



# City of Edmonton Office of the City Auditor

## City Financial Condition Review

November 5, 2020



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## Report Highlights

Executive Summary	3
Introduction	5
Revenue	7
Operating Spending	10
Capital Spending	14
Debt	19
Financial Position	24
Municipal Comparisons	27
Conclusion	31
Appendix 1: Methodology and Notes	32

## Audit Objectives

This audit reviewed the financial condition of the City of Edmonton. This included:

- Reviewing City revenues;
- Reviewing City spending, including operating and capital; and
- Reviewing the City's financial position, including debt.

This audit also assessed the effectiveness of the City's financial planning process in assessing risks to the City's financial condition.

## Scope

The scope included a review of the City of Edmonton's financial condition and its financial planning process including financial, demographic and economic information over a time period of up to 20 years.

Information for certain financial measures was not available for the full 20 year period of 2000-2019. In these cases, we included as many years of data as Administration had available.

The provincial education tax component of property tax measures was out of scope.

In order to provide a complete picture of the City's financial condition, when needed, this report includes additional information to understand changes to the City's policies, systems, and operational environment.

Municipal comparisons included Calgary, Winnipeg, and Ottawa over the past 5 years.

The scope of conclusions is limited to the results of the analysed financial measures and the associated risks and impacts of those measures. Analysis and conclusions relating to the quality or appropriateness of any policy or budget decisions made by Council or Administration is out of scope of this review.

**Statement of Professional Practice**

This project was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.



# Executive Summary

## Context

The City of Edmonton delivers a wide variety of programs and services for its citizens. To do so, it generates revenue from a number of sources, including property taxes, transfers from other orders of government, and user fees. The City’s ability to continue providing programs and services is impacted by its financial condition and the effectiveness of its financial planning process.

The City generated operating revenues of \$3.12 billion in 2019 and spent \$3.19 billion in operating expenditures, comprising its general government tax-supported departments, as well as other organizations and enterprises under the City’s control. In 2019 there were 15,264 full time equivalent City employees.

Based on projects approved by Council through the 2019-2022 Capital Budget as at December 31, 2019, the City is forecasting that its total debt is projected to peak at \$4.38 billion in 2023 from \$3.20 billion in 2019. The City’s annual debt service payments are projected to peak at \$399 million in 2024 from \$301 million in 2019.

## Purpose

This audit reviewed the financial condition of the City of Edmonton including City revenues, spending - operating and capital, and the City’s financial position, including debt. This audit also assessed the effectiveness of the City’s financial planning process in assessing risks to the City’s financial condition.

The information contained in this audit is intended to provide a historical perspective on the City’s financial condition and be used to inform future financial decisions.

## Results

<p>Revenue</p>	<p>Reliance on property tax and government transfers has increased. Less diversified revenue streams and increased dependence on transfers outside the City’s control is a risk to the City’s financial condition.</p>
<p>Operating Spending</p>	<p>The City’s operating spending has increased faster than population growth and inflation. This growth trend is unlikely to be sustainable and is a risk to the City’s financial condition.</p>

<p>Capital Spending</p>	<p>The value of the City's capital assets has consistently increased. This is a positive indicator of the City's financial condition.</p> <p>The condition of the City's capital assets has improved. This is a positive indicator of the City's financial condition.</p>
<p>Debt</p>	<p>The City's long-term debt per capita has increased, with the majority of this debt being tax-supported. This increases the risk of overburdening the tax base and is a risk to the City's financial condition.</p> <p>The City's debt service relative to total operating spending has slightly increased, reflecting a relatively consistent risk to the City's financial condition. An increase can result in reduced flexibility for expenditures and increased risk of reductions to other services.</p>
<p>Financial Position</p>	<p>The City's Financial Stabilization Reserve has grown relative to operating spending. The reserve balance is lower than the City's target, but greater than the minimum established by City policy. This is a positive indicator of the City's financial condition.</p> <p>The City's ratio of financial assets to liabilities has declined, but remains above the minimum target ratio set by the City. The declining trend suggests that there are less financial resources available to pay for future operations and is a risk to the City's financial condition.</p>
<p>Financial Planning Process</p>	<p>The City's financial planning process is effective in assessing risks to the City's financial condition by evaluating and providing information related to each of the financial measures contained in this report. An improvement can be made around the frequency of capital asset condition reporting.</p>

**Conclusion**

The City's financial condition is not as healthy as it was 20 years ago. This is related to the substantial increase in long-term debt, of which the majority is tax-supported, as well as the growth in operating spending faster than inflation and population growth. Additional factors include: increased reliance on property taxes and government transfers, as well as a decrease in the financial assets to liabilities ratio.



# Introduction

## What is Financial Condition?

Financial condition is a complex concept that measures how healthy a city’s finances are at a point in time. When a City is financially healthy, it is able to deliver the services that its residents expect with the resources they provide, both in the present and in the future. It can sustain current service levels, endure economic challenges, and respond to change.

There are many ways to assess a city’s financial condition. In this report, the City’s financial condition was assessed using nine indicator measures representing the City’s revenue, operating spending, capital spending, debt, and financial position.

	<b>Indicator</b>
<b>Revenue</b>	Property tax reliance
	Government grant/transfer reliance
<b>Operating Spending</b>	Operating spending growth relative to inflation and population growth
<b>Capital Spending</b>	Change in value of capital assets
	Capital asset condition
<b>Debt</b>	Debt per capita
	Debt service relative to total operating spending
<b>Financial Position</b>	Uncommitted reserves
	Financial assets to liabilities ratio

## Recent Financial Events

During 2019 and 2020, there were a number of internal and external events which impacted the City’s financial condition.

**July 2019** – The City’s credit rating was downgraded from AA+ to AA by Standard & Poor’s, the City’s lone rating agency. The City had previously been rated AA+ since November 2004.

**October 2019** – The provincial budget was released, with impacts on the City’s operating and capital budgets - a reduction in operating funding for 2020 by \$26.0 million and capital funding for 2019 to 2022 by \$183.4 million.

**December 2019** – Council approved supplemental operating and capital budget adjustments for a 2.08% property tax increase in 2020, less than the initially proposed 2.6%.

**March 2020** – Council activated the City’s Emergency Operations Centre and took a number of actions in response to the novel coronavirus (COVID-19) outbreak. Council’s response to date has included the closure of recreation centres, the adjustment of transit service and delay of property tax collection and utility bill deferrals. The financial implications of COVID-19 on the City are not yet fully known.

**April 2020** – Council approved supplemental operating adjustments for a 1.3% municipal property tax increase in 2020 (residential 2.5% increase and non-residential 0%).

**August 2020** – The City’s credit rating was maintained at AA by Standard & Poor’s.



# Revenue

## Overview

Over the past 20 years, the City's revenue sources have grown less diverse by relying more heavily on property tax revenue and transfers from other orders of government.

This result suggests that the City's financial condition has become less independent.

Additionally, there has been an increase in the amount that the typical household pays for the combination of property tax, drainage fees, and waste services (the 'municipal burden'). This suggests the City may have less flexibility to increase revenues in the future as these costs have grown faster than household income.

## Revenue Sources

In 2000, the City had revenues of \$1.85 billion.<sup>1</sup> This grew to \$3.87 billion in 2019.

The City receives revenue from a variety of sources including taxes, transfers and grants from other levels of government, user fees and sales of goods and services, and a mix of other sources. Having a diversified set of revenue sources can improve the City's financial performance and increase its financial flexibility by helping it meet its financial obligations.

The City is relying much more heavily on two sources of revenue than they have in the past: property taxes and government transfers. These are used primarily for the City's operating activities and capital projects, respectively.

