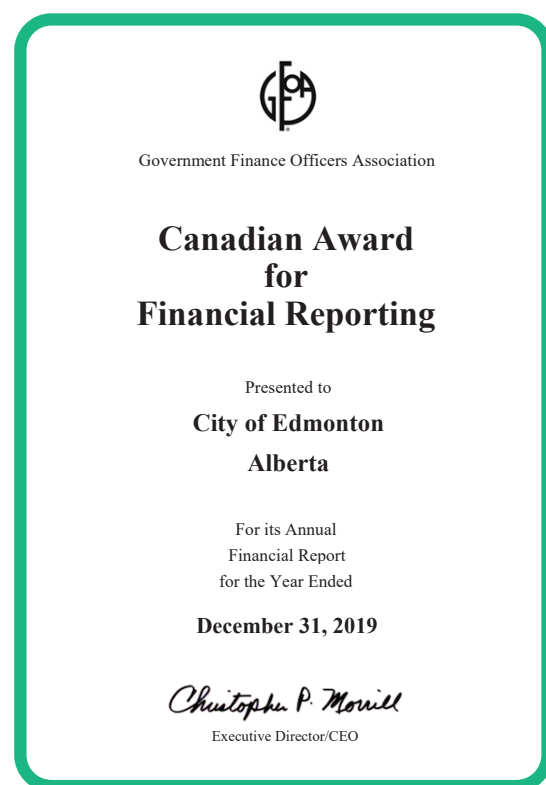
The City continues its commitment to compliance with public sector accounting standards as established by the PSAS board. Details of future accounting standards and pronouncements are included in Note 1 to the financial statements.



RECOGNITION FOR ACHIEVEMENT

Award programs in the financial sector area continue to recognize the City of Edmonton for a high standard of achievement.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Canadian Award for Financial Reporting to the City of Edmonton for its annual financial report for the fiscal year-ended December 31, 2019. 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 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. A Canadian Award for Financial Reporting is valid for a period of one year and, in 2019, Edmonton received this award for the 27th consecutive year.



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 sixth consecutive year for our 2018 Financial Report to Citizens.

The City also received the GFOA award for Distinguished Budget Presentation for the 2019–2022 fiscal years beginning January 1, 2019 and ending December 31, 2022. 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 2015, a tender for audit services was completed and City Council appointed the firm of KPMG LLP, Chartered Professional Accountants, as External Auditor for a five-year term. The auditor must report to City 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 audit.

The City's Audit Committee serves as a Committee of Council to assist in fulfilling its oversight responsibilities. 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. Audit Committee reviews the consolidated financial statements and makes a recommendation to City 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 City Council through Audit Committee, empowered by Bylaw 12424, 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; and

Guardian – to conduct projects directed primarily towards providing assurance through review of existing operations, typically focusing on compliance, efficiency, effectiveness, economy and controls.

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.

City Council approved an Enterprise Risk Management Policy in March 2016 to ensure that enterprise risks and opportunities are proactively identified, evaluated, communicated and managed on an ongoing basis. Guided by this policy, the Enterprise Risk Management process continues to evolve as the City progresses toward becoming a risk-mature organization.

Consistent with the Policy requirements for an annual risk update, in November 2018, Audit Committee was presented with the 2018–2019 Corporate Strategic Risk Register. This report identified the City's top 10 risks to achieving the City's strategic goals, with the greatest risks being economic swings and uncertainty regarding funding from other orders of government, both of which are discussed further below.

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, in an effort to ensure the City is able to provide services and infrastructure to its growing population in a sustainable manner.

ECONOMIC RISKS

Edmonton's economy is in recovery mode from the COVID-19 pandemic, with available data suggesting impacts that appear to be quite different across households, businesses, and sectors. Over the near and medium terms, the focus of governments will be on how to support an economic recovery. Edmonton's population is expected to continue growing, albeit at slower paces than anticipated before COVID-19, which will add pressure to the demand for City-provided services. The City's role in supporting Edmonton's economy as it comes out of this pandemic will need to be considered alongside its fiscal capacity as it has limited revenue generation tools. As well, there remains uncertainty related to how the economy will recover (e.g., temporary changes in behaviour becoming permanent, and pronounced shifts in sectoral composition).

The pace of recovery is expected to be uneven across sectors, though overall expectations indicate a recovery to 2019 output levels by 2022. However, it is important to note that risks remain, particularly given the importance of the oil and gas sector to Alberta's and Edmonton's economies and the likelihood of volatile conditions remaining over the coming years. Over the next four years, the City expects moderate rates of growth after Edmonton's economy has fully recovered. Risks over the medium term appear to be tilted on the downside, though more positive than expectations in the second half of 2020. The City's business plans and operating and capital budgets aim to balance economic realities with the need to provide quality services and infrastructure to a growing population.

