Capital Direction Setting Update

For Presentation at City Council
June 22, 2011

Edmonton

Agenda

- 2009-11 – Strong Foundations
- 2012-21 Funding Outlook
- Renewal and Growth
- Debt Levels, Debt Room
- LRT Funding
- Next Steps

Purpose today is to discuss the 2012-2014 capital direction and funding availability. To set up the discussion we will give a quick overview of the accomplishments of the last three year capital cycle, then discuss the outlook for 2012-14 capital funding, renewal and growth splits, debt, LRT funding and next steps.

Strong Foundations

- The City took advantage of low interest rates, softer prices, greater industry capacity and funds from other orders of government to accomplish a great deal in 2009-2011.

Renewal 2009-11

- $1.7 billion total investment in renewal and rehabilitation projects
  - ($576 million per year on average or 45%)

Edmonton

In the 2009 to 2011 Capital plan, Council approved $1.7 billion in total investment in renewal and rehabilitation projects. This represented a significant increase over prior years and moved the City forward in reducing its Infrastructure debt.

2009-2011 Renewal Examples

- Neighbourhood renewal including dedicated tax levy and other financing sources of $228 million
- Great Neighbourhoods of $45 million
- Whitemud Drive/Terwillegar Drive Bridge Rehabilitation of $131 million
- Dawson Bridge rehabilitation $12 million

Included in the $1.7 Billion of budgeted renewal projects over the last three years is the significant commitment to the Neighbourhood renewal and Great Neighbourhood Rehabilitation program as well as other projects such as the Whitemud Drive/Terwillegar Drive Bridge Rehabilitation and the Dawson Bridge Rehabilitation.

New and Growth 2009-11

- $2.1 billion total investment in new and growth projects
  - ($721 million per year on average or 55%)

During this time Council also made commitments to significant investments in new infrastructure with $2.1 billion budgeted for investment in new and growth projects.

2009-11 New and Growth Projects

- Multi-Purpose Recreation Centres $122 million in 2009-11
  - North Central under construction, Meadows and Clareview tendered for construction
- Terwillegar Recreation Centre $52 million of project in 2009-11
- NLRT $106 million in 2009-11
- SLRT completion, $168 million of the $690 million project in 2009-11

After a significant period of time when no new recreation facilities were constructed, Council approved the development of a number of Multi-purpose recreation centres. With respect to advancing LRT in Edmonton, the South LRT was completed during this period and the Nait LRT was started.

How We Financed 2009-11

- 1.5-2% special tax levy for Neighbourhood Renewal
  - including other financing sources a total of $228.1 million
- Total MSI funding $732 million including $250 million fast-tracked
- Total Provincial Fuel Tax funding $432 million including $100 million fast-tracked
- Debt financing of $892 million
  - Tax supported $724 million
  - Federal Fuel Tax supported $168 million

The dedicated levy for Neighbourhood renewal saw the beginning of a reinvestment in established Neighbourhoods.

The 2011 Neighbourhood Renewal program includes the following neighbourhood renewal projects:

6 reconstruction neighbourhoods (completion of Fulton Place, Parkallen, Rio Terrace and Sherbrooke. Starting of West Jasper Place, and Capilano.)

12 overlay/sidewalk trip hazard repair neighbourhoods

3 microsurfacing neighbourhoods

Approximately 39 kilometres (of mainly collector) renewal

2 alley reconstruction (50/50 cost share pilot) neighbourhoods

A Significant amount of MSI and Provincial Fuel Tax funding was fast tracked into the 2009-11 capital plan that needs to be repaid in the 2012-2014 capital cycle.

Taking advantage of lower interest rates debt financing was used to fund significant projects.

Federal Fuel tax grants are committed to pay for SLRT debt. Total project cost of SLRT was $690 million, resulting in debt payments of 44.9M per year of which $43.6M is paid for by the Federal Fuel Grant (the balance is paid for by LRT reserve).