The City's property tax revenue flows entirely through the City's operating budget, and relative to total operating revenues it has grown from 39% in 2000 to 54% in 2019. Relative to total revenue it has grown from 35% to 43%. When taxes are the key method of funding services, it is more likely that taxes will increase as service costs increase.

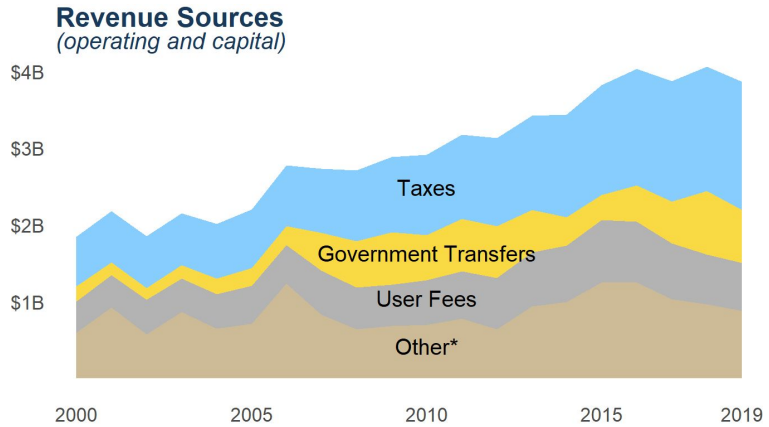
Government transfer reliance has increased from 11% to 18% of total revenue from 2000 to 2019. This means that the City is now relying more on government transfers - a funding source outside the City's control. If there is a reduction in transfer payments, there is a higher risk of needing property tax increases to replace the lost revenue.

The City's increased reliance on property tax and government transfers means the City's financial condition is less independent.



Taxes grew from \$646 million<sup>1</sup> in 2000 to \$1,672 million in 2019, going from 35% to 43% of total revenue.

Government transfers grew from \$199 million<sup>1</sup> in 2000 to \$693 million in 2019, going from 11% to 18% of total revenue.



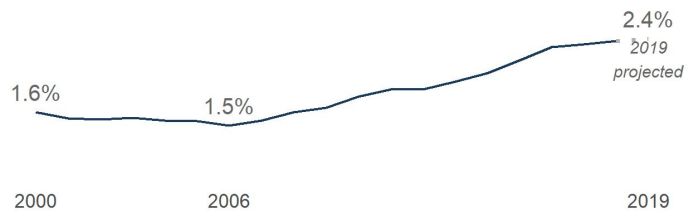
\*"Other" revenues include EPCOR subsidiary operations, franchise fees, investment earnings, fines and penalties, licenses and permits, developer and customer contributions, etc.

## Property Tax Relative to Household Income

The municipal property tax levy for a typical single detached house increased from \$910 to \$2,586 from 2000 to 2019. This represents an increase from 1.6% to 2.4% of median household income.

Since 2000, the percent of household income going towards paying property taxes has increased from 1.6% to 2.4%. The lowest percent was in 2006 at 1.5%.

### Percent of Household Income Used to Pay Property Tax



[See Methodology](#) <sup>2</sup>

## Municipal Burden

The municipal burden is an indicator of the household affordability of the City's taxes and utility fees. An increasing municipal burden on citizens can reflect new services offered to citizens and increasing service levels. This indicator can help inform how much flexibility the City has in the future to increase taxes if required.

The City's 'municipal burden' was calculated based on the following three taxpayer expenses:

- residential municipal property tax levy,
- fees for drainage, and
- fees for waste.

A change in the municipal burden shows if the City is taking more or less of a household's income to pay for municipal services.

In 2000, the municipal burden accounted for 2.2% of the City's median household income. By 2019, this had increased to 3.4%.

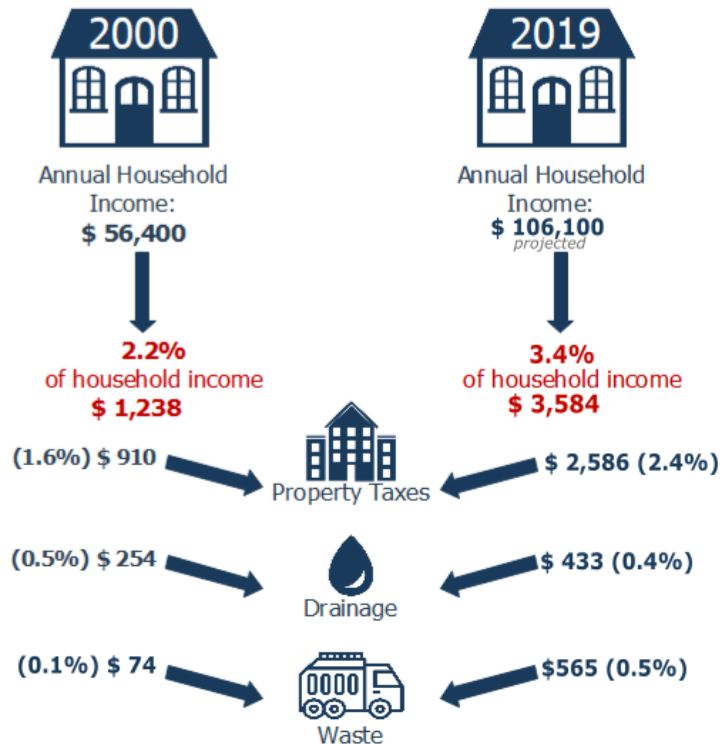
For citizens, an increasing municipal burden means that households have less income to spend as they choose.

For the City, an increasing municipal burden suggests reduced flexibility, as there is a limit to how much revenue the City can collect from its citizens.

However, this ratio alone does not indicate the amount of flexibility a city has to raise taxes, as this depends on the willingness of taxpayers to change the level of taxation.

Since 2000, the median property tax levy, drainage fees, and waste fees relative to total household income (before federal or provincial income taxes paid) have increased from 2.2% in 2000 to 3.4% in 2019.

### The "Municipal Burden"



[See Methodology](#) <sup>3</sup>



## Operating Spending

### Overview

Operating spending has grown 36% above what can be attributed to population growth and inflation from 2000 to 2019.

Changes in operating spending can result from growth pressures or service level choices. However, operating spending that grows faster than population growth and inflation increases the risk that the City's finances will not be sustainable in the long term. This indicator suggests an increased risk to the City's financial condition.

The City's significant capital growth and the subsequent cost of operating new facilities and other assets is a key driver of operating spending increases.

### Operating Spending Relative to Population Growth and Inflation

Between 2000 and 2019, the City's population grew by 50%. As a greater number of people required City services, an increase in operating spending would be expected to occur.

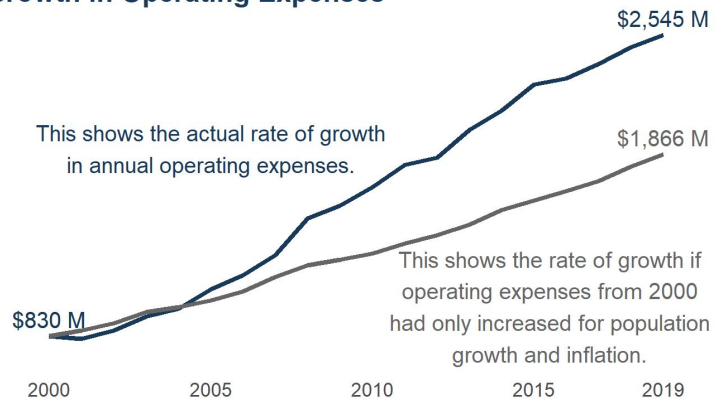
Additionally, as a result of inflation over this time period, it cost more to provide the same goods and services. This would also result in an increase to operating spending.