“ THE PACE OF RECOVERY IS EXPECTED TO BE UNEVEN ACROSS SECTORS, THOUGH OVERALL EXPECTATIONS INDICATE A RECOVERY TO 2019 OUTPUT LEVELS BY 2022. ”



“ WHEN THE CITY DISCUSSES THE CONCEPT OF RENEWAL, THIS REFERS TO INVESTMENT IN EXISTING INFRASTRUCTURE TO RESTORE IT TO AN EFFICIENT OPERATIONAL CONDITION AND EXTEND ITS SERVICE LIFE.”

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CITY OF EDMONTON ANNUAL REPORT FINANCIAL STATEMENT DISCUSSION AND ANALYSIS 2020

The City faces challenges in funding new demand for services and infrastructure in light of challenging economic conditions that will require government support and an inelastic primary revenue source in the form of property taxes. Property taxes fund close to 60 per cent of the City's annual operating costs, including portions dedicated to capital projects. However, they lag in reacting to increased service and infrastructure demand. This inelasticity emphasizes the need for long-term planning, risk management and diversification of City revenues. The City is addressing the infrastructure and service funding gap using various strategies and revenue stream diversification, including securing more stable and predictable provincial government funding, which is discussed further below.

The 2019–2022 Operating and Capital Budgets, and 2019–2028 Operating and Capital Investment Outlooks outline the City's operating and capital spending taking into consideration these economic challenges. The long-term sustainability of City infrastructure is impacted by the City's capital renewal plan. When the City discusses the concept of renewal, this refers to investment in existing infrastructure to restore it to an efficient operational condition and extend its service life. Investing in renewal at key points throughout the life of an asset maintains its condition at a higher level while extending the life of the asset. Investment in renewal reduces the long-term requirement for capital funding while maintaining a suitable level of service for residents.

The City manages a broad range of infrastructure assets. As of the last review in 2019, 55.7 per cent of City assets are in very good/good condition, 35.7 per cent are in fair condition, and 8.6 per cent are in poor or very poor condition. The City of Edmonton measures performance on asset condition by the percentage of assets in poor and very poor condition. The current value of 8.6 per cent represents a 51.4 per cent reduction of assets in poor and very poor condition since 2011 when this value was at a high of 17.7 per cent. The City uses a customized prioritization methodology – the Risk-based Infrastructure Management System (RIMS) – which was developed by the City in 2011. Over the last decade, RIMS has evolved into a dynamic analytical tool designed to predict the optimal funding for the renewal of existing infrastructure.



INTERGOVERNMENTAL

The City of Edmonton's intergovernmental landscape shifted considerably due to the unprecedented COVID-19 pandemic that struck early in 2020. Governments at all levels needed to shift priorities in response to the pandemic and put in place government measures to help Canadians, Albertans and Edmontonians through the various phases of the pandemic. The City needed to make continuous fiscal and policy adjustments as governments at all levels moved from immediate emergency response to relaunch and recovery, and back again to emergency response as the pandemic shifted over the course of 2020.

Edmonton itself adopted a four-stage model -- respond, relaunch, recover and reimagine -- for responding to the COVID-19 pandemic in 2020 and rebuilding our city for a new future. The four stages helped ensure that City Council was positioned to make informed decisions and take responsible action to ensure the long-term resilience of the municipality.

The City of Edmonton appreciated that the federal and provincial governments used their fiscal toolkit to make unprecedented investments in programs to support individuals, businesses and communities affected by the pandemic. The City also appreciated the federal and provincial support provided directly to municipalities through the Safe Restart Agreement and the Municipal Operating Support Transfer to address municipal operational shortfalls. Edmonton's allocation in 2020 was \$158.2 million, with \$98.5 million for operational shortfalls and \$59.7 million for transit operations. Edmonton, along with cities across the country, was facing a financial crisis and would not have been able to participate in economic recovery without continued support for essential municipal services from other orders of government. Edmonton is projecting an ongoing operational funding shortfall, especially for transit operations, well into 2021 as a result of the ongoing impacts of the pandemic. Further federal and provincial funding support will be critical in positioning the City of Edmonton to play a key role in Canada's and Alberta's economic recovery.

The COVID-19 pandemic has exacerbated a severe recession in Alberta, marked by prolonged recovery and much uncertainty in a sluggish economy that was still recovering from the 2015-16 oil price recession. This will significantly constrain the City's fiscal capacity for the foreseeable future. The significant federal and provincial recovery investments along with stimulus spending in 2020 will increase the challenges all governments face in prioritizing future funding for programs and services, including how municipalities are funded. The City of Edmonton's reliance on funding from other orders of government—and the growing scarcity of such funding in the future relative to need—will profoundly impact our future fiscal reality.

