THE WAY WE **FINANCE**

10-YEAR CAPITAL INVESTMENT AGENDA

TRANSFORMING | **EDMONTON**

BRINGING OUR CITY VISION TO LIFE

Table of Contents

.

Executive Summary

OVERVIEW

The City of Edmonton is responsible for providing and maintaining capital assets and infrastructure to serve its residents and businesses. A City is sustainable only if both its capital infrastructure assets and its financial assets can be maintained over the long-term.

Infrastructure is expensive to build or buy, renew or replace and the City's historic and current sources of revenue are not keeping pace with municipal infrastructure needs. Yet there are affordability limits to property taxes and user fees that are controllable by municipal councils. Getting the most value out of every dollar spent on infrastructure is therefore vitally important.

To this end, it is incumbent on the City to develop a longer-term view of Edmonton's infrastructure needs. The ten-year Capital Investment Agenda provides that view and enables Council to make decisions in the shorter-term by understanding the impacts of those decisions on the City's future capital investment requirements.

The ten-year Capital Investment Agenda (2012-2021) and three-year Capital Budget (2012-2014) were developed by Administration to assist Council in making strategic decisions on how best to allocate City resources to build and maintain the infrastructure Edmontonians will require over the next decade.

The ten-year Capital Investment Agenda and three-year Capital Budget were also developed through a collaborative process with all City departments, the Edmonton Public Library and the Edmonton Police Service, who identified capital needs and priorities for growth projects and determined the investment targets for renewal.

Alignment to the strategic goals and outcomes of the City's strategic plan, The Way Ahead, influenced the development of the 2012-2014 Capital Budget and ten-year Capital Investment Agenda and were considered as a factor in the prioritization of recommended funding for capital projects.

BALANCING RENEWAL AND GROWTH

Public infrastructure is essential to all residents and businesses in the City of Edmonton and critical to the competitiveness of our economy, the quality of life citizens enjoy, and the delivery of public services. The ability to build and properly maintain infrastructure assets is essential to ensure Edmonton can provide services and remain an attractive and cost-effective place to live and do business. One of the principles of any long-term capital plan is to optimize the investment in existing municipal infrastructure to ensure all assets are in a condition that allows them to meet intended service levels. The best possible balance between renewal and growth should ensure that investments in infrastructure assets maximize benefits, reduce risk, and provide satisfactory levels of service to the public. This is no small task when funding for infrastructure renewal and growth is insufficient.

With both an aging and growing city, balancing investment choices between renewal and growth is a significant challenge. As infrastructure ages, more maintenance and rehabilitation is required to ensure that infrastructure is performing well and continuing to meet the needs of citizens. At the same time, demands arise for new infrastructure to support growth. The 2009-2011 Capital Budget allocated 66 per cent to growth projects and 34 per cent to renewal projects. The split in the approved 2012-2014 Capital Plan is 54 per cent for growth and 46 per cent for renewal. This may be indicative of the insufficient emphasis placed on growth infrastructure prior to 2007, which put the City in a position of playing catch-up. The overriding reality today is the City does not have enough funding to meet its infrastructure needs.

During Council deliberations recommended projects were evaluated in terms of Council direction and needs of the citizens. Projects were recommended by individual departments and authorities and were then debated by council, which resulted in a list of approved projects. Council amended the list of projects to ensure the greatest number of citizen needs were being met.

Executive Summary

All City departments responsible for infrastructure maintenance and renewal provide data to the City's Office of Infrastructure and Funding Strategy. This data is used with the Risk-based Infrastructure Management System (RIMS) to ascertain the long-term investment required to maintain the majority of the City's very significant asset base in a state of good repair and reduce the percentage of assets in poor or very poor condition.

As part of the capital planning process, approximately $20.5 billion of tax-supported assets were identified. Total City asset replacement value is currently estimated at $35.7 billion, including $15.2 billion of utility assets. Renewal targets were determined for each asset class, and, using the risk model, funding requirements by department were established in relation to risk exposure and current physical condition and this information is presented for Council deliberations.

THE FUNDING CHALLENGE

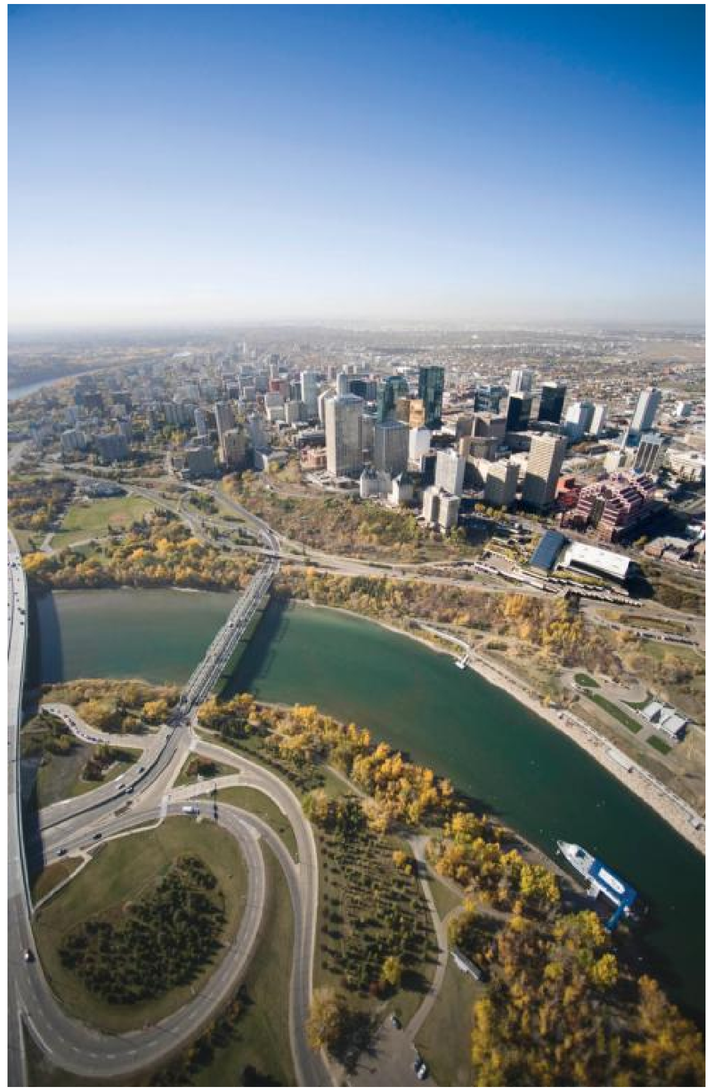
City funding for infrastructure increased significantly after 2006 through the use of debt, increases in grant funding from the Province (Alberta Municipal Infrastructure Program, Municipal Sustainability Initiative (MSI), City Transportation Fund, GreenTRIP) and the Federal government (Federal Gas Tax, Building Canada Fund and Infrastructure Stimulus Funding), and the fast-tracking of grant funding. Looking ahead to 2012-2021 known available funding reduces to approximately half of the 2009-2011 level. This change is due primarily to the lower use of debt, but is also impacted by reductions to MSI and to Edmonton's share of the City Transportation funding levels in 2012-2014 and funding levels are also impacted by the repayment of grant fast-tracking.

In the ten-year Capital Investment Agenda (2012-2021) total projected funding is $6.5 billion. Over the same time frame, total projects identified are close to $17.0 billion, which creates a gap of $10.5 billion between what the City needs and the projected available funding. Beyond 2014, projected funding is $3.7 billion, of which $2.3 billion is constrained funding that is unavailable for reallocation. This leaves non-constrained funding of $1.4 billion available for allocation between growth and renewal in 2015-2021. Constrained funding is funding which is dedicated for various reasons to specific types of infrastructure. The City's 2012 projected debt load is $2.4 billion. While $1.5 billion of total debt room is currently available under the *Municipal Government Act* (*MGA)* limits, taking on significant additional debt during this time could impact future borrowing, and leave the City more vulnerable to any changing economic conditions.

Debt room, however, starts to grow beginning in 2017 through to 2021. Based on conservative revenue growth of three per cent, per year debt room grows to $1.7 billion by 2017, $2.0 billion by 2018, and $2.2 billion by 2019. Strategically timing debt to coincide with the availability of debt room would allow Council more flexibility to address growth, and the significant number of unfunded transformational projects on the horizon over the next 10 years.

HIGHLIGHTS OF THE PAST THREE YEARS (2009-2011)

To preserve our assets, help make our community more sustainable, and ensure citizens have the services they need, the City made considerable investment in its infrastructure over the past three years. Taking advantage of a post-boom economy, which resulted in lower interest rates, increased competition, greater industry capacity to deliver on projects, and lower prices in the construction trades, the City was able to stretch its capital spending while ensuring citizens received the best value for their taxpayer dollar.



Edmonton also benefited from several major federal and provincial capital grant programs. Over the past three years, this included $174 million from the federal government and $871 million from the provincial government. The most significant provincial funding came from the City's share of the Province's Municipal Sustainability Initiative (MSI), a key funding program that has been instrumental in advancing a significant amount of City infrastructure work, which otherwise would have been deferred or not undertaken. Although the Province reduced the annual amount of MSI available to the City in 2009, it remains committed to providing Edmonton $2.1 billion from the program, albeit over an extended period of time. This reduction was mitigated by the City's ability to borrow against future MSI dollars to fund the 2009-2011 Capital Plan.

The ability to leverage favourable economic conditions and new grant dollars helped boost the City's capital investment in 2009-2011. Combined with the City's decision to make the most of low interest rates to debt finance major new projects, and to fast-track others by borrowing against committed grant dollars to bridge the gap between the time of construction and receipt of funding, the City's Capital Budget (excluding utilities) increased to just over $3.6 billion over the three years. Of this, $2.4 billion (66 per cent) was dedicated to new infrastructure and $1.2 billion (34 per cent) to renew existing infrastructure. This represented a very significant increase in spending over previous years, and while it positioned the City to move faster on key growth projects and focus on reducing its infrastructure debt, this level of investment is not repeatable given the City's current funding sources.

HIGHLIGHTS OF THE PAST THREE YEARS (2009-2011)

In 2009 to 2011 growth projects such as LRT expansion and recreation centres were key priorities for Council. There was also a strong commitment to maintain assets. This commitment to renewal of assets was demonstrated by Council's approval of the Neighbourhood Renewal Program aimed at repairing neighbourhood transportation infrastructure through an annual dedicated tax levy.

Council's allocation of $400 million annually to the renewal of existing infrastructure in the 2009-2011 Capital Budget is equivalent to two per cent of the total asset replacement value (excluding utilities) of $20.5 billion in 2010. The industry benchmark is between two to four per cent as recommended by municipal infrastructure experts. This benchmark is relevant if there is no significant backlog of maintenance and the renewal funding is utilized to provide maintenance on a timely basis. With the sources of funding identified in the ten year Capital Investment Agenda, maintaining this level of renewal investment will be a challenge.