Between 2000 and 2019, the City's operating spending<sup>4</sup> increased from \$830 million to \$2,545 million or 207%. \$1,035 million or 125% of this increase can be attributed to population growth and inflation. The remaining growth is due to other factors including changes in the type of services the City provides and the levels of service delivered.

When operating spending increases more than inflation and population, this means that the City must raise more revenue for each citizen and the cost of services may eventually exceed citizens' ability to pay.

Operating expenses have increased 36% more from 2000 to 2019 than can be accounted for through population growth and inflation.

## Growth in Operating Expenses



[See Methodology](#) <sup>5</sup>

## Municipal Price Index

The City calculates a municipal price index (MPI) it uses to determine inflation for the City's operating expenses. Between 2000 and 2019, the City's operating spending increased 16% in excess of population growth and inflation as determined by the City's MPI.

## Operating Expense Categories

There are five key categories of operating expenses:<sup>4</sup>

- Salaries, wages, and benefits
- Materials, goods, and utilities
- Contracted and general services
- Interest and bank charges
- Grants and other

Over the past 20 years, salaries, wages, and benefits consistently comprise 60% to 67% of total operating expenses for the organization.

The majority of operating dollars are spent on salaries, wages, and benefits.

### Where Operating Dollars are Spent (20 year average)



[See Methodology](#) <sup>1</sup>

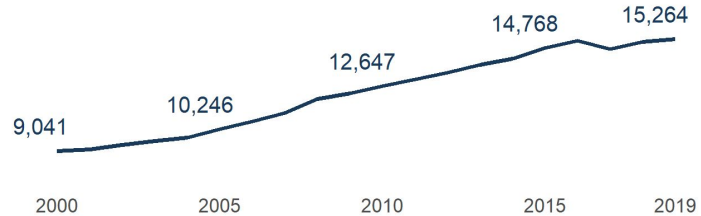
### Workforce Growth

The City's workforce has grown significantly, but the portion of the operating budget consisting of salaries, wages, and benefits has remained relatively consistent.

In 2000, the City's workforce (including Boards & Commissions, EPL, EPS, etc) consisted of 9,041 FTE.

By 2019, the workforce had increased to 15,264 FTE.

### Workforce Growth (FTE) (2000-2019)



The decrease in 2017 relates to transfer of drainage to EPCOR effective September 1, 2017 (2016 FTE were 681).

### Impact of Capital Growth

The growth of capital assets has contributed to the increase in operating spending.

In the past 20 years, the City of Edmonton has built over \$21.86 billion<sup>1</sup> in new capital assets including roads, transit, recreation centres, fire stations, etc. Capital projects are primarily paid for using debt and provincial transfers; however, the costs of operating new assets once they are built are often funded through taxes.

These operating impacts of capital growth result in the growth of the City's annual operating budget.

For example, in 2011, it was estimated that the Heritage Valley Fire Station would cost approximately \$820,000 per year to operate with 8.3 additional full-time equivalent positions. This operating impact of capital is funded through taxes.

Additionally, there are future capital renewal requirements and as debt was used to finance some of this capital growth, there are additional operating costs associated with servicing that debt.

**Between 2007 and 2019, Capital Projects including:**



[See Methodology](#) <sup>1</sup>



## Capital Spending

### Overview

Capital spending is separate from operating spending and is used to pay for additions and improvements to the City's infrastructure. This includes roads, parks, recreation centres, drainage infrastructure, and public transportation infrastructure.

The City added \$21.86 billion<sup>1</sup> in capital assets from 2000 to 2019.

Overall, the condition of the City's capital assets has been improving from 2003 to 2017, suggesting an improved financial condition as capital assets in poor condition generally require significant maintenance or replacement. Also, the improving condition of assets reduces the risk of taxpayers facing capital assets in non-operational condition.

The value of the City's capital assets have consistently increased, suggesting an improved financial condition as additions were greater than disposals and depreciation. Although the increase in the City's capital asset value is a positive financial indicator, the City has increased its reliance on debt which could lead to potential risks to the City's financial condition.

### Capital Spending

Between 2000 and 2006, the City's annual capital spending grew from \$361 million to \$660 million.<sup>1</sup>

Between 2007 and 2009, annual capital spending increased significantly - peaking at \$1,626 million in 2009.<sup>1</sup>

The significant and sustained increase in annual capital spending is the result of a capital growth program and increased funding for renewal and maintenance of existing assets.

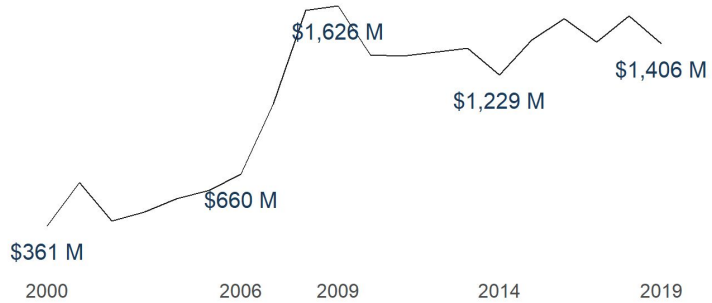
As the City builds more capital assets, these assets must be maintained, thus requiring future spending on capital renewal. The City must decide on what is the right balance between spending on new capital projects versus taking care of what it already has. Per Administration, the City can minimize the lifecycle costs of its capital assets with planned renewal

spending and maintenance. Between 2002 and 2019, the City spent approximately 68% of its capital funding on growth and 32% on renewal.<sup>1</sup>

### Capital Spending

The City significantly increased annual capital spending after 2006.

Since 2008, annual capital spending has consistently remained above \$1.2 billion per year.



[See Methodology](#) <sup>1, 6</sup>

### Capital Asset Values

The addition of new capital assets and the renewal of existing assets has resulted in an increase in the value of the City's capital assets.

The value of the City's tangible capital assets increased every year from 2000 to 2019, ending at \$12.37 billion at the end of 2019.<sup>7</sup>

### Condition of Capital Assets

Appropriate maintenance and renewal of capital assets is required to restore it to an efficient operational condition and extend its service life. In general, the longer the required renewal of capital assets is deferred, the greater the impacts of deterioration and costs to bring the capital assets back to an acceptable condition.

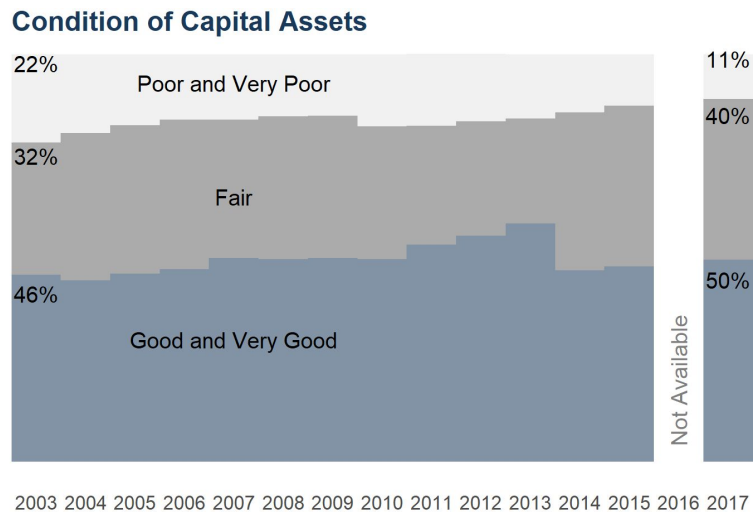
Administration has previously cited an industry benchmark calling for annual renewal spending of 2% to 4% of total capital asset replacement value for municipal infrastructure. The cost to replace all of the City's capital assets increased from \$12.81 billion in 2000 to \$32.33 billion at the end of 2017.<sup>1</sup>



The City uses a Risk-Based Infrastructure Management System (RIMS) to guide capital spending on renewal.

