

Corporate Planning & Financial Services Report to
Regular Meeting of Council
2024 November 05

ISC: CONFIDENTIAL
C2024-1097

Mid-Cycle Adjustments to the 2023-2026 Service Plans and Budgets

PURPOSE

This report provides the recommended Mid-Cycle Adjustments to the 2023-2026 Service Plans and Budgets.

PREVIOUS COUNCIL DIRECTION

On 2023 July 25, Council approved an amendment to the Municipal Development Plan which included a process shift to ensure new community growth application approval is embedded within the Service Plans and Budgets process.

On 2024 February 27, Council approved the plan and schedule for the Mid-Cycle Adjustments, and directed that Administration find reasonable operating budget reductions to either reduce property taxes or allow for consideration of additional priority investments.

On 2024 May 28, Council directed Administration to review operating variances and identify base operating budget reductions related to recurring variances for consideration in the Mid-Cycle Adjustments; and to consider the capital and operating investments needed to enable four new growth applications as part of Mid-Cycle Adjustments.

On 2024 September 16, Administration shared a preview of the proposed adjustments to the 2023-2026 Service Plans and Budgets with Council, providing an early look at the budget that will be presented in November, while refining the plans to reflect changes in economic factors and better respond to Calgarians' needs.

On 2024 September 17, the Green Line Board and City Administration presented plans and recommendations to Council for winding down the Green Line Phase 1 Program. Council voted 10-5 to wind down the Program to minimize risks and costs to the City and taxpayers, with initial estimated costs exceeding \$850 million.

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RECOMMENDATIONS:

That Council:

1. Approve the plan and budget adjustments as articulated in the following:
 - a. Attachment 3 – Recommended Investments
 - b. Attachment 5 – Capital Budget Adjustments
 - c. Attachment 6 – Operating Budget Adjustments with No Net Budget Impact
 - d. Attachment 7 – Carry Forward of One-Time Operating Budget
 - e. Attachment 10 – Technical Performance Measure Adjustments
2. Approve the list of Council priority metrics in Attachment 9 - Priority Metrics and Advancing Measurement and Reporting;
3. For the user fee and rate adjustments in Attachment 4:
 - a. Approve the user fee adjustments in Attachments 4A-4C; and
 - b. Give three readings to Proposed Bylaws 37M2024, 38M2024, 41M2024, 39M2024 and 40M2024.
4. For the borrowing bylaws in Attachment 15:
 - a. Give three readings to Proposed Bylaws 8B2024 and 9B2024;
 - b. Give first reading to Proposed Bylaws 10B2024 and 11B2024; and
 - c. Direct Administration to advertise Proposed Bylaws 10B2024 and 11B2024 as set out in the *Municipal Government Act*, RSA 2000, c. M-26, and return to Council for second and third readings once the advertising requirements have been met.
5. Direct that Confidential Attachment 13 be held confidential pursuant to Section 23 (local public body confidences) of the *Freedom of Information and Protection of Privacy Act*, to be reviewed no later than 2026 December 31.

CHIEF ADMINISTRATIVE OFFICER/GENERAL MANAGER COMMENTS

Acting Chief Financial Officer Les Tochor concurs with this report.

HIGHLIGHTS

- Since 2019, The City has kept tax increases lower than inflation and population growth in our efforts to find efficiencies. New funding has mostly been focused on building and shaping our city for the future. This has enabled Calgary to have some of the lowest residential property taxes of any major Canadian city.

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- The 2023-2026 Service Plans and Budgets were based on forecasts of an average of 2.1 per cent inflation and an average of 1.6 per cent population growth for each year of the budget cycle. These figures were actually 3.5 - 3.8 per cent for inflation, and 4.9 - 5.6 per cent for population growth.
- At the same time, our infrastructure has started to show its age, as illustrated by the feedermain break this summer and lower-than-ever pavement quality, among other challenges.
- Calgary is in a tough spot. We have growing service and investment needs, but we also recognize that Calgarians continue to face affordability challenges. Administration has struck a balance by first looking internally for funding options before recommending a tax increase of 4.5 per cent, which is only 0.89 per cent above what was previously approved for 2025.
- Through the Spring and Fall Survey of Calgarians, residents have identified infrastructure, economy, housing, safety and transit as top priorities. The investments recommended here are focused on these areas:
 - **Infrastructure and maintenance:** significant investment in our water treatment and distribution system, improving pavement quality in high-speed roads, and other capital investment to maintain or improve infrastructure, maintenance and inspections.
 - **Transit and transportation:** permanent ongoing funding to offset the continuing transit revenue shortfall will help stabilize transit operations and improve service levels. We also continue to invest in expanding the train network, both on the Blue Line and the Green Line.
 - **Housing, land use and local area planning:** investing in new community growth as well as enabling redevelopment in established areas will increase housing supply and relieve some of the upward pressure on pricing.
 - **Public safety and downtown revitalization:** ongoing investment will support safety in the downtown core, on transit and across the city.
- The continuing shift of tax share from non-residential to residential properties by one per cent each year has prevented The City from reaching the provincial maximum 5:1 tax ratio.