2009-2011 FUNDING SOURCES

Funding sources and amounts for the 2009-2011 Capital Budget:

- Debt Financing – $1.1 billion , $932 million serviced through tax-supported debt and $168 million serviced through the Federal Gas Tax;
- Municipal Sustainability Initiative (MSI) – total funding of $806 million, including $250 million fast-tracked;
- City Transportation Fund (CTF) – total provincial fuel tax funding of $395 million, including $100 million fast-tracked;
- Dedicated Property Tax Levy to fund Transportation Neighbourhood Renewal Program – $96 million over three years;
- Pay-As-You-Go (PAYG) – $266 million for ongoing projects over three years;
- Retained Earnings – $295 million;
- GreenTrip – $267 million;
- Alberta Municipal Infrastructure Program (AMIP) – $151 million;
- Developer/Partner Financing – $82 million;
- Local Improvements – $45 million; and
- Other – $126 million

MAJOR ACCOMPLISHMENTS (2009-2011)

The City of Edmonton's capital investment in 2009-2011 was an unprecedented $3.6 billion in both new growth projects and in the renewal of existing infrastructure. This investment is contributing to the vibrancy and growth of our City, the vitality of our neighbourhoods, the protection of our environment, the safety of our communities, and the quality of life of our citizens. Some key highlights of the past three years by infrastructure area include:

Roads

Renewal and rebuilding of roads, sidewalks and streetlights. Renewal of collector roads was completed in 74 neighbourhoods, while nine neighbourhoods benefited from reconstruction:

Completed in 2009:
- Parkdale

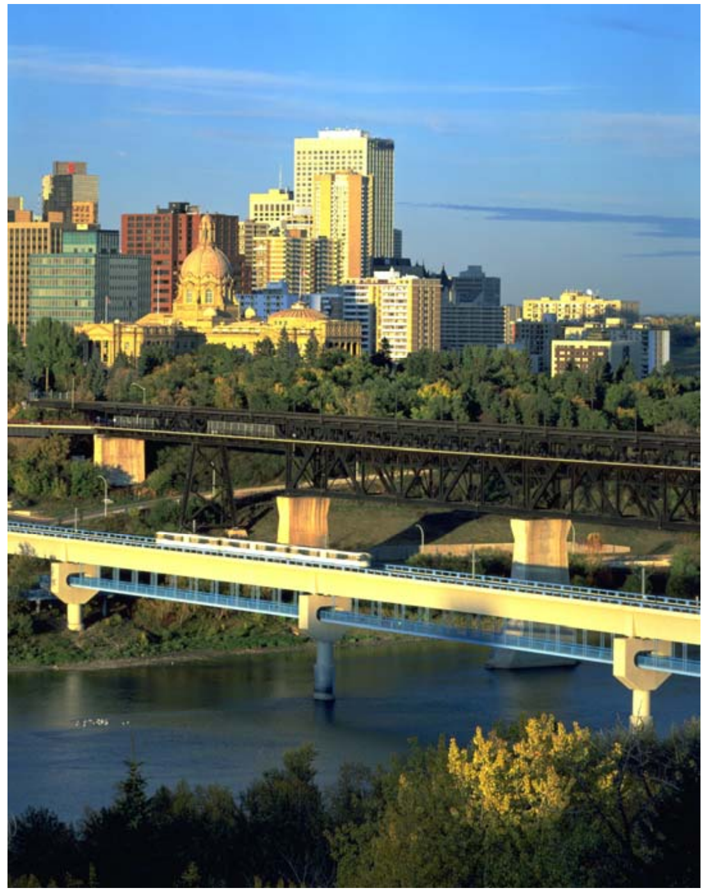
Completed in 2010:
- Meadowlark Park
- Lendrum Place

Completed in 2011:
- Rio Terrace
- Sherbrooke
- Fulton Place

Completion slated for 2012:
- Capilano
- Parkallen
- West Jasper Place

Investment in 2009-11 for Arterial road, bridge, and interchange key projects include:

- Quesnell Bridge Rehabilitation – $147 million (completed in 2011)
- 23rd Avenue & Gateway Interchange – $143 million (completed in 2011)
- Anthony Henday Drive Ring Road Connectors - $76 million
- Inner Ring Loop and Highway Connectors - $55 million
- Environmental Issues - $25 million
- Rabbit Hill Road from Terwillegar Drive to MacTaggart Drive - $23 million – Completion slated for 2012
- Dawson Bridge – $18 million (completed in 2010)
- Fort Road from 66 Street to 129 Avenue – $11 million – Completed in 2010
- Ellerslie Road from 62 Street to 91 Street – $11 million – Completed in 2010
- Rabbit Hill Road Interchange connection and Ellerslie Road Improvements - $9 million – Completed in 2010
- 127 Street from 158 Avenue to 167 Avenue - $8 million – Completed in 2010
- 41 Ave / Highway 2 Interchange - $8 million
- St. Albert/Yellowhead Trail Bridge – $7 million (completed in 2010)
- 153 Avenue from Manning Drive to Fort Road - $7 million – Completed in 2011
- 167 Avenue from 50 Street to Manning Drive - $7 million – Completed in 2010
- Whitemud Drive / Terwillegar Drive - $6 million
- Streetscape Rehabilitation - $3 million



Transit

The City completed the South LRT extension, as well as new LRT stations at McKernan/Belgravia, South Campus, Southgate and Century Park. The extension added about 50,000 weekday riders to the LRT network. The North LRT to NAIT extension is slated for completion by 2014 and, when completed, is expected to add 13,200 weekday passengers to the existing network.

Transit stations, park ‘n’ rides, and a new transit garage were also undertaken:

- Leger Transit Station – $7.3 million
- Lewis Farms Transit Station, including 600 stall park ‘n ride – $13 million
- Meadows Transit Station, including, 300 stall park ‘n ride – $12 million
- Eaux Claire Transit Station, including 300 stall park n Ride – $8.5 million
- Construction of Centennial Transit Garage; built to a LEED Silver environmental standard, the 300,000 square foot garage has capacity for 250 regular (40 foot) and articulated (60 foot) buses – $99 million

The City’s major investment in transit infrastructure significantly increased bus and LRT usage in 2009-2011. For example, ridership went from 68 million in 2009 to 76 million in 2010, and based on forecasts is expected to increase to 80 million riders in 2011.

Police

Supporting the Edmonton Police Service in maintaining the safety of citizens included the following key policing initiatives:

- New Southwest Division Police Station – $29 million
- Edmonton Police headquarters rehabilitation – $5.3 million
- Purchase of additional police helicopter – $2 million

Fire Rescue

Fire Rescue services targeted the rehabilitation of aging fire stations and the construction of new stations to provide direct service to growth areas of the City. Key projects include:

- Replacement of Fire Station 5 (Norwood) and Fire Station 11 (Capilano) – $18 million
- Construction of the new Heritage Valley Fire Station (in progress) – $9.9 million
- Construction of Ellerslie Fire Station (in-progress) – $11 million
- Construction of Lewis Estates Fire Station (in progress) – $13.8 million
- Construction of new Meadows Fire Station - $6.4 million
- Replacement of Fire Dispatch System (in progress) - $4.7 million

Opening of the Meadows Fire Station lead to an improvement in fire response times of 39 per cent in neighbourhoods immediately around the station. Before opening the station, target response time was being achieved in the primary neighbourhoods only 21 per cent of the time - a 60 per cent response time is now being achieved. Similar response time improvements are expected in areas surrounding the other new fire stations once the facilities are in service.

Community Facilities

Edmonton's attractions, leisure and recreational facilities attract 5.5 million visits each year. This attendance figure speaks to the importance our citizens place in infrastructure that supports quality of life. Also one of Council's top priorities, considerable dollars were targeted in 2009-2011 for rehabilitation and growth of community facilities. Key investments include:

- New Terwillegar Recreation Centre (opened in 2010 the facility already boasts annual attendance figures of 854,000) – $160 million
- New Meadows and Clareview Recreation Centres – $138 million and $87 million, respectively (projects tendered for construction)
- New Fort Edmonton Administration Building – $4.2 million
- John Janzen Nature Centre expansion – $2 million
- Clareview Arena rehabilitation and expansion – $8.4 million
- New North Central Field House (adjacent to Commonwealth Stadium) – $22 million
- Queen Elizabeth Pool redevelopment (at Kinsman Park) – $7 million
- New St. Francis Xavier Field House – $16.6 million
- New Capitol Theatre at Fort Edmonton Park (re-creation of the original theatre from the 1920s era) – $13.8 million
- Redevelopment of the Sea Mammals Facility at the Valley Zoo (the long-standing City attraction welcomes over 260,000 visitors each year) – $16.8 million
- Entry / Wander project at the Valley Zoo - $35 million

Other smaller scale rehabilitation projects that are ongoing include:

- Hardisty Pool redevelopment – $6.4 million
- Mill Woods Recreation Pool rehabilitation – $2.4 million.
- Commonwealth Stadium Field Lighting replacement – $1.7 million

Parks

Edmonton is home to hundreds of kilometers of park trails that span the City to form North America's largest contiguous urban parkland. Council's commitment to parks, natural areas and our river valley translated into higher levels of reinvestment in 2009-2011. Key projects include:

- Construction of the signature Fort Edmonton Footbridge and Trails, which spans the North Saskatchewan River from Fort Edmonton Park to the Westridge and Patricia Heights neighbourhoods – $28 million.
- Rehabilitation of Louise McKinney Riverfront Park Phase III that includes construction of three buildings, outdoor plazas, walkways and associated amenities (in progress) – $12.8 million,
- Construction of the Terwillegar Park access road – $1.5 million.
- New park construction at Tamarack Green (in progress) – $2.5 million.
- Rehabilitation of Jackie Parker Park (in progress) – $1.5 million.
- Redevelopment of Kinsmen Park (in progress) – $1.3 million.

Libraries

Investment in the renewal and growth of library capital projects allowed the City to address some of the backlog of rehabilitation and renewal for library facilities and to build new libraries in growth areas of the City. The following key projects were initiated in 2009-2011:

- Mill Woods Library Branch Replacement - planned reopening in 2014 - $23.6 million.
- Meadows Library Branch - planned opening in 2014 - $20.1 million.
- Clareview Library Branch - planned opening in 2013 - $16.6 million.
- Jasper Place Library Branch replacement - planned reopening in 2012 - $14.1 million.
- Highlands Library Branch replacement - planned reopening in 2013 - $9.6 million.

PART 2: Advancing The Ways

The ten-year Capital Investment Agenda is integral to the realization of Edmonton City Council's vision as outlined in the City's strategic plan, *The Way Ahead*. The six ten-year strategic goals in *The Way Ahead* and the Council approved outcomes for the six goals have guided the development of six directional plans to align City activities with the achievement of Council's strategic objectives. The goals and associated directional plans and approval dates are:

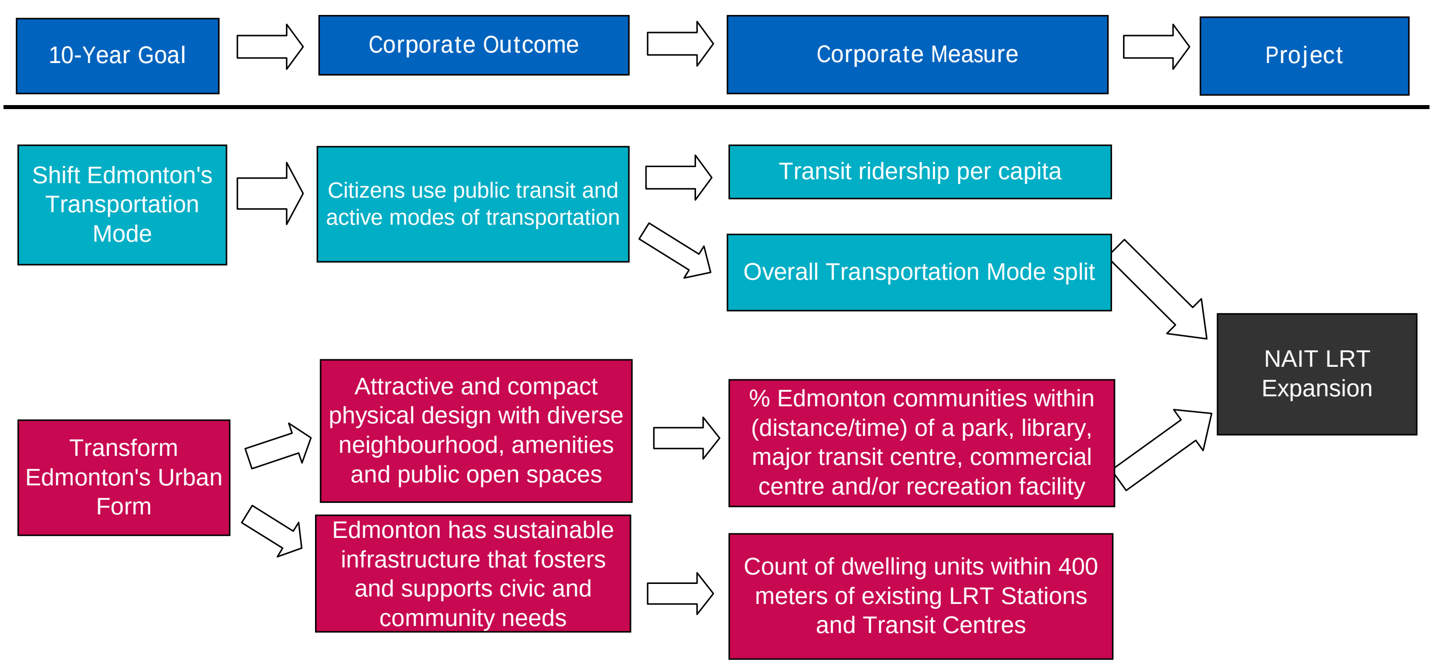
- Transform Edmonton's Urban Form – The Way We Grow (approved May 2010);
- Shift Edmonton's Transportation Mode – The Way We Move (approved September 2009);
- Improve Edmonton's Livability – The Way We Live (approved July 2010);
- Preserve and Sustain Edmonton's Environment – The Way We Green (approved July 2011);
- Ensure Edmonton's Financial Sustainability – The Way We Finance (approval expected Q3 2012)
- Diversify Edmonton's Economy – The Way We Prosper (approval expected Q4 2012)