Capital assets in poor and very poor condition decreased from 22% in 2003 to 11% in 2017.

Since 2003, over 78% of capital assets were in fair condition or better, with an improving trend.



[See Methodology](#)<sup>8</sup>

## Changes in Funding Sources

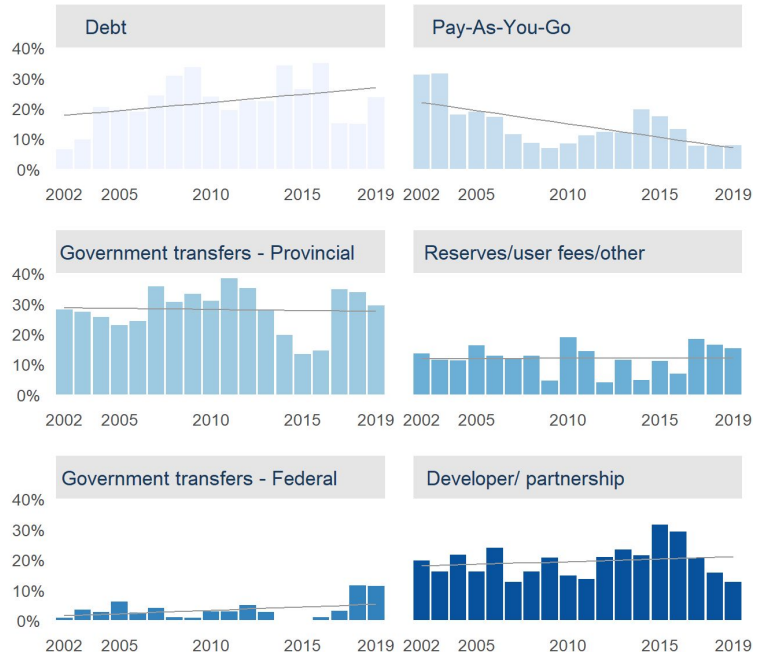
The City uses six key sources for funding capital projects:

- Debt
- Developer/Partner Contributions<sup>9</sup>
- Federal Government Transfers
- Provincial Government Transfers
- Pay-As-You-Go funds<sup>10</sup>
- Reserves/User fees/Other

Debt and provincial government transfers have been the two largest capital funding sources since 2002.

The use of debt to finance capital projects has increased while the use of pay as you go funding has decreased.

### Changes to Capital Funding Sources 2002-2019



The proportion of capital spending financed with debt has increased by 17% from 2002 to 2019. At the same time, the proportion of capital spending using pay-as-you-go funding has declined 23%.

The proportion of capital spending funded with other sources has not changed as significantly.

In the early 2000's, there was a heavier reliance on pay-as-you-go funding for capital projects. The City had previously implemented a pay-as-you-go policy which prohibited tax-supported borrowing for capital projects in response to higher interest rates and a recession in the 1980's.

The City abandoned its pay-as-you-go policy in 2002 and adopted its Debt Management Fiscal Policy in 2008, which set the debt service limits that still apply today.

## Debt Use

The City's Debt Management Fiscal Policy outlines criteria for when the City can use debt for capital projects. These criteria include:

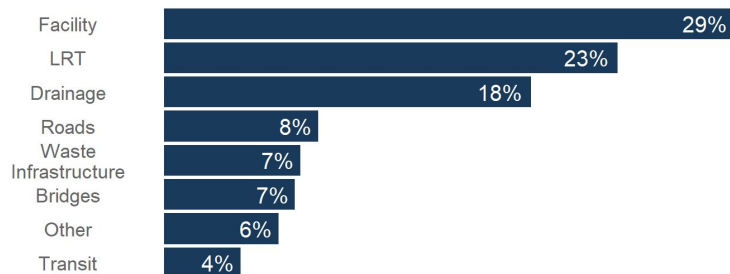
- Large projects with long-term benefits;
- Projects with benefits for the community-at-large (for tax-supported debt);
- Growth-related projects;
- Emerging needs to support corporate priorities and approved strategic plans; and
- Major rehabilitation of existing assets.

This policy also specifies that the City will not issue long-term debt or short-term debt obligations to finance current operating expenditures.

Although transportation projects comprise the largest proportion of capital spending, facilities projects were the most likely to rely upon debt as their primary financing source. Other projects including the LRT, drainage infrastructure and roads infrastructure also relied upon debt to a smaller degree.

Debt has primarily been used to build facilities, LRT, and drainage assets.

### Use of Debt by Capital Asset Type (2003-2019)



[See Methodology](#) <sup>1</sup>



# Debt

## Overview

The City's higher levels of capital spending, particularly since 2007, have led to increased use of debt.

While this debt has allowed the City to complete capital projects it would otherwise not have been able to afford, the increase in debt increases the risk of overburdening the tax base, straining budget and tax resources, as well as reducing future flexibility.

The City's long-term debt per capita has increased by 347% since 2000, with most of the increase attributable to tax-supported debt. Given that the majority of this debt will require repayment through future taxes, this is a negative indicator of the City's financial condition.

Increases to the City's debt service relative to total operating spending can result in reduced flexibility for expenditures and an increased risk of reductions to other services. The City's debt service relative to operating spending has increased slightly, suggesting a relatively consistent risk to the City's financial condition at this time.

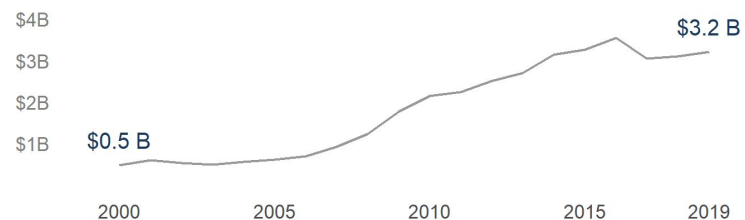
## Debt

The City's long-term debt has increased by \$2.73 billion<sup>1</sup> over the past 20 years. In 2000, the City had \$476 million<sup>1</sup> in debt. By 2019, this had increased to \$3.20 billion.

Long-term debt has increased by \$2.73 billion since 2000. The majority of this is tax-supported debt.

The decrease in 2017 reflects the transfer of drainage assets to EPCOR.

**Long-Term Debt 2000-2019**  
includes tax-supported and self-liquidating



[See Methodology](#) <sup>1, 11</sup>

## Types of Debt

There are two major types of debt: tax-supported and self-liquidating. These differ based on the funding source that will service the debt.

Tax-supported debt is generally paid for by property taxes.

Self-liquidating debt is paid for by a source under the City's control other than general property taxes - such as user fees. This type of debt primarily relates to the City's utilities, where the debt will be paid through utility rate revenue. It also relates to shared-cost local improvements that are paid for by property owners benefitting from the improvement.

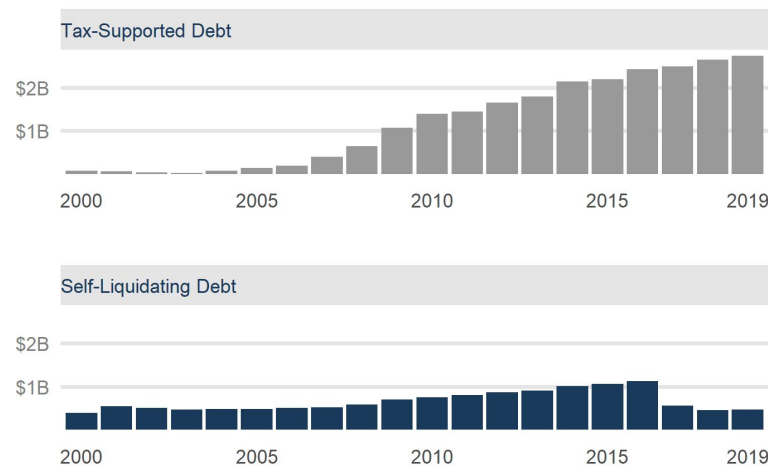
Tax-supported debt has grown from \$83 million in 2000 to \$2,737 million in 2019, while self-liquidating debt has grown from \$393 million to \$466 million during the same time.<sup>1</sup>

The increase in tax-supported debt is a risk because it represents a debt burden that must be repaid through future taxes. As more tax revenue is used to service debt, less is available to pay for municipal services and operations.