2012-21 Funding Picture

- Significantly less funding available
- From $1.3 billion a year to $720 million a year

Projected annual funding for 2012-21 is significantly less than in the 2009-11 Capital Budget primarily due to:

Limited tax-supported debt funded projects approved for 2012 and beyond

Significant fast-tracking of grants over 2009-11 to take advantage of lower interest rates, and industry capacity

Repayment of larger portions of fast-tracking required in 2012-14

2012-14 Proposed Funding Allocation

- Proposed annual renewal allocation: $379 million (53%)
- Proposed annual growth allocation: $342 million (47%)

Based on projected funding levels, $720 million per year will be available to the Capital Budget from 2012-14 (a total of $2.2 billion over the 3 years)

Balancing investment choices between renewal and growth projects are important in an aging and growing city.

Preliminary modelling shows $379 million per year ($1.1 billion over the three years) is required for renewal projects 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. Continuing annual reinvestment of this magnitude over a 20-year time frame is projected to reduce the amount of poor and very poor infrastructure by more than half. A re-investment $325 million per year is required to at least maintain current condition.

Allocating $379 million annually to renewal would leave $342 million per year ($1.0 billion total) available for growth projects in 2012 to 2014. This would result in 53% of capital funding allocated to renewal projects and 47% to growth projects over the 3 year period.

Renewal Allocation for 2012-14

- Total proposed renewal allocation $1.135 billion over 2012-14

- Committed/Constrained Funding: $314 million
  - Neighbourhood Renewal Investment of $256.2 million
  - Investment in Library Materials and equipment of $24.9 million
  - Local Improvements funding of $32.8 million

Within the proposed allocation for renewal is $314 million in Committed or Constrained Funding that can only be used by specific types of renewal projects, based on Council Direction or the MGA in the case of local improvements. This category also includes partnership funding provided for specific purposes.

Renewal Allocation for 2012-14

- 2012-14 Previously Approved Renewal Projects: $131 million
  - Valley Zoo Master Plan Implementation $16 million
  - 41 Ave/Highway 2 Interchange $65 million (Growth Project)
  - Light Rail Vehicles Retrofit $12.6 million
  - Other renewal projects $37.4 million

“Other” renewal projects previously approved by Council total $131 million of the proposed renewal target of $1.1 billion. This includes some of the significant projects in the slide as well as LRT garage rehab, park renewal, sports fields renewal, library rehab and bus fleet replacement

Renewal Allocation for 2012-14

- Remaining 2012-14 funding allocation: $690 million.
  - To cover projects such as the Walterdale Bridge replacement estimated at $130 million

- Recommendations for renewal projects will be included in the Capital Investment Agenda

What remains of the proposed $1.1 billion for renewal funding after you consider the constrained and previously approved funding is $690 million or $230 million per year on average to complete other renewal projects. The potential renewal projects for 2012 to 2014 vary in cost and include significant projects such as the Walterdale Bridge. The Capital Investment Agenda that will be presented to Council in September will include recommendations for renewal projects priorities.

Growth Allocation for 2012-14

- Total Projected Growth allocation is $1.024 billion over 2012-14
- Committed/Constrained Funding: $278 million
  - Developer and Partnership funding $62 million
  - Land Enterprise retained earnings $216 million

The Total Projected Growth allocation is $1 billion.

Committed or Constrained Funding has been identified at $278 million. This is funding that is based on Developer or Partnership contributions and the Land Enterprise retained earnings. The retained earnings are used to advance the purpose of the Land enterprise operation and have been used over the last several years to make land acquisitions ahead of future yet to be approved projects. The Land Enterprise retained earning is comprised of significant land holdings and no cash at this time.

Growth Allocation for 2012-14

- Previously Approved Growth Projects: $728 million
  - NLRT $495.3 million to complete
  - Multi-purpose Recreation Centres to complete Meadows and Clareview $152.7 million
  - Fire Stations planned for Heritage Valley and Lewis Estates areas, $18.2 million
  - Mill Woods Library relocation and expansion $16.7 million
  - Other growth projects $45.1 million

Council has previously Approved a significant number of growth projects for the 2012-2014 capital budget. These projects include:

NLRT $495.3 million to complete (GreenTRIP, Federal BCF, MSI, Tax-supported Debt)

Multi-purpose Recreation Centres to complete Meadows and Clareview $152.7 million (Tax-supported debt)
Fire Stations planned for Heritage Valley and Lewis Estates areas, $18.2 million (mostly MSI)