While these plans are transformational in nature, they all build on the existing services and programs valued highly by Edmonton residents and businesses. Capital projects identified in these directional plans support the continued provision of high quality services to a growing population, and serve to move the City forward in achieving the strategic priorities of *The Way Ahead*.

The Way Ahead, the six ten-year strategic goals and the Council-approved corporate outcomes influence the identification and prioritization of projects in the ten-year Capital Investment Agenda.

Each capital program or project is assessed for its alignment to one or more of the corporate outcomes. Projects that promote multiple outcomes and goals are weighted more heavily than those that support fewer corporate outcomes. Through the prioritization of strategically aligned capital projects, the ten-year Capital Investment Agenda supports the City's achievement of Council's strategic goals. As the integration of performance measurement with funding decision-making matures, the documented alignment of outcomes and the strategies to budget will become evident.

Below is an example of the alignment of a capital project with corporate strategic goals, outcomes, and performance measures:



I. Economic Environment

OVERVIEW

Edmonton's economy – along with those of Alberta and Canada - has fully recovered from the downturn of 2008 and 2009 and entered a new phase of expansion. Employment growth has been so strong in the Capital Region that by the first quarter of 2011 evidence of labour shortages in selected sectors were evident. By August 2011 unemployment was nearing five per cent – the level below which more broadly based shortages and consequent upward pressure on wages begins to appear.

Internationally the economic recovery has been much more uneven and hesitant. Ongoing concerns about sovereign debt in Europe, the issues with the US fiscal situation and a moderation of - what remains rapid growth - in the emerging economies has generated volatile declines in financial markets. Relatively anemic economic performance in Europe and the US combined with the previously mentioned market declines has raised concerns of a return of recessionary conditions in key regions.

While the pace of recovery at the global level has slowed substantially, a 'double dip' recession scenario remains unlikely particularly in Canada and to a lesser extent the US. Several European countries remain mired in negative growth.

The City will feel the effects of recent developments through a changed outlook for oil prices, inflation, interest rates and the Canadian dollar. However, the prospects for Edmonton's economic growth remain very good. Implications for the Capital Plan over the three and ten year horizon are discussed below.

THREE-YEAR OUTLOOK

As noted above, employment in and around the City has grown substantially – over five per cent in the 12 months up to August 2011 - allowing unemployment to fall even as the labour force continues to grow. The overwhelming share of this growth has been in full time highly skilled jobs in manufacturing, construction, logistics and professional and scientific services. Such jobs provide solid, predictable incomes that encourage investments in housing and other big ticket items that can be expected to provide further stimulus to the City's economy over the next 36 months.

However with strong job gains has come the potential for shortages of skills and the prospect of a wage and price escalation similar to that of 2006 through 2008. Edmonton's inflation as measured by the Consumer Price Index (CPI) climbed through 2011 from values in the 1.5 per cent range to three per cent in August 2011.

The slowing of the global economic recovery has reduced expectations for energy consumption. Consequently, oil prices in the markets served by Alberta are now hovering in the $80 range. This will cause some stretching out of ongoing investments in the oil sands and elsewhere in the energy sector. That in turn will soften the strong demand for labour so evident in the last 12 months.

For Edmonton this will on balance be a good effect, allowing the local economy more time to attract and train workers to address labour market constraints.

That said the period of declining and very low inflation the City enjoyed from late 2008 to the first half of 2011 is now over. The City must anticipate the costs for operations and capital expenditures will rise more rapidly then was the case in the last two years. CPI based inflation can be expected to persist in the 2.5 to 3.0 per cent range out to 2014. Costs related to major capital projects can be expected to raise by 3.0 to 3.5 per cent over the same period with the potential to peak near 5 per cent in late 2012 and 2013.

The reduction in the City's next three-year capital plan will also have an impact. With a local economy which produces approximately $50 billion per year in goods and services a reduction in expenditures in the order of $2 billion over the next 3 years will constitute a significant withdrawal of demand from Edmonton's economy. Consequently, while difficult to quantify precisely, the proposed reduction in capital spending will act as a brake on the level of economic activity in the City in the coming years.

Comparatively strong economic growth has attracted new immigrants to the City and the Province. The most recent population estimates from Statistics Canada place Alberta at the top of the population growth rankings due in large part to net in-migration. Data for Edmonton derived from the monthly Labour Force Survey suggest a significant uptick in migration to the City of individuals 16 years and over.

Given solid economic prospects over the next 36 months population growth in Edmonton will exceed the national average expanding at a rate of 1.5 per cent to 2.0 per cent to 2014. While this strong population growth will help address labour shortages, it will place higher demand on the City for services and the capital investments needed to support those services – particularly those aimed at addressing the needs of recent arrivals to the City such as affordable housing .

An expanding business community will also be expecting the City to address their growing needs for infrastructure to support higher employment and output levels. Investments to efficiently move increasing volumes of goods, services and people will likely top the list.

In addition, shortages of serviced 'shovel ready' industrial and commercial land in some size categories and areas of the City are not out of the question by 2014. Hence, demands for the City to be more active in making capital investments to bring industrial and commercial land to market could emerge, particularly toward the end of the period under consideration.

Another positive near term factor coming out of the recent slowing of global recovery is the prospect of continuing low interest rates. Expectations in the first half of 2011 were that the Bank of Canada would start to move up interest rates in the last quarter of 2011. This now appears to be less likely.

That said, Canadian interest rates are at historically low levels. While the City has a short-term reprieve on interest related costs these cannot be assumed to persist until 2014. Canadian interest rates will begin to move up within 12 months and the City should assume at least a two per cent rise over current values by 2014.

The City also needs to be sensitive to the impact of a sovereign default on its debt rating. Several European countries face the very real prospects of a default. It is likely that a default by any government will cause rating agencies to downgrade all public sector debt. This could cause Edmonton's borrowing costs to rise even more quickly than anticipated increases in Canadian interest rates would suggest.

In summary, the very near term environment for borrowing by the City is better than expected. However, these conditions may well turn quickly against the City as monetary authorities address rising inflation and markets respond to a major shock, such as a default by a European nation.

As the perceptions of global recovery have turned negative, oil prices have declined. Lower oil and other commodity prices have pulled the Canadian dollar down. It is now well below par with the US equivalent.

The impact of a lower Canadian dollar on the City's Capital Budget is negative. A lower dollar increases the costs for imported equipment and services. It also tends to boost local inflation as imported food, clothing and other consumer goods rise. This impact is expected to be short-term as the Canadian dollar is anticipated to move back to par in the next year.

PART 3: Planning For The Future

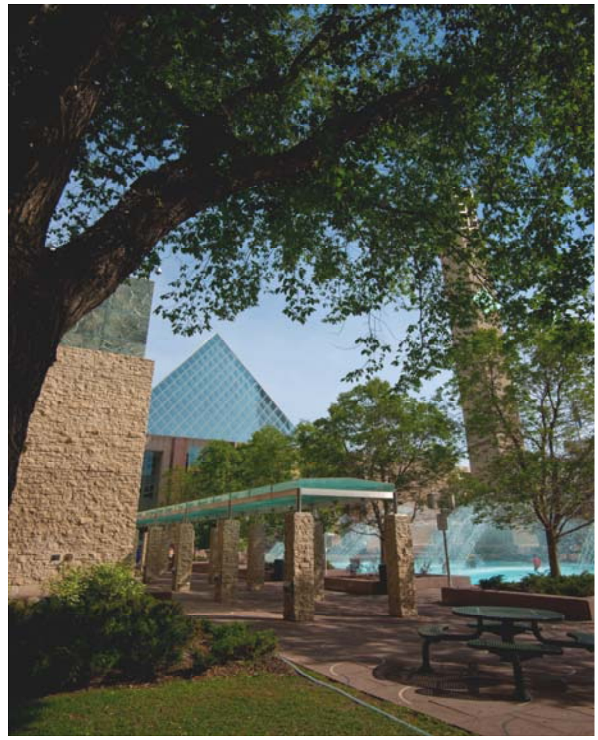
TEN-YEAR OUTLOOK

Longer-term employment growth will be slower as an aging population reduces growth in the labour force. Over the period to 2021, real economic growth is expected to average 2.6 per cent.

Nonetheless Edmonton – with a relatively young demographic - will outperform Canada and continue to attract immigrants. Consequently, the City will have to address growth in population and service demand above that of most other jurisdictions in North America. This will have to be done against a back drop of relatively high costs.

Interest rates beyond 2014 should stabilize at levels more reflective of historical averages. Hence the City should anticipate a long-term upward trend in interest costs.

Consumer inflation in Edmonton will trend above the national average coming in at 2.5 to 3.0 per cent. Expenses to the City can be expected to rise at above three per cent on average over the period to 2021.



Inflation as measured by both the Consumer Price Index (CPI) and the Non-Residential Construction Price Index (NRCPI) has been rising over the first half of 2011. Over the next three years, the CPI for Edmonton will be moving up at three per cent. Longer term, the CPI will settle to approximately 2.8 per cent. The NRCPI will accelerate to about five per cent over the next three years. This measure of inflation will also be moderate, yielding an average annual increase of 4.1 per cent out to 2020.

Edmonton's Projected Average Annual Growth Rate by Key Indicators

Key Indicators	Annual Growth 2012-2014	Annual Growth 2012-2021
Real Economic Output	3.1%	2.6%
Population	1.4%	1.5%
Employment	1.8%	1.6%
Consumer Price Index	2.7%	2.8%
Non Residential Construction Price Index	4.7%	4.1%

II. Overview

The City is responsible for providing and maintaining capital assets and infrastructure to serve the residents and businesses of Edmonton. A City is sustainable only if both its capital infrastructure assets and financial assets can be maintained over the long-term.

Our ability to build and properly maintain our capital assets is essential to ensure the provision of services to Edmontonians and to remain an attractive, cost-effective place to live and do business.

Infrastructure is expensive to build or buy, renew or replace and the City's historic and current sources of revenue are not keeping pace with municipal infrastructure needs. Yet there are affordability limits to property taxes and user fees that are controllable by municipal councils. Getting the most value out of every dollar spent on infrastructure is therefore vitally important.