Tax-supported debt has grown by 3,186% since 2000, while self-liquidating debt has grown at a much smaller rate of 19%.

The decrease in self-liquidating debt in 2017 reflects the transfer of drainage assets to EPCOR.

### Tax-Supported and Self-Liquidating Debt



[See Methodology](#) <sup>1</sup>

## Debt per Capita

The debt per capita measure provides an indicator of debt growth that takes into account the increase to Edmonton's population over the past 20 years.

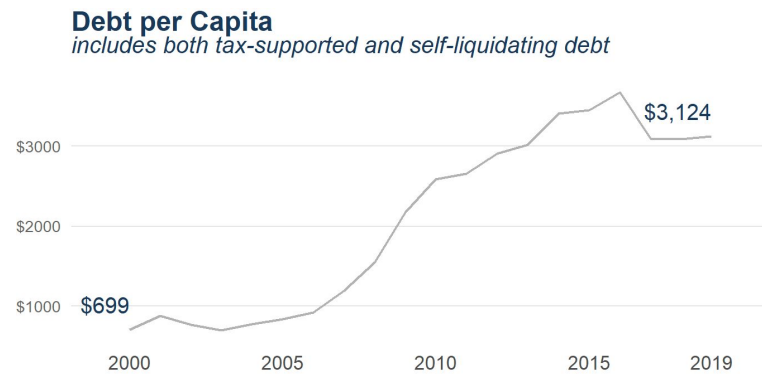
In 2000, the City owed \$699<sup>1</sup> per resident of Edmonton. By 2019, this grew to \$3,124 per resident.

This growth in debt per capita increases the risk of overburdening the tax base, straining budget and tax resources, as well as reducing future flexibility.

The tax-supported debt per capita has increased by 2,083% and will have to be paid back - primarily through future property taxes.

The debt burden for each citizen has increased by 347% since 2000. The majority of this growth relates to tax-supported debt.

The decrease in 2017 reflects the transfer of drainage assets to EPCOR.



[See Methodology](#) <sup>12</sup>

## Debt Limit

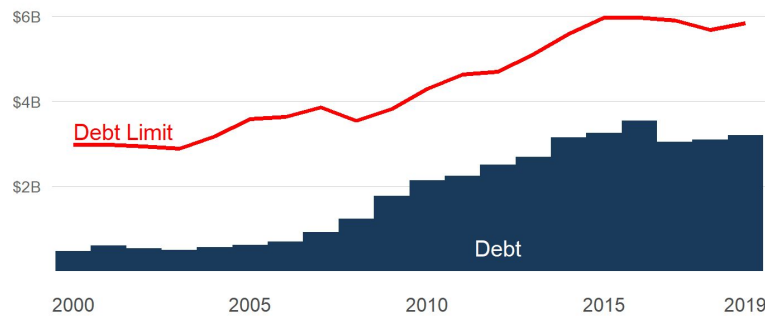
The City has stayed consistently under its debt limit over the past 20 years, which has also increased over that time.

The Municipal Government Act sets the City's debt limit at two times the City's revenue<sup>13</sup>. The limit is not fixed, thus as the City's revenues increase, the debt limit increases, allowing the City to borrow more.

In 2019 the City used 54.8% of its allowable debt limit, compared with 18.2% in 2000.

The City has consistently remained under the debt limit allowed by the Municipal Government Act. However the debt limit keeps rising and the City continues to incur more debt.

**City Debt in Relation to Debt Limit**



[See Methodology](#) <sup>1</sup>

## Debt Servicing Limit

The City has also remained consistently below its debt servicing limits.

When the City incurs debt, it pays debt servicing costs to repay the debt plus interest.

The Municipal Government Act sets a limit on the City's debt servicing costs to 35% of the City's revenue.

In 2019 the City used 29.5% of its Municipal Government Act debt servicing limit, compared with 28.1% in 2000.

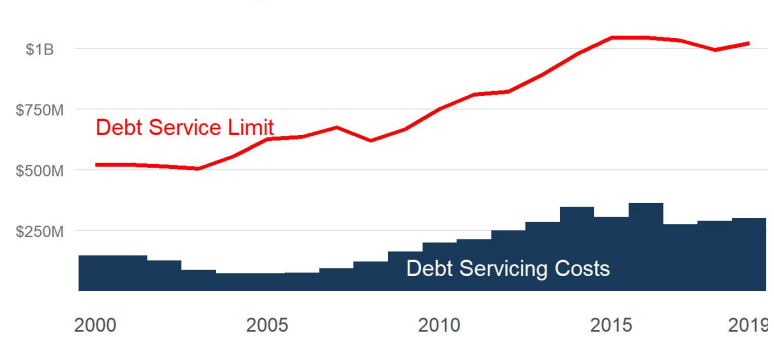
The City has a policy that provides for a stricter debt servicing limit than that of the Municipal Government Act. The City's Debt Management Fiscal Policy limits total debt servicing to 22% of City revenues and tax-supported debt servicing to 15% of annual tax-supported revenues.

This policy was adopted by Council in 2008 and the limits have not changed since adoption. Administration is currently undergoing a review of its debt policy.

The City has consistently remained under the debt service limit allowed by the Municipal Government Act. However the limit has kept rising as the City's debt servicing costs have grown.

Debt servicing costs grew from \$147 million<sup>1</sup> in 2000 to \$301 million in 2019 for the City's growing debt, which is now mostly tax-supported.

### Debt Servicing Costs in Relation to Limit



[See Methodology 1.14](#)

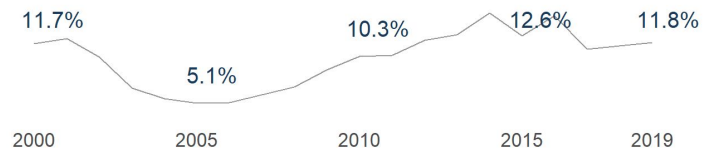
### Debt Servicing Costs Relative to Operating Spending

Due to the current low interest rate environment, the City can borrow at lower interest rates than it could 20 years ago, which makes the cost of borrowing less expensive.

The City generally borrows using debentures where the interest rate is established at the time of borrowing and remains constant throughout the term of the loan.

The City's debt servicing costs relative to operating expenses increased slightly from 11.7% in 2000 to 11.8% in 2019.

### Total Debt Service Relative to Operating Spending



[See Methodology 15](#)

### S&P Credit Downgrade

In 2019, the City's lone credit rating agency, S&P, downgraded the City's credit rating from AA+ to AA. S&P noted that the downgrade "reflects Edmonton's significant capital spending plans and corresponding growth in debt over the next several years."





## Financial Position

### Overview

The City's Financial Stabilization Reserve has grown relative to operating spending. The reserve balance is lower than the City's target, but greater than the minimum established by City policy. This is a positive indicator of the City's financial condition as the City has more money available to pay for unforeseen contingencies or financial emergencies.

The City's ratio of financial assets to liabilities has declined, but remains above the minimum target ratio set by the City. A trend of decreasing net financial assets may not be sustainable over the long term and is a negative indicator of the City's financial condition. However, since 2011, the rate of decline has lessened. This suggests some improvement.