Mill Woods Library relocation and expansion $16.7 million (MSI, PAYG)

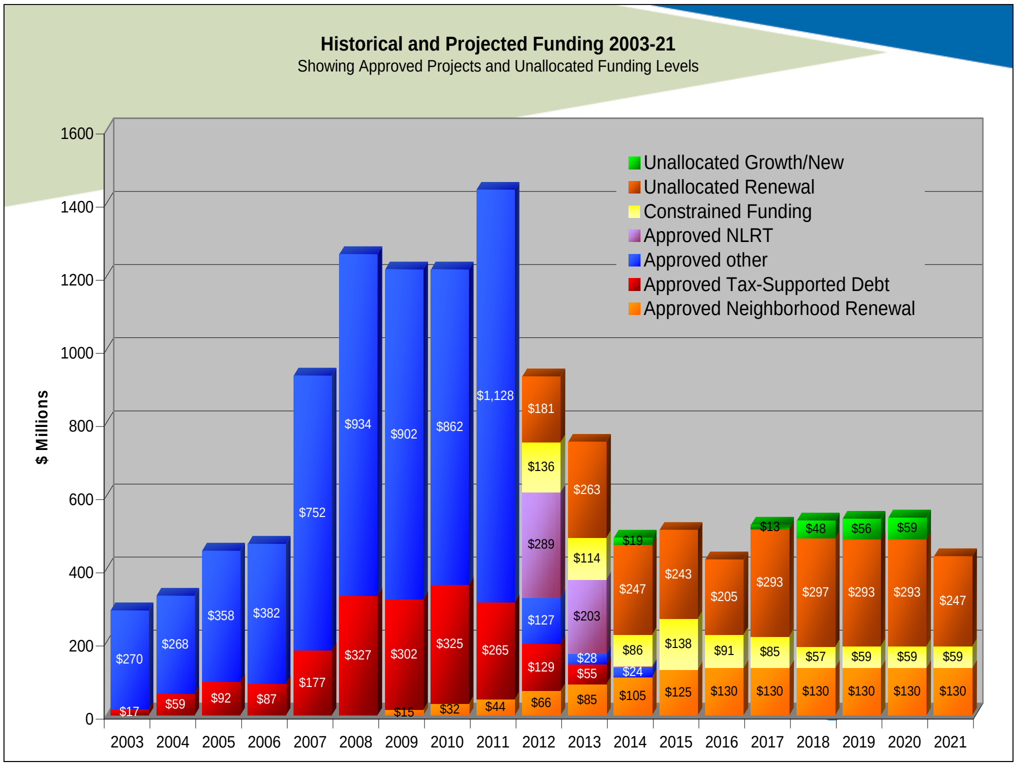
Other growth projects include the Clareview branch library, new park construction, new commercial-industrial development

Growth Allocation for 2012-14

- Remaining proposed funding allocation for new growth projects: total $18.6 million (average of $6.2 million per year)
- Recommendations for growth projects will be included in the Capital Investment Agenda

If we maintain the proposed level of renewal funding, there is not much left for new or growth in 2012 to 2014 as the majority of the 47% proposed funding allocation for new and growth is committed or constrained.

Council may make decisions to reduce the amount of rehabilitation investment to fund more new or growth projects. In addition, if dollars become available from existing already approved capital projects Council may want to consider reallocating those dollars to growth.



What contributes to this profile is the fact that we fast tracked on average $115 million a year in 2009-11 between MSI and fuel tax, which we now have to pay back with an impact of reducing funding available in 2012-14 by $230 million a year.

In 2007-11 we borrowed an average of $280 million a year for capital; the projections for 2012-14 are an average of $63 million a year. The earlier borrowing level was driven by lower interest rates, higher industry capacity etc.