To this end, it is incumbent on the City to develop a longer-term view of Edmonton's infrastructure needs. The ten-year Capital Investment Agenda provides that view and enables Council to make decisions in the shorter-term by understanding the impacts of those decisions on the City's future capital investment requirements.

Capital Planning Principles

The ten-year Capital Investment Agenda (2012-2021) is developed by Administration to assist Council in making strategic decisions on how best to allocate City resources to build and maintain the infrastructure Edmontonians will require over the next decade. As noted above, the longer-term plan is intended to inform and improve the decisions our civic leaders make today by giving them the benefit of understanding how those decisions may impact the future.

The ten-year Capital Investment Agenda was prepared in concert with the three-year Capital Budget (2012-2014), which has been approved by Council. However, while the Capital Budget outlines the City's immediate capital funding needs and priorities, the ten-year Capital Investment Agenda looks beyond the next three-year capital budget cycle to identify the key infrastructure and financial challenges the City faces beyond 2014.

Like the three-year Capital Budget, the ten-year Capital Investment Agenda supports the strategic direction of Council and was developed around the following key principles:

- Prioritize projects to achieve the best results for the City overall;
- Use cash (pay-as-you-go and grant funding) for ongoing projects (e.g. maintenance and renewal);
- Use borrowing for new and significant projects eligible according to Debt Management Fiscal Policy (DMFP)
    - Borrowing capacity is a consideration,
    - When debt is proposed, the funding source for the debt servicing is identified;
- Fund Utilities by Utility Rates;
- Align capital projects to the City's 30-year vision, ten-year strategic goals and corporate outcomes approved by Council;
- Optimize investment in existing municipal infrastructure to ensure all assets are in a condition that allows them to meet intended service levels;
- Allocate resources to achieve an appropriate balance between the renewal of existing infrastructure and the demand for new growth infrastructure;
- Identify and account for all future operating, maintenance, and renewal costs associated with capital projects and include those costs in future budgets as appropriate.

Developing the Capital Agenda

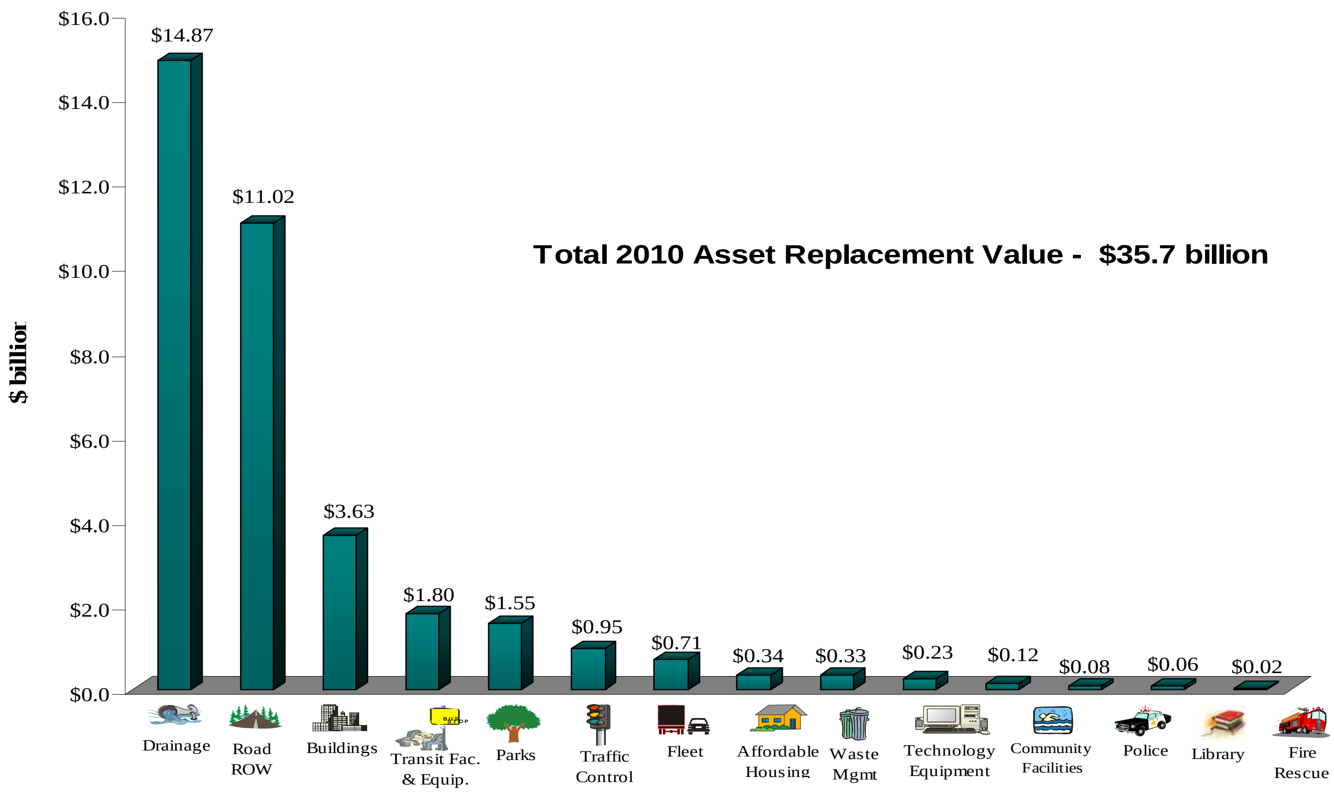
The ten-year Capital Investment Agenda was developed through a collaborative process with all City departments, the Edmonton Public Library and the Edmonton Police Service.

Growth projects were evaluated using a value management approach that assessed the projects in terms of Council direction, health and safety, legal obligations, contribution to corporate outcomes, infrastructure functionality or fitness of purpose, partnership projects, and financial contributions. Projects were rated by individual departments and authorities and were then subjected to a peer review, which resulted in a list of prioritized projects.

All City departments responsible for infrastructure maintenance and renewal provide data to the City's Office of Infrastructure and Funding Strategy. This data is used with the Risk-based Infrastructure Management System (RIMS) (developed by the Office of Infrastructure) to ascertain the long-term investment required to maintain the majority of the City's very significant asset base in a state of good repair and reduce the percentage of assets in poor or very poor condition. As part of the capital planning process, approximately $20.5 billion of tax-supported assets were identified. Total City asset replacement value is currently estimated at $35.7 billion, including $15.2 billion of utility assets. Renewal targets were determined for each asset class, and, using the risk model, funding requirements by department were established in relation to risk exposure and current physical condition.

With a five point rating system of very good, good, fair, poor, and very poor, approximately 16 per cent of City infrastructure was in poor or very poor physical condition (2010). In measuring the capacity of the infrastructure to meet service needs or demand, 8.5 per cent of City infrastructure was in poor or very poor condition.

In order to achieve the goal of approximately 6 per cent of infrastructure in poor or very poor condition in 20 years, targeted investment is required. Preliminary modeling shows $400 million per year ($1.2 billion over the three years) is required for renewal projects over 2012 to 2014. For the 2015-2021 period, $450 million of annual renewal investment is required. Furthermore, an annual investment of $475 million is required over the 2022-2031 period.



Detailed descriptions of types of City infrastructure are provided below for reference:

Description of Infrastructure

Portfolio	*Group*	*Description*
Transportation	**Road Right-of-Way**	includes roads (arterials, collectors, local; and curb and gutter), sidewalks, and auxiliary structures (such as gates, streetscapes and others) and bridges.
	Traffic Control & Street Lighting	includes traffic signals, signs, markings, street lighting and parking meters.
	Transit Facilities and Equipment	includes Light Rail Transit (LRT) system facilities and equipment (including cars), transit centres, bus equipment, trolley system.
Environment and Safety	**Drainage**	includes sanitary, storm and combined sewers (incl. manholes, catchbasins), and service connections.
	Waste Management Facilities	includes operation and administration facilities, transfer stations and public facilities, processing facilities and operating landfills and appurtenances.
	Police	includes police equipment, police vehicles and specialized equipment, communications and IT.
	Fire Rescue	includes specialized emergency equipment, communication equipment and dispatch system.
Social Infrastructure	**Community Facilities**	includes all recreation equipment, golf courses and cemeteries.
	Parks	includes horticulture, trails, hard surfaces, playgrounds, sportsfields, park infrastructure and parks.
	Housing	includes non-profit housing, community housing and senior lodges/cabins.
	Library	includes Library network, contents and materials.
Corporate Infrastructure	**Buildings**	includes civic offices, public works, operation facilities (e.g.yards) all major recreational facilities and amenities, police, libraries, and emergency response buildings.
	Fleet	includes municipal city vehicles, transit fleet and shop equipment.
	Technology Equipment	includes servers, network, all communication equipment.

III. Capital Planning Fundamentals

Capital Funding

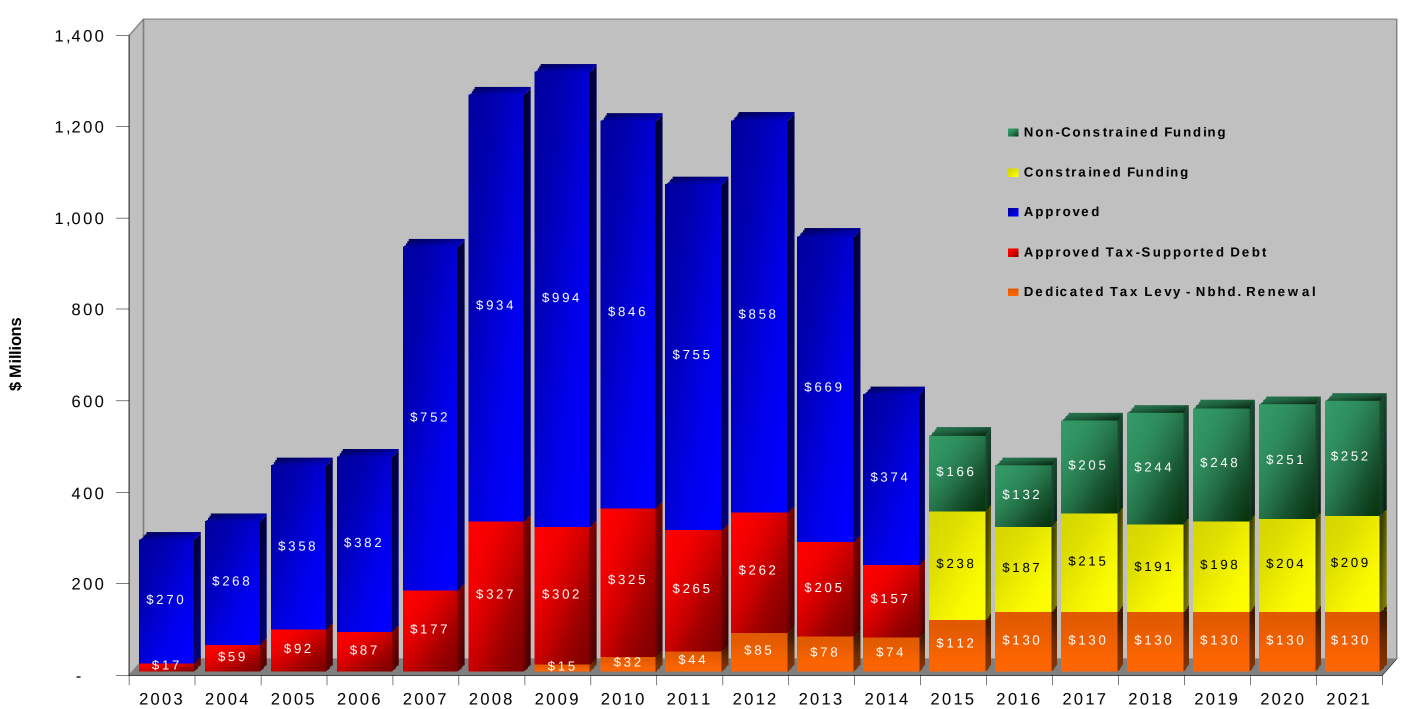
Construction costs escalated dramatically in the last decade increasing approximately 70 per cent from 2002 to a peak in 2008. This rapid escalation of capital project costs meant the annual growth in the City's capital spending had to be very substantial—particularly in the period from 2006 to 2008—simply to meet inflation related cost increases. Costs de-escalated in 2009 and 2010 but were still 50 per cent over 2002 levels.