### Reserve Risk Assessment Process

Having uncommitted financial reserves reduces the risk to taxpayers that there will be significant unanticipated increases in taxes or cuts in services in response to financial pressures. The Financial Stabilization Reserve is the City's uncommitted reserve that provides funding for emergent financial issues. It is not intended to be used to stabilize future tax rate increases.

The City's Reserve and Equity Accounts Policy requires the City to review all of its reserve accounts every three years. The process includes a review of various risks facing the City and its financial risk exposure, which helps determine the City's target and minimum balances for its Financial Stabilization Reserve.

### Reserve Balance and City Minimum

The City currently has a policy to maintain the Financial Stabilization Reserve at a minimum balance of 5% of general government expenses, with a target balance of 8.3%. General government expenses represent a subset of the City's total operating spending.

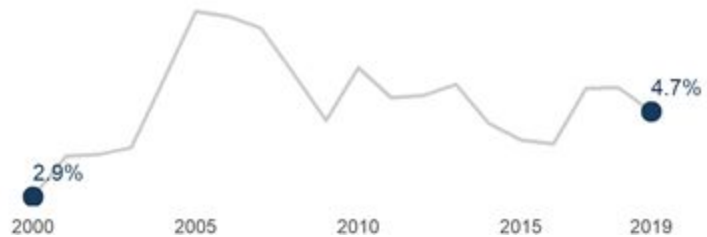
As of December 31, 2019, the City's Financial Stabilization Reserve balance is \$123.9 million, which is higher than the minimum of \$115.3 million, but lower than the target level of \$191.3 million.

## Financial Stabilization Reserve Balance

Between 2000 and 2019, the balance in the Financial Stabilization Reserve as a percentage of operating expenses has increased from 2.9% to 4.7%. This reduces the risk for taxpayers by helping to ensure there are adequate funds available to address unexpected events.

The increased balance in this reserve reduces the risk that taxpayers will face unexpected tax increases to address unanticipated expenses.

**Financial Stabilization Reserve Balance as a Percentage of Operating Expenses**  
*relative to operating expenses less amortization*



## Ratio of Financial Assets to Liabilities

The financial assets to liabilities ratio is used to assess the sustainability of the City's financial position.

A ratio of less than one indicates that future revenues will be required to pay for past transactions and events. A ratio greater than one indicates that the City has financial resources available to finance future operations.

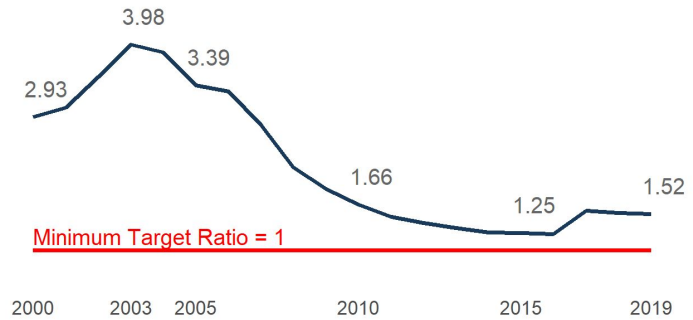
In 2000, the ratio was 2.93. By 2019, the ratio was 1.52. The City's ratio of net financial assets has been consistently greater than one, but has decreased since 2000. The decline of this ratio means that the City has less financial resources to pay for future operations.

This decrease in the ratio is consistent with the City's higher levels of capital spending (increase in non-financial assets) and greater use of debt (increase in liabilities).

Although remaining above the minimum target ratio, the ratio of financial assets to liabilities has been declining since 2003.

The ratio of financial assets to liabilities increased from 1.23 in 2016 to 1.57 in 2017 with the transfer of drainage assets to EPCOR.

### Ratio of Financial Assets to Liabilities



### Financial Planning Process

The City's financial planning process consists of various components that provide relevant information to management and to Council.

Overall, the City's financial planning process is effective in assessing risks to the City's financial condition by evaluating and providing information related to each of the financial measures contained in this report. An improvement can be made around the frequency of capital asset condition reporting, for which 2017 is the last year of data reported; however, a 2020 report with 2019 data is expected by the end of 2020.



## Municipal Comparisons

### Overview

The municipal services provided by cities vary across Canada, as well as municipal service levels. Some of these differences are attributable to legislative or structural differences, where certain services are provided by a public authority in one city and by the municipal government in another. Other differences in services, as well as service levels, are based on municipal Council policy decisions.

In this report section, a selection of Edmonton's financial measures are compared against Calgary, Winnipeg and Ottawa - Canadian winter cities of a similar size.

### Comparable Benchmarking

The information provided in the following municipal comparisons are actual figures and have not been normalized.

Adjusting municipal data to normalize differences requires significant time and effort, and often internal financial information. A perfect "apples to apples" comparison is not possible with municipal services, as Council policies lead to differences in services, service levels and models of service delivery, regardless of legislative/structural differences.

In 2018, City Administration conducted a normalized analysis of tax-supported FTE for major Canadian cities. In this analysis, Administration adjusted the data to maximize the comparability of the analysis by accounting for differences in services provided by each city.

The key adjustments made in the normalization were to:

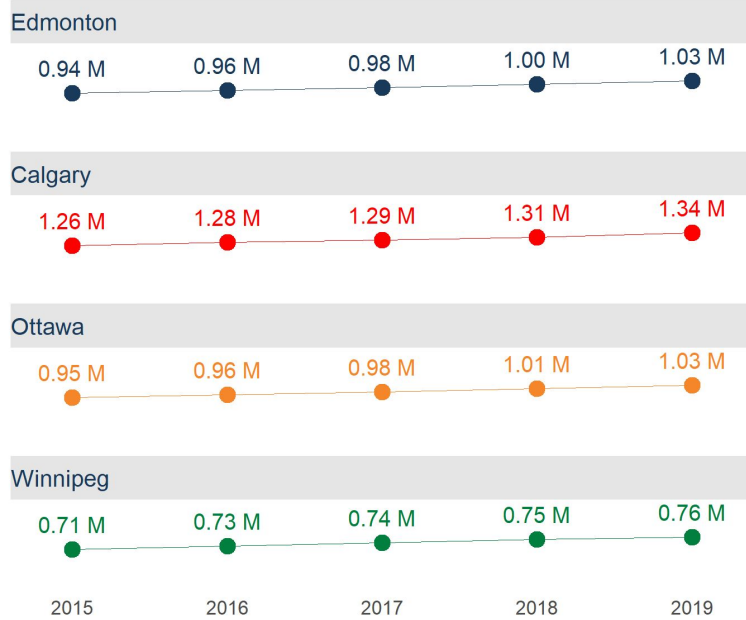
- Remove tax-supported emergency medical and paramedical service FTE from Winnipeg and Ottawa, as these services are provincially provided in Alberta.
- Remove various tax-supported public health and social service FTE from Ottawa, as these services are provincially provided in all provinces except Ontario.

The normalized results showed no changes for Calgary and small decreases to Ottawa and Winnipeg. Although there is always value in understanding the differences between cities, this understanding can often be largely achieved with non-normalized data.