This graph shows the historical and projected funding from 2003-21 and also shows:

•Past and approved tax-supported debt (red)

•Constrained funding levels from 2012-21 (yellow)

•Neighbourhood renewal (gold)

•Unallocated renewal (brown)

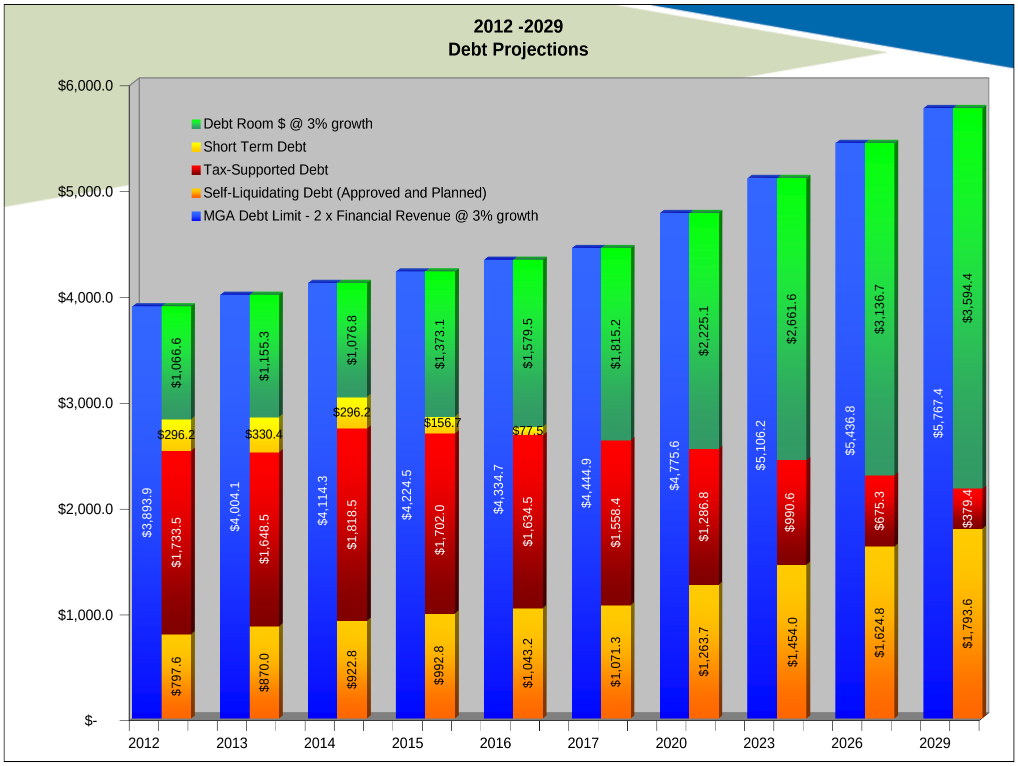
•Unallocated growth (green)

•Approved NLRT (purple)

•Approved projects not included in other categories above (blue). These projects and related 2012-14 costs include 41 Ave/Hwy 2 Interchange ($65M), Fire Stations Master Plan 1 ($18.1M), Mill Woods Branch Relocation and Expansion ($16.7M).

•It should be noted that funding available for new growth projects is projected to be very limited as we move forward.

This projection will be updated for the Capital Investment Agenda report in September 2011.


2012 -2029
Debt Projections
$6,000.0
$5,000.0
$4,000.0
$3,000.0
$2,000.0
$1,000.0
$-
Debt Room $ @ 3% growth
Short Term Debt
Tax-Supported Debt
Self-Liquidating Debt (Approved and Planned)
MGA Debt Limit - 2 x Financial Revenue @ 3% growth
$3,893.9
$1,066.6
$296.2
$1,733.5
$797.6
$4,004.1
$1,155.3
$330.4
$1,648.5
$870.0
$4,114.3
$1,076.8
$296.2
$1,818.5
$922.8
$4,224.5
$1,373.1
$156.7
$1,702.0
$992.8
$4,334.7
$1,579.5
$77.5
$1,634.5
$1,043.2
$4,444.9
$1,815.2
$1,558.4
$1,071.3
$4,775.6
$2,225.1
$1,286.8
$1,263.7
$5,106.2
$2,661.6
$990.6
$1,454.0
$5,436.8
$3,136.7
$675.3
$1,624.8
$5,767.4
$3,594.4
$379.4
$1,793.6
2012
2013
2014
2015
2016
2017
2020
2023
2026
2029