City funding for infrastructure increased significantly after 2006 through the use of debt and increases in grant funding from the Province (Alberta Municipal Infrastructure Program, Municipal Sustainability Initiative, City Transportation Fund, GreenTrip) and the Federal government (Federal Gas Tax, Building Canada Fund and Infrastructure Stimulus Funding), and by the fast-tracking grant funding. Looking ahead to 2012-2021 known available funding reduces to approximately half of the 2009-2011 level. This change is due primarily to the lower use of debt, but is also impacted by reductions to MSI and to Edmonton's share of the City Transportation Funding. Levels in 2012-2014 are also impacted by the repayment of grant fast-tracking.

In the ten-year Capital Investment Agenda (2012-2021) total projected funding is $6.5 billion. Over the same time frame, total documented needs are close to $17.0 billion, which creates a gap of $10.5 billion between what the City needs and the projected available funding. Beyond 2014, projected funding is $3.7 billion of which $2.3 billion is constrained funding that is unavailable for reallocation. This leaves non-constrained funding of $1.4 billion available for allocation between growth and renewal in 2015-2021. Constrained funding is funding which is dedicated for various reasons to specific types of infrastructure. Examples of constrained funding include:

- Dedicated tax levy funding for the Neighbourhood Renewal Program
- GreenTrip, Federal Fuel Tax, City Transportation Fund grants
- Local Improvement Levies
- Developer and partner contributions

Historical and Projected Funding 2003-21
Showing Approved Projects and Projected Funding Levels



2012-2021 - PROJECTED FUNDING ($ millions)											
FUNDING SOURCE	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2012-2021**
											-
CONSTRAINED FUNDS											
GF - Neighbourhood Renewal	84.5	77.7	74.1	130.0	130.0	130.0	130.0	130.0	130.0	130.0	1,146.3
GF - Pol/Lib	13.0	13.1	13.1	14.0	14.0	14.0	14.0	14.0	14.0	14.0	137.2
Local Improvements	0.3	0.3	0.3	5.3	5.1	5.1	6.2	5.0	5.0	5.6	38.1
Reserves (Fleet/Other)	37.9	31.0	31.7	23.0	22.8	22.9	23.0	23.0	23.0	23.0	261.3
Retained Earnings (Land/EEDC)	87.0	75.0	53.6	106.9	61.7	57.8	38.5	40.0	40.0	40.0	600.5
Developer/Partner	17.4	38.9	57.0	14.5	14.1	8.9	6.8	7.0	7.0	7.0	178.6
Grants - Fuel *	89.3	70.9	55.8	71.4	67.7	100.7	105.7	111.0	116.6	122.4	911.5
Grants - GREEN TRIP *	184.3	200.0	2.4	-	-	-	-	-	-	-	386.7
Grants - Fed.Bldg.Canada Fund	100.0	-	-	-	-	-	-	-	-	-	100.0
Grants - Other (NDPT, AMIP)	15.2	2.3									17.5
	628.9	509.2	288.0	365.1	315.4	339.4	324.2	330.0	335.6	342.0	3,777.7
											-
NON-CONSTRAINED FUNDS											
General Financing *	111.1	76.0	74.2	34.1	63.3	68.0	71.4	82.9	85.9	87.5	754.4
Tax-Supported Debt **	261.8	204.7	157.4	32.2	17.0	-		-	-	-	673.1
Grants - MSI *	202.9	163.0	88.2	93.9	60.8	128.6	164.6	164.6	164.6	57.6	1,288.8
	575.8	443.7	319.8	160.2	141.1	196.6	236.0	247.5	250.5	145.1	2,716.3
											-
	1,204.7	**952.9**	**607.8**	**525.3**	**456.5**	**536.0**	**560.2**	**577.5**	**586.1**	**487.1**	**6,494.0**

2012-2014 CONSTRAINED:	1,426.1	2015-2021 CONSTRAINED:	2,351.6
2012-2014 UNCONSTRAINED:	1,339.3	2015-2021 UNCONSTRAINED:	1,377.0
2012-2014 TOTAL:	**2,765.4**	2015-2021 TOTAL:	**3,728.6**

* Amounts are net of fast tracking
** Tax-Supported includes committed plus recommended (Great Neighbourhoods / Quarters Phase 1)

Sources of Funding

1. Pay-As-You-Go (PAYG)

Pay-As-You-Go funding, as the name suggests, is made available annually from investment/dividend income. Investment volatility dictates the total amount of funding available in a given year. Latest estimates indicate that approximately $750 million of PAYG funding will be available (an average of $75 million per year) for 2012-2021. However, approximately $15 million in PAYG funding allocated from future years to fund the 2009-2011 Capital Plan is estimated to be outstanding at the end of 2011.

Pay-As-You-Go is a vital component of the City's funding strategy, since it is used to pay for the costs grant-funded projects incur that are not eligible for reimbursement under federal and provincial grant funding rules. In order to maximize the use of grant funding, it is necessary to have an unconditional City funding source to address the grant eligibility gaps.

2. Debt

Debt is subject to limits imposed through the *Municipal Government Act (MGA)*, and to a more conservative degree, to the parameters set by the Council-approved Debt Management Fiscal Policy (DMFP). There is a section devoted to debt immediately following this section on funding sources.

3. Grants

- **Municipal Sustainability Initiative (MSI)** – Currently, $1.3 billion of MSI funding remains available for 2012-2021, after the City's commitment to fast-track about $250 million of MSI projects in 2009-2011 to bridge the gap between timing of construction and receipt of funding. The City's fast-tracking strategy requires an annual repayment of $57 million, including interest for five years, reducing the amount of MSI available in 2012-2016 by $285 million.

- **GreenTrip** – The total amount of GreenTrip funding for the Edmonton Capital Region is $800 million. The Capital Region Board (CRB) has recommended an allocation of $732 million for Edmonton. However, work needs to be done with the CRB to confirm the priorities for this funding allocation. To date, Edmonton has been granted $497 million in GreenTrip funding by the Province for the North LRT to NAIT extension. An initial grant payment of $70 million was received in 2011. Projected grant payments (per fiscal year) for the remainder of the NAIT GreenTrip funding are: $80 million in 2011-2012, $50 million in 2012-13, $80 million in 2013-2014, $100 million in 2014-2015, and $117 million in 2015-2016. To complete the project by 2014, about $294 million of short-term borrowing will be required to bridge the gap between timing of construction and receipt of funding. The remainder of the CRB recommended GreenTrip allocation to Edmonton of $235 million is also slated for LRT, with the specific projects subject to CRB support and Council decision.

- **City Transportation Fund (CTF)** – This Provincial funding from fuel taxes has provided the City $105 million on average for each of the past three years. Beginning in 2011, changes to the program's funding methodology will see Edmonton receive less fuel tax dollars than previously projected for 2012-2014. Based on information from the Province, the City's allocation is projected to go from $107 million in 2010 and $102 million in 2011, to $97 million in 2012, $92 million in 2013, and $87 million in 2014. While the City's allocation beyond 2014 is unknown, an inflation factor of five per cent per year has been used to project CTF funding for 2015-2021. In 2011, the City committed to fast-track CTF-funded projects by borrowing $100 million against future provincial fuel tax payments. This fast-tracking strategy requires an annual repayment of $22 million, including interest for five years, reducing the amount of fuel tax available in 2012-2016 by $110 million.

- **Federal Gas Tax –** Edmonton's current allocation is $43.6 million per year until 2014, which is the end of the current contribution agreement. While the City's allocation beyond the existing agreement is not known, the Federal government has confirmed this as an ongoing funding program that will continue beyond 2014. The City has been using the total Federal Gas Tax grant of $43.6 million per year, supplemented by an additional $1.3 million per year from the LRT Reserve, to service debt for the South LRT extension to Century Park. This funding is committed until the debt for South LRT is repaid. Project debt will begin to retire in 2021, with all South LRT borrowing retired by the end of 2031.

- **Building Canada Fund (BCF)** – This is a Federal grant program with a total investment of $8.8 billion to advance national priorities focused in the areas of the national highway system, drinking water, wastewater, public transit and green energy. There is no formal application process for the BCF Program. BCF projects are considered for funding only if they are endorsed at the political level and recommended by a federal minister. Funding is allocated for projects in the provinces based on population and all major projects are selected through federal-provincial negotiations. The program component that applies to Edmonton is the Major Infrastructure Component, which targets larger, strategic projects of national and regional significance. The City was granted $100 million for the North LRT extension to NAIT. The City will receive progress payments based on submitted project claims in 2012-2015. To bridge the gap between the timing of project construction and receipt of funding, $75 million of short-term borrowing will be required to complete the project by 2014.

4. Fees and Levies

- **Neighbourhood Renewal Program (NRP) Tax Levy** –Council approved a dedicated tax levy for the Neighbourhood Renewal Program starting in 2009. The levy was two per cent per year for 2009 and 2010 and 1.5 per cent for 2011 and 2012. The dedicated tax will keep increasing by 1.5 to 2 per cent per year until the program funding requirement can be met by the dedicated tax on its own. Currently, the funding from the dedicated tax is supplemented with other funding (predominantly MSI) to meet the level of funding required for the program. The ten year funding plan includes the levy continuing at 1.5 per cent per year until 2018. This will need to be reevaluated annually. The Neighbourhood Renewal Program is described in greater detail later in this document.

- **Local Improvement Fees** – For tax-supported operations, local improvements are used exclusively through the Transportation Services capital program. The City borrows money through a formal borrowing bylaw to front-end specific projects, which are then recovered over time from residents benefiting from these improvements. Local improvements can be resident-initiated or City-initiated. Examples of resident-initiated local improvements include alley paving and lighting, curb crossings, and resident-initiated sidewalks and roads. City-initiated local improvements include cost-shared sidewalk reconstruction. The Neighbourhood Renewal Program uses local improvements as a cost-sharing tool for sidewalk reconstruction and replacement.

- **Developer Fees/Partner Financing** – Funds are contributed by developers or partners for specific civic infrastructure, such as buildings, parks, recreation facilities, roads and social housing. Current approved projects with significant developer/partner financing include: Valley Zoo Natures Wild Backyard; Anthony Henday Connectors, new traffic signals, 41 Avenue/Highway 2 Interchange; and the Multi-Sport Tournament and Recreation Site.

5. Land Enterprise

Land Enterprise acts as the development arm of the City of Edmonton. It acquires raw land, services, markets, and sells the serviced lots with one of its primary goals being to earn a financial return for the City. The development activities are financed by the reinvestment of past profits (retained earnings) in the acquisition of raw land and the associated site servicing costs

A secondary mandate of Land Enterprise is to acquire land for future municipal needs, with the funding for the land portion to be recovered from the Capital Budget. The acquisition of land often occurs ahead of the Capital Budget approval to take advantage of lower pre-development land prices. This has resulted in a significant cash shortfall in the municipal land acquisition program of Land Enterprise.

Over 2012, a financial plan will be developed to manage the cash position of Land Enterprise to ensure that its development activities remain unhampered by the land inventory purchased on behalf of the City for municipal use. A financial strategy needs to be developed to systematically repay Land Enterprise for this up-front capital, and to take advantage of acquiring land at pre-development prices without creating a financial liability for the operations.