## Population

Between 2015 and 2019, Edmonton's population grew by 9% compared with 6% for Calgary, 8% for Ottawa and 7% for Winnipeg.<sup>16</sup>

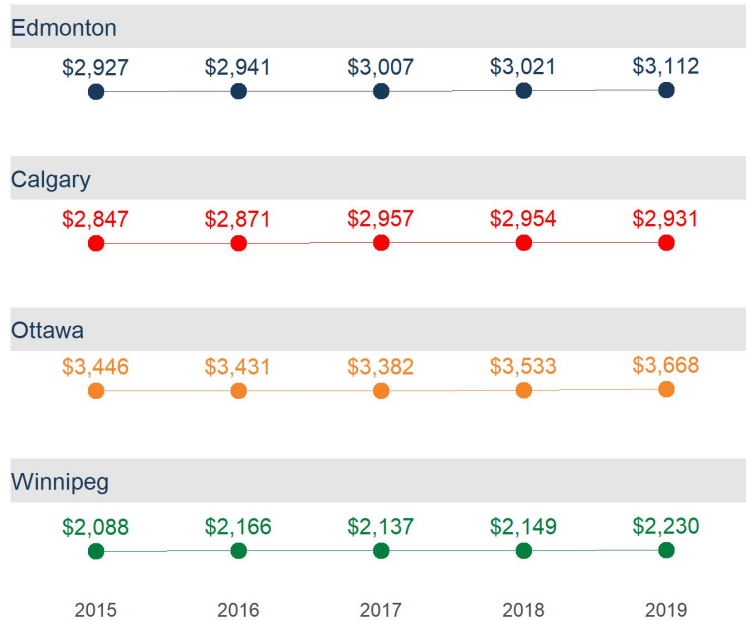
## Municipal Comparison: Population



## Operating Spending

The City's operating expenses per capita were 3% higher than Calgary, 39% higher than Winnipeg and 14% lower than Ottawa (on average between 2015 and 2019).

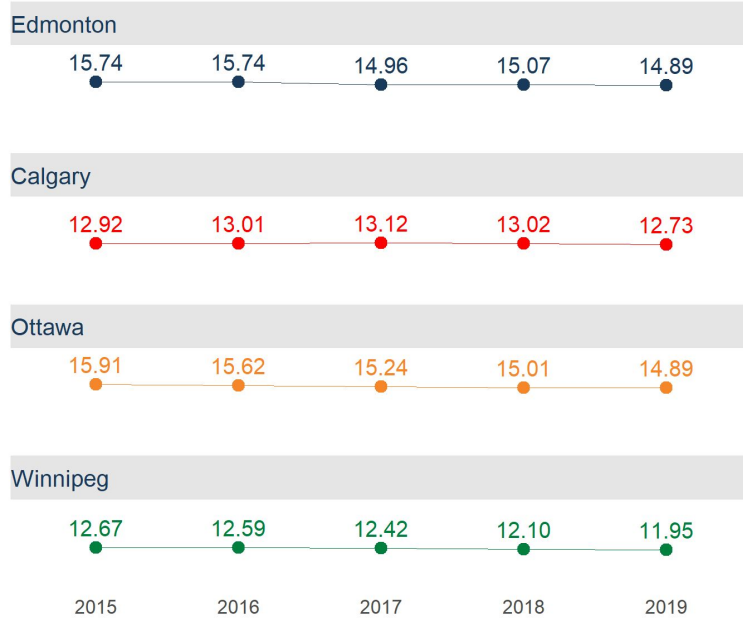
## Municipal Comparison: Operating Spending per Capita



## Total City FTE per 1,000 Population

The City's FTE per 1,000 population was 18% higher than Calgary, 24% higher than Winnipeg and 0.3% lower than Ottawa (on average between 2015 and 2019).<sup>17</sup>

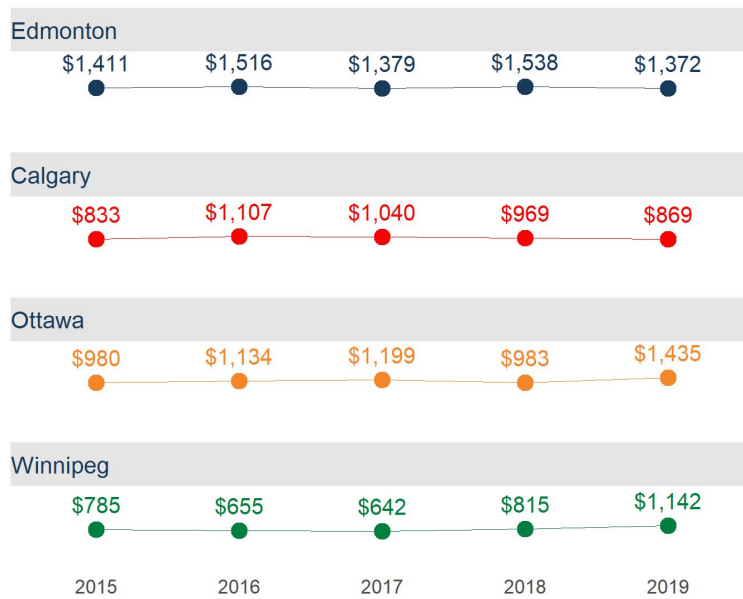
## Municipal Comparison: FTE per 1,000 Population



## Capital Spending

The City's capital additions per capita were 50% higher than Calgary, 26% higher than Ottawa<sup>18</sup> and 79% higher than Winnipeg (on average between 2015 and 2019).

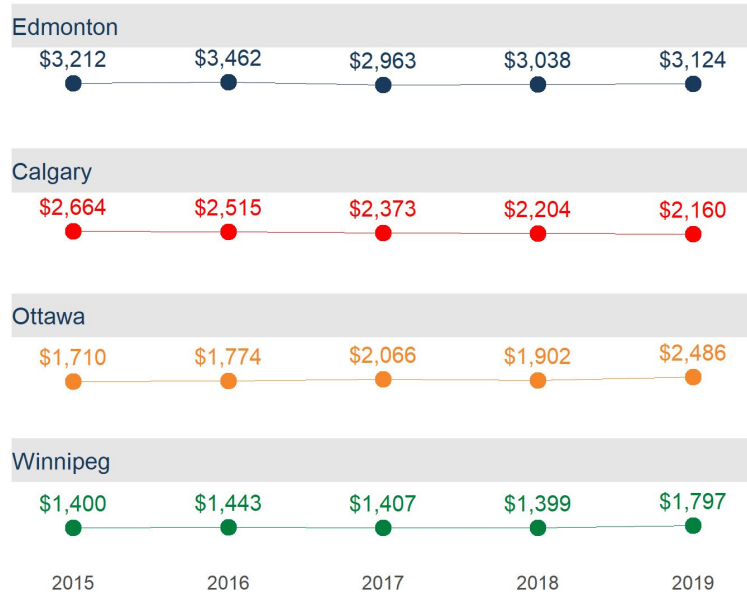
## Municipal Comparison: Capital Spending per Capita



## Debt

The City's long-term debt per capita was 33% higher than Calgary, 59% higher than Ottawa and 112% higher than Winnipeg (on average between 2015 and 2019).