The pandemic highlighted how city-building is complex and important work that relies on a shared vision, partnership and collaboration among all governments. In order to accomplish the shared objective of continuing to build an economy that works for everyone, Edmonton needs to be empowered to deliver city-building initiatives. While the role of municipalities has evolved significantly over the last few decades, the fiscal and legislative framework in which municipalities operate does not reflect the modern role of communities and cities in Canada. Long before this pandemic, it was clear that the tools and authorities available to municipal leaders do not match their modern role. New fiscal arrangements with other orders of government and stronger federal-provincial-municipal partnerships are essential for promoting strength and resilience in our communities, particularly in the fragile aftermath of COVID-19.

The fiscal challenges facing all orders of government coming out of the pandemic will require all governments to look for new solutions together to guide our mutual recovery.

THE PANDEMIC HIGHLIGHTED HOW CITY-BUILDING IS COMPLEX AND IMPORTANT WORK THAT RELIES ON A SHARED VISION, PARTNERSHIP AND COLLABORATION AMONG ALL GOVERNMENTS.

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.

- + Environmental risks are monitored through internal City practices and policies, which aid in the effective management of environmental risks and responsibilities. City Council approved Edmonton's Environmental Management System Policy as well as an Environmental Policy. The policies ensure commitment to sound environmental management practices, and stewardship in all aspects of its corporate activities. Standard environmental management system practices across the City will address environmental regulatory compliance, pollution prevention and continual improvement.
- + The corporate Property and Casualty Risk 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. For example, Valley Line Southeast LRT, from Millwoods to Downtown, is being developed with the construction, operation and maintenance provided through a P3 delivery method, which shares risks between the City and its private partners. In 2017, City Council approved City Policy C591, Capital Project Governance Policy, which sets out to ensure that an appropriate level of development is completed on projects prior to them moving onto the delivery phase. This rigorous risk management process helps to ensure that key projects are completed safely, on time, on budget, on quality, and in scope.
- + 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.
- + In the past borrowing was completed through the Alberta Capital Finance Authority, which allowed Alberta municipalities to borrow at interest rates which would not be available to municipalities acting independently. The interest rates are set for the term of the borrowing, therefore reducing risk associated with interest rate fluctuations. In mid-2020 the responsibilities of ACFA were transferred to the Government of Alberta's department of Treasury Board and Finance and ACFA was dissolved. There has been no change to active loans during both the transition and after dissolution of ACFA. There is no intention by the Government of Alberta to change the substance of the program of lending to local authorities.
- + The City has a Financial Stabilization Reserve 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 2018, 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 2021.
- + The City's Debt Management Fiscal Policy 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 City 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.

THE CITY MANAGES RISK TO HELP ENSURE ITS LONG-TERM SUSTAINABILITY AND ACHIEVEMENT OF COUNCIL'S STRATEGIC GOALS AND OUTCOMES.

CONCLUSION

Throughout 2020, the City of Edmonton has maintained its financial health and the City's economic performance remains one of the best in the province.

In 2020, Standard and Poor held the City to a credit rating of AA with a stable outlook. The stable outlook reflects their opinion that the impacts from COVID-19 will be largely temporary, expecting the economy to return to moderate growth within the outlook horizon.

The number of significant capital projects being constructed within the 2019–2022 period (including the overlapping of the Valley Line Southeast and West projects) are expected to lead to larger after-capital deficits from 2019 to 2022, and the associated borrowing for these projects means that Edmonton's tax-supported debt burden is more in line with 'AA' rated peers. The current AA rating includes a stable outlook with the expectation that the City's funding strategy for capital projects will not further stress its budgetary performance. Weaker economic activity or unexpected major spending decisions at the same time the City is undertaking its capital plan could impact the rating negatively in the future. The rating could be positively impacted in the future if the City became less reliant on the energy sector and robust economic growth supported strong revenue generation.

Recent economic uncertainty has reinforced the need to maintain flexibility and to monitor both the economy and the City's financial condition in order to be able to react and adapt to economic impacts. The City will continue to be challenged to manage emerging competing financial needs as the major centre for the region, and to maintain existing services while addressing service and infrastructure needs associated with the growth. The 2019–2022 Operating and Capital budgets and business plans have helped the City position itself well for the future.

The City also continues to closely monitor the financial impacts of the COVID-19 pandemic to ensure it can quickly and effectively respond to this evolving situation.

Robust financial policies, strategies, guiding principles and a healthy financial position ensure the continued sound fiscal management and long-term financial sustainability for the City of Edmonton.

Mary Persson, FCPA, FCMA, ICD.D, MBA
Deputy City Manager and Chief Financial Officer
Financial and Corporate Services
Date