6. Reserves (Fleet / Other)

Fleet Services provides vehicle and equipment procurement, maintenance, fleet engineering, fabrication services, fuel management and fleet administration to other City departments and EPCOR. In 2012, Fleet Services is transferring fleet ownership, as well as vehicle and equipment procurement to its Drainage Services, Waste Management, and Police Service customers.

A dedicated Vehicle Replacement Reserve was initiated within the Fleet Services enterprise, as part of a financial business model change in 2010. This reserve helps to ensure that the long-term funding of capital replacement needs is adequately maintained. Under the retained earnings model, annual net operating income (which is the balance of what Fleet Services charges its customers less what it disperses for capital and operating costs), is added to the Retained Earnings Account; this account identifies monies the City of Edmonton available to Fleet Services for capital purchases, such as City equipment, shop equipment and computing systems.

The pricing model Fleet Services uses includes both variable rate charges for maintenance costs and fixed rate charges for vehicle replacement funding. Fuel charges are billed separately as fuel prices can be highly volatile, and are largely controlled by the customers' usage patterns. ETS buses are not subject to fixed rate charges, but remain funded through transit-related grants.

7. Utility Operations

Utility funding sources largely include retained earnings, self-liquidating debentures, Local Improvement Fees, and the Sanitary Servicing Strategy Fund (SSSF). All information on the Utility Capital Budget is included in the Utility Capital Budget submission approved by Council in December 2011.

Debt

When it comes to infrastructure, the immediacy of borrowing can be a significant advantage. Utilizing debt to finance large expenditures up front allows high priority projects to proceed sooner than waiting to accumulate enough Pay-As-You-Go funds or grants from other orders of government to fund large projects. A reasonable level of borrowing passes the test of equity, since benefits, which are normally consumed over the life of several decades, are matched with costs.

For high priority projects, debt may have an added advantage of leveraging capital dollars from other sources, such as federal or provincial grants or participation from the private sector. There is also an advantage to using debt when construction cost escalation is greater than the cost of borrowing and when capacity is available.

An appropriate and sustainable level of tax-supported debt is recognized as a legitimate part of any long-term capital financing plan. However, the key to utilizing this financing tool is to establish sustainable limits, ensure the debt is used for the right projects, and is structured appropriately with a repayment plan in place. The use of "*smart debt*" , a concept outlined by the Canada West Foundation, is a revenue-based model. A revenue-based measure of affordability is debt service as a percentage of revenue. This links the source of funding to the requirement to service debt and implies sustainability of debt service costs. Debt service as a percentage of revenue implies, as revenue grows, debt service can grow proportionately. This supports that debt service and therefore, new debt issues, can be an ongoing part of the capital plan. This is especially the case in a growth environment where new development increases the overall tax base.

Debt was re-introduced by the City for tax-supported operations in 2002. Since 2007, with substantial investment in City infrastructure, debt has been a key financing tool to advance high priority, large scale projects, such as South LRT, North LRT, Recreation Centres, Great Neighbourhoods, and Whitemud Drive/Terwillegar Drive Bridge Rehabilitation.

The City's Debt Management Fiscal Policy (DMFP) allows for the consideration of long-term debt related to capital expenditures for:

- Large projects with long-term benefits;
- Projects with benefits for the community-at-large (for tax-supported debt);
- Growth-related projects;
- Emerging needs to support corporate priorities and approved strategic plans; and
- Major rehabilitation of existing assets.

1. Debt Limits

The *Municipal Government Act (MGA)* limits municipal debt to two times municipal revenues, with debt servicing not to exceed 35 per cent of revenue. Debt is further restricted through the City's DMFP, which limits tax-supported debt servicing to 15 per cent of revenues (such as property taxes, non-utility user fees, fines, permits and investment income) and total debt servicing to 22 per cent of annual City revenues. The table below shows projected 2012 debt limits and performance.

	Limit	Projected Limit in 2012	2012 Approved	2012 Approved Available	2012 Approved Available
Total Debt (MGA)	2x Financial Revenue	$ 3,924	$ 2,385	$ 1,539	39%
Tax-Supported Debt Servicing (DMFP)	15% of Tax Supported Revenue	$ 240	$ 148	$ 92	38%
Total Debt Servicing (DMFP)	22% of Financial Revenue	$ 432	$ 184	$ 248	57%
Total Debt Servicing (MGA)	35% of Financial Revenue	$ 687	$ 184	$ 503	73%

Note: Includes $140M of short-term borrowing for NLRT to backstop GreenTRIP and BCF funding ($566M authorized by bylaw)

As Illustrated in the table, the City of Edmonton is currently in compliance with all MGA/DMFP imposed debt limits.

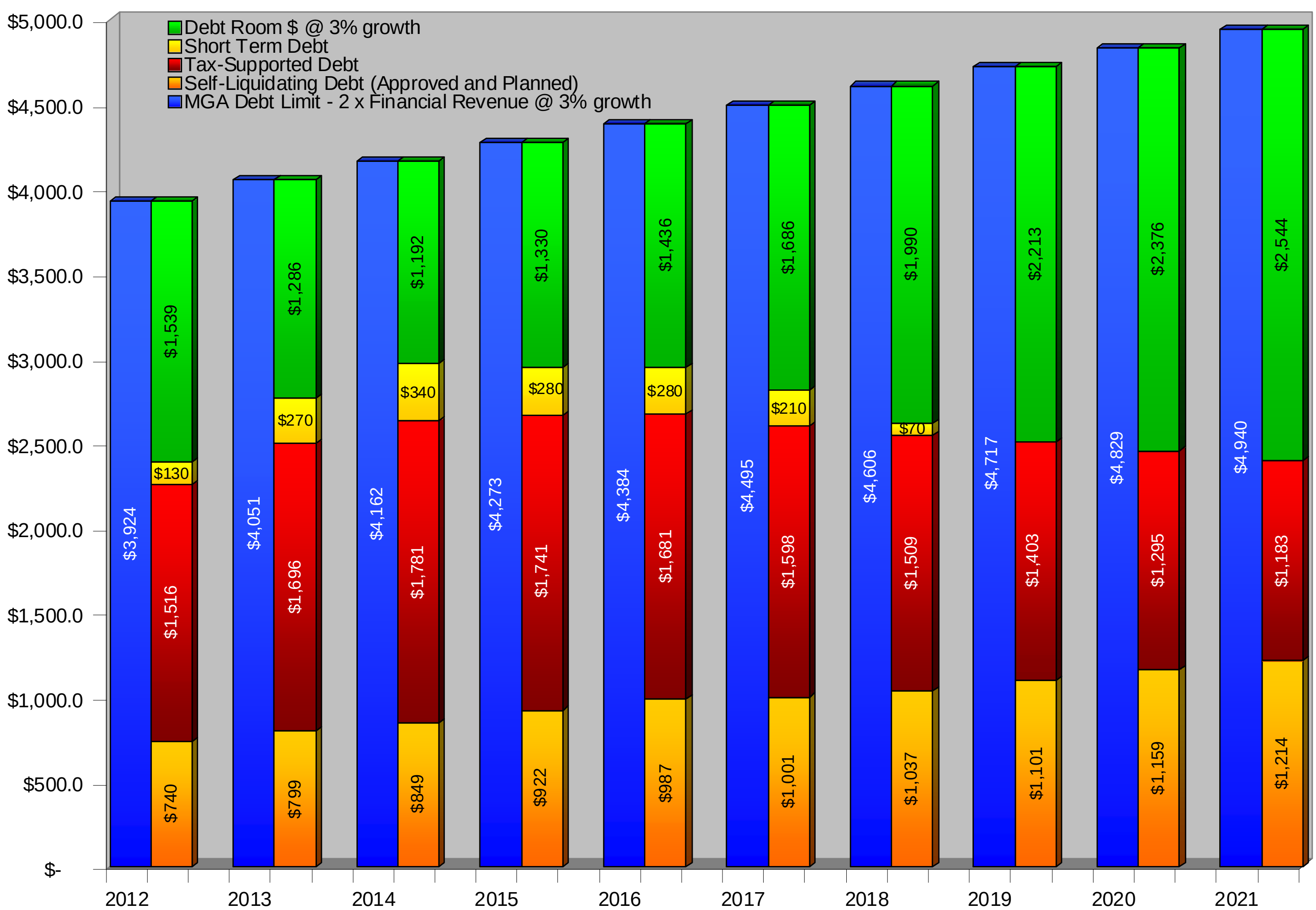
2. Debt Projections

The City began to take on tax-supported debt in 2003 with significant increases in borrowing starting in 2007. An average of $280 million annually was borrowed for capital projects in the 2009-2011 capital budget cycle. Based on direction from Council, annual borrowing for capital in 2012-2014 is projected to average about $160 million annually. Even though the City is well within its legislated and policy driven debt and debt service limits, debt must still be affordable and the City must maintain flexibility to issue debt in response to emerging needs. The City is contemplating a number of transformational projects that are highlighted later in this document that may require debt financing to move forward. Therefore, Administration has not recommended the use of additional debt in the 2012-2014 capital plan beyond that which Council has already approved.

Taking into consideration known debt commitments, approximately $1.5 billion of total debt room will be available under the *MGA* limits in 2012. This debt capacity is projected to increase as revenues increase. For example, based on conservative annual revenue growth of three per cent, debt room grows to $1.6 billion by 2017, $2.0 billion by 2018, and $2.2 billion by 2019.

One potential impact on debt room is the projection that self liquidating debt (utilities) will increase from just over $0.9 billion in 2015 to $1.2 billion by 2021. This increase could impact future tax-supported borrowing from a total debt and total debt servicing perspective.

2012 -2021
Debt Projections
(in Millions)