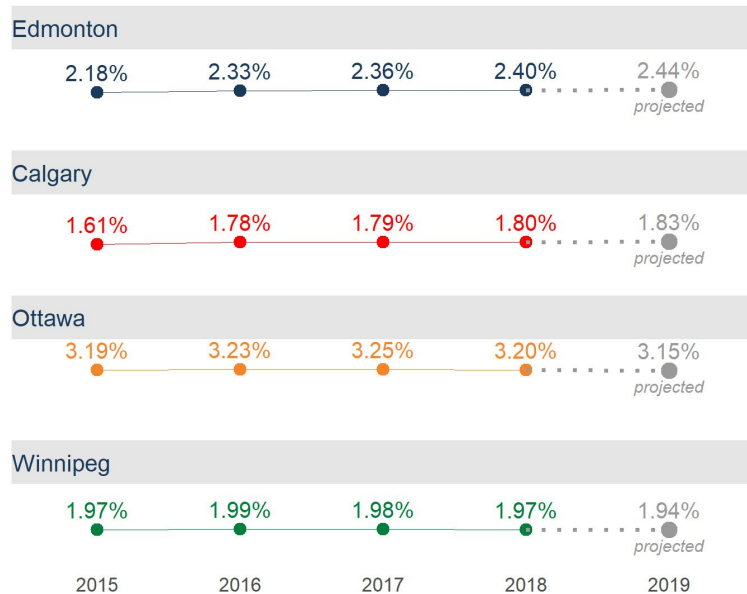
## Municipal Comparison: Long-Term Debt per Capita



## Municipal Tax Levy as % of Household Income<sup>19</sup>

The City's tax levy relative to household income was 33% higher than Calgary, 19% higher than Winnipeg and 27% lower than Ottawa (on average between 2015 and 2019).<sup>20</sup>

## Municipal Comparison: Tax Levy as a Percentage of Household Income





## Conclusion

### Conclusion

The City's financial condition is not as healthy as it was 20 years ago. This is related to the substantial increase in long-term debt, of which the majority is tax-supported, as well as the growth in operating spending faster than inflation and population growth. Additional factors include: increased reliance on property taxes and government transfers, as well as a decrease in the financial assets to liabilities ratio.

### Looking Ahead

The City's latest financial forecasts for 2020 were reported with the June 30, 2020 operating and capital financial updates at the August 31, 2020 City Council meeting.

These forecasts included the following COVID-19 related budget adjustments for tax-supported operations:

- Revenue impact of \$142.6 million; adjusted budget of \$2,824 million from \$2,967 million; projected (probable) \$2,787 million
- Expense impact of \$142.6 million; adjusted budget of \$2,822 million from \$2,964 million; projected (probable) \$2,808 million
- Capital additions are projected to be \$1,972 million in 2020 (versus \$1,406 million in 2019)
- Debt is projected to be \$3,550 million at the end of 2020, with debt servicing of \$324 million for the year (versus \$3,203 million and \$302 million in 2019)

One-time transfers from other orders of government are expected - \$158.2 million for operating and \$98 million for capital.

Further detail is expected to follow in the September 30, 2020 Operating and Capital Updates, as well as the Fall Supplemental Operating and Capital Budget Adjustments all scheduled for November 2020.





## Appendix 1: Methodology and Notes

Ref.	Details
1	Amounts prior to 2019 have been adjusted for inflation (2019 dollars). In this report, inflation refers to changes in the Edmonton Consumer Price Index as reported by Statistics Canada.
2	<p>Calculation based on:</p> <ul style="list-style-type: none"> <li>- Median/typical single family detached house property assessment</li> <li>- Residential property tax rate</li> <li>- Household income - Statistics Canada. Table 11-10-0009-01 Selected income characteristics of census families by family type - Median total income, all families (2000-2018); City estimate based on Conference Board of Canada household income growth rate estimate (2019)</li> </ul>
3	<p>Calculation based on:</p> <ul style="list-style-type: none"> <li>- Property tax relative to household income as described in Methodology<sup>2</sup></li> <li>- Drainage fees (sanitary and stormwater)</li> <li>- Waste fees</li> </ul> <p>In 2000, waste and drainage were partly supported through utility fees and partly through the municipal tax levy.</p>
4	This report uses an adjusted operating expenses measure, which removes amortization and loss on disposal of tangible capital assets. These non-cash items were removed for improved comparability between years as they were first reported after the City adopted a new accounting standard, <i>PS3150 - Tangible Capital Assets</i> , in 2009.
5	<p>Calculation based on:</p> <ul style="list-style-type: none"> <li>- Operating expenses less amortization and loss on disposal of tangible capital assets</li> <li>- Population <ul style="list-style-type: none"> <li>- City estimate based on rates of growth from 1996, 2001 and 2006 censuses (2000-2005)</li> <li>- Statistics Canada. Table 17-10-0142-01 Population estimates, July 1, by census subdivision, 2016 boundaries (2006-2019)</li> </ul> </li> <li>- Inflation - Edmonton Consumer Price Index (CPI)</li> </ul>
6	The City adopted a new accounting policy ( <i>PS3150 - Tangible Capital Assets</i> ) in 2009, which applies to all years from 2009 going forward. Capital asset additions for 2008 were restated to conform with the new accounting policy and the restated amount of \$1,357M (\$1,600M in 2019 dollars) is shown above instead of the \$1,339M reported under the previous accounting policy.
7	This refers to the net book value of tangible capital assets/physical assets reported in the City's annual reports, which excludes the transfer of drainage assets to EPCOR effective September 1, 2017 with a net book value of \$3.528 billion in 2017.
8	This graph shows the physical condition of capital assets excluding drainage assets, which were transferred to EPCOR in 2017.
9	Funds are contributed by developers or partners for specific civic infrastructure, such as buildings, parks, recreation facilities, roads and social housing.
10	Pay-as-you-go funding is largely made available from annual investment/dividend income, in addition to a portion of the funds received through property taxes.

11	When discussing debt, this report refers to long-term debt as reported in the City's Statement of Financial Position.
12	<p>Calculation based on:</p> <ul style="list-style-type: none"> <li>- Long-term debt</li> <li>- Population <ul style="list-style-type: none"> <li>- City estimate based on rates of growth from 1996, 2001 and 2006 censuses (2000-2005)</li> <li>- Statistics Canada. Table 17-10-0142-01 Population estimates, July 1, by census subdivision, 2016 boundaries (2006-2019)</li> </ul> </li> </ul>
13	Revenue for purposes of the debt limit calculation is considered to be consolidated revenue of the City, less capital government transfers and contributed tangible capital assets, and excludes revenue from EPCOR.
14	Debt service limit refers to the Municipal Government Act debt service limit and debt servicing costs refer to the debt service limit used.
15	<p>Calculation based on:</p> <ul style="list-style-type: none"> <li>- Debt service limit used (Municipal Government Act)</li> <li>- Operating expenses less amortization and loss on disposal of tangible capital assets</li> </ul>
16	Statistics Canada. Table 17-10-0142-01 Population estimates, July 1, by census subdivision, 2016 boundaries
17	<p>Calculation based on:</p> <ul style="list-style-type: none"> <li>- FTE figures as reported by each city below: <ul style="list-style-type: none"> <li>- Edmonton - City of Edmonton employees</li> <li>- Calgary - Municipal full-time equivalents (excluding ENMAX): Total full-time equivalents - City and Total full-time equivalents - Related authorities</li> <li>- Ottawa - Budgeted municipal full-time equivalent positions</li> <li>- Winnipeg - Adopted budget FTE - Total city services</li> </ul> </li> <li>- Population as described in Methodology<sup>16</sup></li> </ul>
18	The National Capital Commission funds capital projects in Canada's Capital Region, which includes Ottawa, and reported tangible capital asset additions of \$46.4M in the 2018/2019 year. These capital additions are not included in the capital additions per capita figures reported for Ottawa.
19	This measure only considers municipal tax levy for a residential property; cities also have non-residential properties, which are generally taxed at a different rate.
20	<p>Calculation based on:</p> <ul style="list-style-type: none"> <li>- Municipal tax levy for each city <ul style="list-style-type: none"> <li>- Edmonton - See Methodology<sup>2</sup></li> <li>- Calgary - Median residential property tax</li> <li>- Ottawa - Property tax bill for average urban home less garbage fee</li> <li>- Winnipeg - Average homeowner's tax bill - municipal taxes</li> </ul> </li> <li>- Household income - Statistics Canada. Table 11-10-0009-01 Selected income characteristics of census families by family type - Median total income, all families (Ottawa-Gatineau, Ontario was used for Ottawa) (2000-2018); estimate based on Conference Board of Canada household income growth rate estimate (2019)</li> </ul>