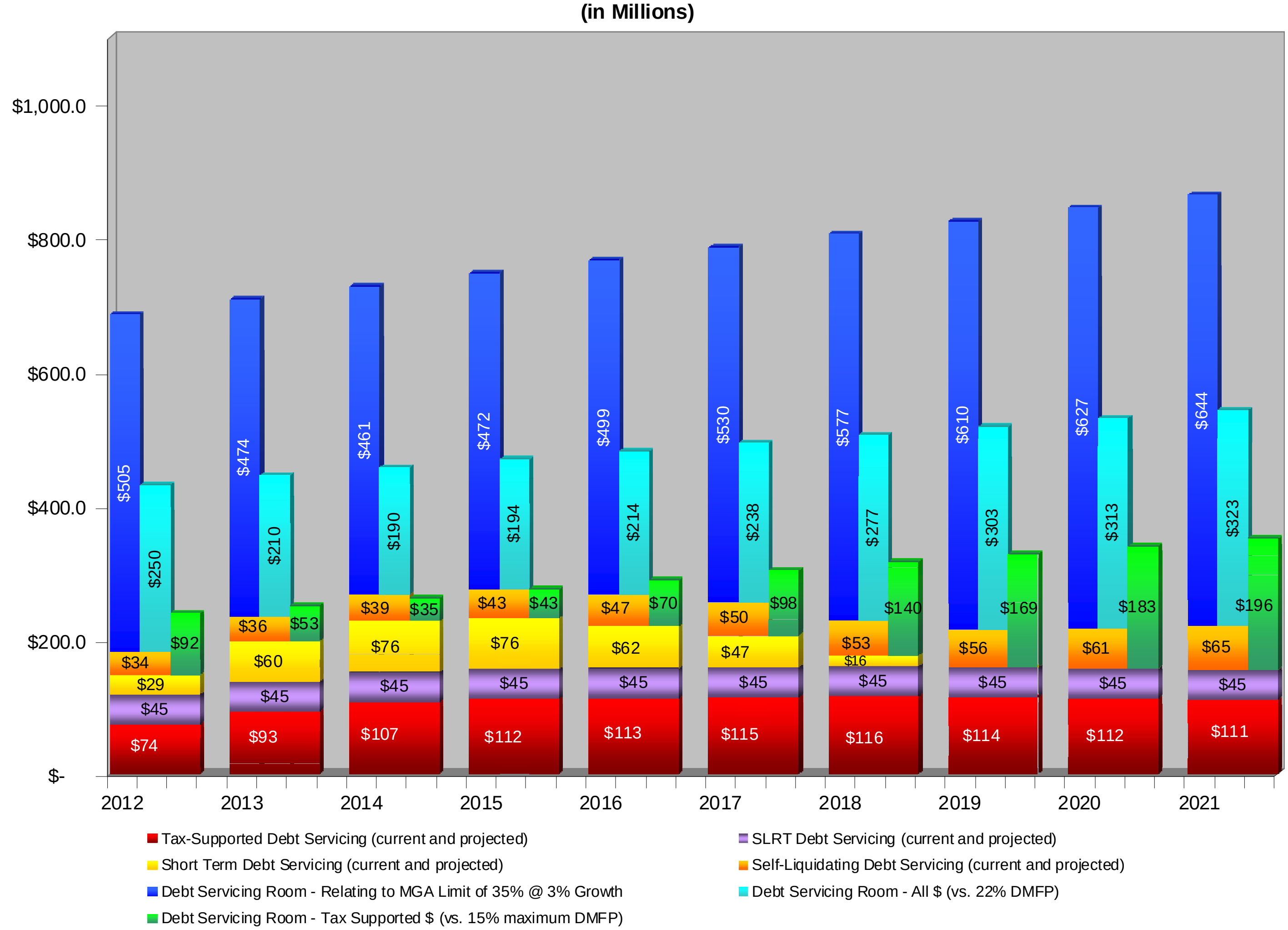
3. Debt Servicing

Tax-supported debt servicing starts to fall slightly in 2019 and beyond as the short-term debt for fast-tracking is expected to be paid back. In 2018 projected tax-supported debt servicing reaches a peak of $115 million per year and is projected to decline in 2021 to a tax-supported debt servicing of $111 million per year.

The City starts to see some portions of significant tax-supported debt projects beginning to be paid off (such as South LRT) after 2026.

As debt is retired, tax-supported debt servicing costs are reduced, creating room which could be used to fund new projects without having an incremental impact on the tax rate.

2012 - 2021
Debt Servicing Projections
(in Millions)

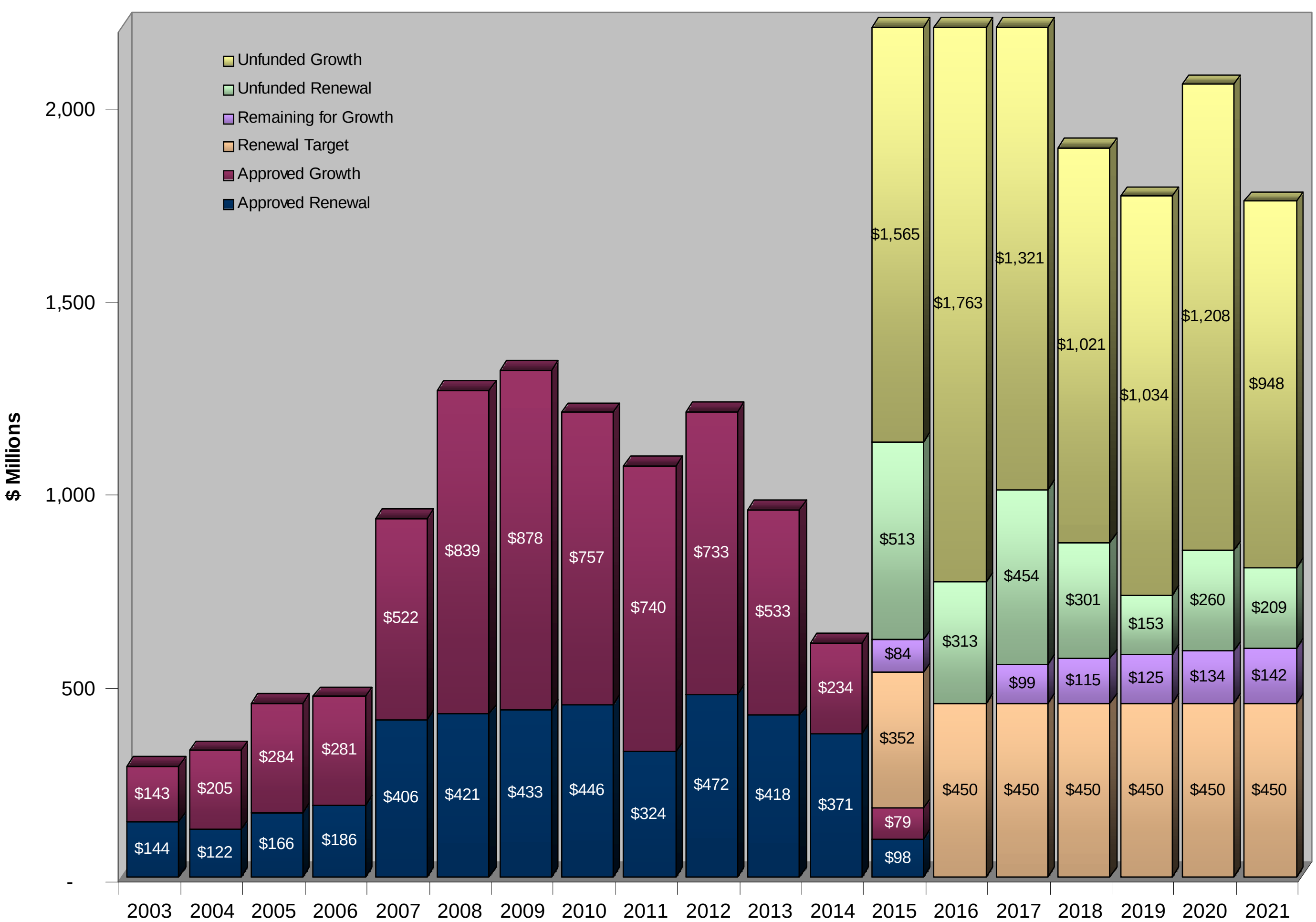


Balancing Renewal and Growth

Public infrastructure is essential to all residents and businesses in the City of Edmonton and critical to the competitiveness of our economy, the quality of life citizens enjoy, and the delivery of public services. The ability to build and properly maintain infrastructure assets is essential to ensure Edmonton can provide services and remain an attractive and cost-effective place to live and do business. One of the principles of any long-term capital plan is to optimize the investment in existing municipal infrastructure to ensure that all assets are in a condition that allows them to meet intended service levels. The best possible balance between growth and renewal should ensure that investments in infrastructure assets maximize benefits, reduce risk, and provide satisfactory levels of service to the public. This is no small task when funding for infrastructure growth and renewal is insufficient.

With both an aging and growing city, balancing investment choices between renewal and growth is a significant challenge. As infrastructure ages, more maintenance and rehabilitation is required to ensure that infrastructure is performing well and continuing to meet the needs of citizens. At the same time, demands arise for new infrastructure to support growth. The 2009-2011 Capital Budget split the investment between renewal and growth with 34 per cent allocated to renewal projects and 66 per cent allocated to growth projects. The split in the approved 2012-2014 Capital Plan is 46 per cent for renewal and 54 per cent for growth. This may be indicative of the insufficient emphasis placed on growth infrastructure prior to 2007, which put the City in a position of playing catch-up. The overriding reality today is the City does not have enough funding to meet its infrastructure needs.

Historical/Projected Growth/Renewal 2003-2021
Showing Approved and Unfunded Projects



Renewal Challenges

The City's infrastructure is aging. Even with the significant re-investment in existing assets and the addition of new infrastructure that has occurred since 2007, the average age of the City's infrastructure assets is 30 years. The average expected life of all City assets is 50 years.

1. Renewal Targets (2012-2021)

Edmonton's infrastructure, the basic structural foundation of our city, includes the vast network of roads, bridges, sewers, recreation centres, libraries, and other facilities that serve the diverse needs of our growing population. A standardized rating system is used to evaluate existing infrastructure assets. Assets are evaluated based on three distinct categories: physical condition, capacity, and functionality. Though all three components are important to the understanding of infrastructure's contribution to services, only the evaluation of the physical condition is advanced enough at this time for comprehensive analysis. For all assets, the respective Departments are responsible for the collection, maintenance and integrity of evaluation data.

A made-for-Edmonton Risk-based Infrastructure Management System (RIMS) is used to assist in ranking the rehabilitation needs of the City of Edmonton, and to optimize the allocation of renewal funds across the varied infrastructure to ensure long-term value. Not all infrastructure is assessed on the same basis. For example, in the roads category, an alley would not have the same importance as a bridge in assessing its required state of repair. This is important to ensure that investment is targeted where it is needed the most. Moreover, this is just one factor input into the RIMS model to determine how much reinvestment is required on average annually, as the levels of investment are contingent on the performance standards for the asset. In general, the RIMS model simulates asset deterioration over time by incorporating various rehabilitation and renewal scenarios. It also includes a module that will allow the testing of various funding strategies and their impacts on the infrastructure to assess the status of infrastructure over time given certain funding levels.

Based on risk analysis done using the RIMS model, an average annual reinvestment of $400 million (without inflation) over the next three years (2012-2014) and an average annual reinvestment of $450 million (without inflation) over 2015-2021, was determined to be the funding required for the renewal of the City's existing infrastructure to achieve a reasonable state of repair. The renewal target is based on City assets as of 2010, and does not include renewal of new assets beyond the 2010 Capital Budget. In targeting renewal funding based on an amount that is averaged over several years, the impact of very large rehabilitation projects in any given capital program are not addressed. One large project may take up a significant portion of the annual allocation, which can have adverse impacts on the optimum scheduling for other rehabilitation work. Administration recognizes the need to factor this into the recommended funding levels, with variation needing to occur between the years. However, this has not been accomplished at this time given that we are working to reduce an infrastructure debt with very constrained funding.

Over a ten year time frame, this level of reinvestment would be required to ensure the majority of the City's very significant asset base is maintained in a good state of repair and the percentage of assets in poor or very poor condition are reduced. Continuing total reinvestment of this magnitude over a ten year time frame is projected to significantly reduce the amount of poor and very poor infrastructure, decrease the infrastructure gap, and lead to a more sustainable City.

2. Renewal Budget (2012-2014)

In the first three years (2012-2014) of the ten year Capital Investment Agenda, a total of $1.3 billion (average of $430 million per year) is allocated to renewal.

Over the remaining seven years of the ten year capital plan about $3.7 billion of funding is available to fund both the City's growth and renewal needs. As noted above, about $3.2 billion would need to be allocated to renewal over the seven year period to meet the RIMS investment target of $450 million per year.

GROWTH CHALLENGES

The main growth challenge the City faces over the next ten years is that very limited growth money is available once constrained funding (funding that must be used for a specific purpose and cannot be reallocated), previously committed projects, and allocation to renewal is considered. It will not be possible without additional funding sources to meet identified growth needs and continue to work towards achieving a reasonable state of repair of existing assets.

A secondary challenge with growth projects is that operating costs associated with new infrastructure can be as much or more substantive over the useful life of the asset as the initial capital cost. Whether it is increased maintenance and rehabilitation costs for new roads or paying for staff at new recreation centres, these costs are on-going and should be considered as part of the decision to fund a growth project.

1. Growth Investment (2012-2014)

The total approved growth projects for 2012-2014 is $1.5 billion of this $883 million is for projects previously approved by Council, these include significant projects such as North LRT (Downtown to NAIT), Multi-Purpose Recreation Facilities at Terwillegar, Clareview and the Meadows, and 41 Avenue and Highway 2 Interchange. The remainder is an additional $617 million that Council Approved during budget deliberations. Also approved was $79 million in funding for growth projects in the 2015-2016 for continuation of projects initiated in 2012-2014.

Within the total approval of $1.5 billion for growth projects, $928 million is constrained funding from other orders of Government, Developers, Partnerships and from Land Enterprise retained earnings, leaving $572 million in unconstrained funding.

2. Growth Investment (2015-2021)

If over the remaining seven years of the plan $3.2 million out of the $3.7 million available is allocated to renewal, that would leave $500 million ($71 million each year) for growth.

Council would have the option to reduce the recommended renewal investment to fund more growth projects. This should be approached cautiously, however, as it would result in the loss of the infrastructure condition gains that have been achieved over the last 10 years.

As pointed out earlier in this document, the 2009-2011 capital program was funded at a much higher level than normal with 66 per cent of the program dedicated to new growth projects. Even with a potentially significant reduction in growth projects from 2015 to 2021, the split between growth and renewal over the longer horizon of 2009 to 2021 would be 45 per cent for growth and 55 per cent for renewal.

TRANSFORMATIONAL PROJECTS

A number of significant transformational projects that require funding are on the horizon over the next 10 years and beyond. As these mostly unfunded projects are further refined and appropriate funding strategies are developed, separate reports will be prepared for Council's consideration and approval. Many of these initiatives may require debt financing in order to be realized. Undertaking these significant projects concurrently is not possible within available funding sources and considering limits on total debt and debt servicing. Priority-setting will be key in determining which projects to move forward.

1. The Quarters

The Quarters Downtown is a City-led redevelopment of 18 city blocks directly east and adjacent to downtown Edmonton. The area extends from 97 street to 92 street and 103a avenue to the top of the river valley (approximately 40 hectares, or 100 acres). It currently houses about 2,400 residents and has abundant room for growth and redevelopment to accommodate up to 20,000 residents.

This redevelopment requires approximately $166 million in funding – $56 million for Phase I and an estimated $110 million for future phases. Project scope will include land acquisition, water and drainage improvements, remediation of contaminated sites, relocation of some existing utilities, sidewalks, streetscapes and public space improvements. The project is to be financed in part by a Community Revitalization Levy (CRL), which is a funding mechanism whereby municipalities can dedicate future incremental municipal and education property tax revenue in a designated area to pay for a new public facility or new infrastructure in that area.

Council has approved Bylaw 15800—The Quarters Downtown Community Revitalization Levy Area Plan. The plan's estimated redevelopment costs for Phase I of the Quarters project are $56 million. This initial phase will be funded through tax-supported debt in the short-term (one to nine years) with tax levy and CRL revenues, and in the long-term (10 to 20 years) with CRL revenues. The report for Bylaw 15800 Plan called for the shortfall in funding in years one to four to be covered by incremental tax levy increases of 0.09 per cent in year two, 0.1 per cent in year three and 0.18 per cent in year four for a total of 0.37 per cent. The tax levy requirement would then decline incrementally in each of the years five to nine to a requirement of zero in year ten when the Community Revitalization Levy funding is projected to be sufficient to cover the borrowing. The Capital project for Phase 1 of the Quarters was approved as part of the 2012-2014 Capital Plan by Council. Subsequent to Council approval of the project, a borrowing bylaw will be submitted to Council for approval. The $56 million in tax support debt for Phase 1 of the project is included in the debt projections in the section on debt.

2. LRT Expansion

Advancing the City's LRT system remains a key priority. Following the $755 million North LRT extension to NAIT slated for completion in 2014, expanding the system Southeast and West has been identified by Council as its next priority.

With projected costs of $3.2 billion, the plan is to construct the next two phases of LRT expansion in stages as funding becomes available. To date, $39 million has been approved for Phase I, which includes preliminary engineering for the entire line. Phase I also includes $102 million in land purchases related to the Southeast (Centre West to Millwoods Town Centre) and critical land purchases for west of Centre West.

Phase II is the staged construction of the LRT lines. The specific stages and the projected cost of each section are:

Stage 1 – Mill Woods Towne Centre to Centre West Station, estimated cost of $1.684 billion;

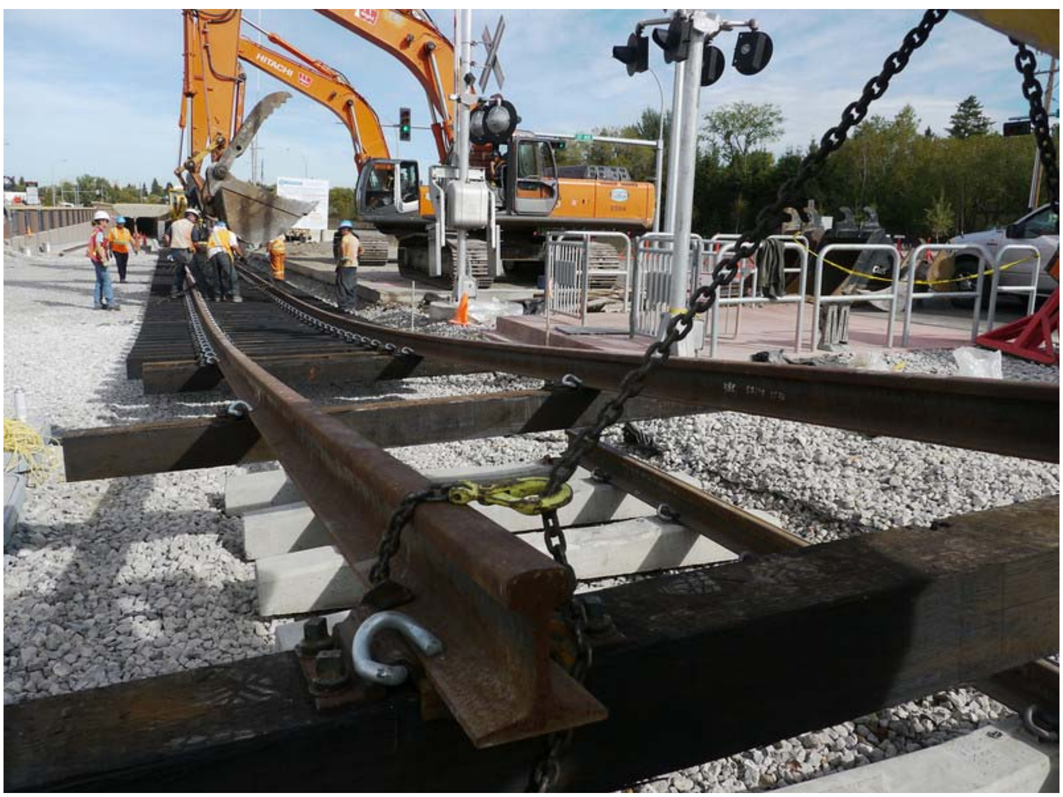
Stage 2 – Centre West Station to Grant MacEwan/NorQuest (107 street), estimated cost of $200 million;

Stage 3 – Grant MacEwan/NorQuest (107 street) to Jasper Place Transit Centre, estimated cost of $400 million;

Stage 4 – Jasper Place Transit Centre to West Edmonton Mall Transit Centre, estimated cost of $500 million; and,

Stage 5 – West Edmonton Mall to Lewis Farms Transit Centre, estimated cost of $275 million.

Given the magnitude of the total projected costs for the Southeast and West LRT extensions, the City does not have the financial capacity to undertake these projects on its own. In order for these projects to advance, funding support from the other two orders of government is required.



3. Capital City Downtown Plan and Arena District

Located on the northern bank of the North Saskatchewan River Valley, Downtown Edmonton is home to approximately 11,000 residents (as of 2009). The Downtown Plan boundaries have been established for several decades, with the downtown area encompassing approximately 160 hectares of land. Investment in the Capital City Downtown Plan Catalyst Projects (as supported by a Community Revitalization Levy, or CRL), are intended to yield improved infrastructure, increased urban densification, increased economic activity, and greater transit connectivity.

The proposed City-led Catalyst Projects that are to be funded by the CRL are:

- Central Warehouse Housing Incentive Program
- Jasper Avenue New Vision
- Warehouse Campus Neighbourhood Central Park
- Central Gathering Place for McKay Avenue
- High Profile Bikeway System
- Green and Walkable Downtown
- River Valley Promenades
- Green Building and Development Strategy
- Drainage Servicing
- Downtown Arena (partial funding) and Entertainment District

The total estimated cost for projects related to the Downtown Plan to be funded by CRL is approximately $366 million. CRL funding requires debt financing with the borrowing paid back from the incremental municipal and education property taxes in the CRL plan area. As with the Quarters project, interim tax increases would be required to cover borrowing costs until the incremental levy is sufficient. This potential debt has not been included in the projections in debt section of this document. Council given support to the downtown arena project, so there will be debt financing associated with a significant portion of the cost as this moves forward. This potential debt has not been included in the projections in debt section of this document.

4. West Rossdale Redevelopment

The West Rossdale Urban Design Plan will facilitate the development of the West Rossdale lands from a largely vacant, under-developed area into an attractive, livable and well-designed "village" community.

Three scenarios have been developed to assess the return from the sale of city owned land. Scenario 1 assumes only the developer portion of public realm streetscape improvements would be funded and built for a total cost of $9.7 million. Scenario 2 assumes that both the developer and the City portion of the public realm improvements would be funded and built for a cost of $41 million. Scenario 3 assumes that no public realm improvements would be funded and built. The estimated cost to upgrade servicing to accommodate the proposed new development for all three scenarios is $5.7 million. In the 2012-14 Capital Budget $10.6 million for improvements to the arterial roadways in West Rossdale were approved.

An assessment of the costs to retrofit the Rossdale Generating Station to a base commercial standard, develop the associated outdoor plaza, and consult on the future programming for the buildings was conducted with available resources. The retrofit costs for the generating station and plaza development are estimated to be $71 million and $25 million, respectively. The plaza area is planned as the lay down area for the construction of the new Walterdale Bridge in 2013-14; once the lay down requirement is complete this area wil be graded and seeded at a cost of $0.3 million.

Though located in the same vicinity, replacement of the Walterdale Bridge is not included in the scope of the redevelopment project. The new $132 million bridge was approved for funding in the 2012-2014 Capital Budget.

5. City Centre Airport Lands

Redevelopment of the City Centre Airport Lands supports the Municipal Development Plan's goal of environmentally sustainable, transit-oriented mixed-use development, and the Transportation Master Plan's focus of an interconnected transportation system.

The City as the land developer will gain the net revenue from land sales and leases estimated in 2009, to be between $91 million and $486 million, with additional revenue from increased annual property taxes.

As the developer, the City will be responsible for the full development of the area over a 25 year period. In August of 2011 the City awarded Perkins & Will from Vancouver, B.C. the design contract for the redevelopment project. The design firm will have the Area Redevelopment Plan, zoning and detailed planning for Phase I complete by the end 2012, detailed engineering design will be complete in 2013, with shovels in the ground anticipated by 2014. Construction within the area will consist of all roads, sidewalks, streetlights, water and wastewater, power and heating systems (with solar, cogeneration, geo-thermal and biomass energy and heating systems being explored). Additional costs include acquisition of leasehold interests, and environmental assessments and possible remediation (which is anticipated to be limited for a parcel of this size). The project costs were estimated to be between $145 million and $204 million in 2009, the total capital costs required for this project are very preliminary at this stage. These revenue and cost estimates were based on a conventional redevelopment as compared to current pursuit of a world leading sustainable development.

The financing strategy for the City Centre Airport lands will be developed over the next year as the detailed design is completed.