DISCUSSION

The Mid-Cycle Adjustments are the culmination of a year long iterative and collaborative process between Administration and Council, drawing on data from Progress Updates, economic forecasts, and research and engagement with Calgarians. A simple, plain language overview of the recommended Mid-Cycle Adjustments can be found in Attachment 1.

Over the course of 2024, key opportunities and pressures have emerged:

- We are proud that so many people have chosen to call Calgary home. We have seen record-setting population growth of 144,000 new Calgarians across 2023-2024 - equivalent to the entire City of Kelowna moving to Calgary in only two years (Attachment 2).
- Calgary, like individuals and corporations across Canada and the world, has felt the pressures of inflation over the last number of years. Inflation has been at the highest

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rates we've seen since the 1980's, and our latest economic indicators show that Calgary is experiencing higher inflation than Alberta and Canada.

City spending has not kept pace with inflation and population growth. This widening gap is experienced by Calgarians through lower service levels, as seen in this year's [Mid-Year Progress Update](#), and through lower satisfaction as seen in the [Fall Survey of Calgarians](#). Satisfaction with services is the biggest driver of Calgarians' perceived value for taxes, so it is not surprising that this perceived value is also at a historic low.

Infrastructure is one of the most important issues identified by Calgarians in the Fall Survey:

- We have experienced a critical water feedermain break, and the *Fall Survey of Calgarians* reflects that the Calgarians' satisfaction with water treatment and supply has fallen by approximately 26 percentage points since Spring 2024.
- The Mid-Year Progress Update showed that while we are repairing more potholes than ever before, the total percent of pavement in good condition is at the lowest levels seen since 2014 and declining, and the Fall Survey showed that satisfaction with road maintenance including pothole repairs has significantly decreased.
- These are just two examples that have highlighted the need for increased investment in maintenance for critical infrastructure.

Affordability also continues to be top of mind for Calgarians:

- Housing pricing increases have highlighted the need for increasing housing supply – both in number of homes and in variety of housing – through new and existing community development.
- The *Mid-Year Progress Update* reported that transit ridership has mostly recovered to pre-pandemic levels but increasing demand for the Low-Income Transit Pass means that revenues have not recovered, making it clear we need stable funding to offset revenue shortfalls.
- Council directed Administration to bring forward plan and budget adjustments that remain within the budget envelope of what Council had already approved.

With this backdrop, Administration looked internally to find reductions and efficiencies to free up resources for high priority investments. The results of the review freed up \$72 million in ongoing annual funding by finding ways to reduce recurring operating variances and other tactics. We have also leveraged the estimated 2024 favourable operating variance to find \$29 million of one-time operating funding. We reviewed capital investments and relinquished \$135 million in funding that can be reallocated for high priority capital needs. Additional funding of \$94 million was also identified from the Local Government Fiscal Framework and Franchise Fees to support these high priority capital investments. While this funding went a long way, it did not go far enough to cover all of the most critical investments.

While the results of the review were significant and many additional investments could be accommodated, there are still pressures that could not be covered within planned revenues. As a result, Administration is recommending certain additional tax supported investments that would make a difference for Calgarians (Attachment 3), in addition to user fee adjustments (Attachment 4).

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These are supported by adjustments to capital budgets (Attachment 5), operating budgets with no net tax impact (Attachment 6) and carrying forward some unspent one-time operating budgets (Attachment 7).

In support of the recommendations, Administration then reviewed property tax benchmarking (Attachment 8). We found that Calgarians pay the lowest percentage of their household income on municipal residential property taxes, and that Calgary's property taxes have increased at a lower rate, than any other major city in Canada. We also found that when surveyed, Calgarians are evenly split in their preferences between increasing taxes or decreasing services. Therefore, Administration believes it is reasonable to recommend an overall property tax increase of 4.5 per cent over 2024 – 0.89 percentage points higher than the increase already approved by Council for 2025.

With the combined funding of increased property taxes, internally reallocated funding, grants, debt and user fees, Administration's recommended plan and budget adjustments will enable key investments needed to support our growing population.

Infrastructure, Maintenance and Inspections: The recommended adjustments will enable The City to build some projects that will improve redundancy and resiliency while addressing aging critical infrastructure and enhancing maintenance and inspections. This will include building additional feeder mains from the Bearspaw Water Treatment Plant and reinvesting in Annual Investment Programs required for capital maintenance across the city. These investments will supplement an already robust capital plan and budget.

Transit and Transportation: The recommended adjustments will help to sustain existing transit services through permanently funding revenue shortfalls, enhance equitable access to transit and transit safety, begin the design and early work required to expand the Blue Line, and support active modes of transportation through the 5A network. They will also maintain the funding that was previously allocated to the Green Line for the ongoing discussions related to the future of that project.

Housing, Land Use and Local Area Planning: The recommended adjustments will support the development of housing supply across new communities as well as established areas. This includes investment in Transit-Oriented Design, improved data through a reinstated municipal census, and developing the communities of Belvedere, Hotchkiss and Prairiesong, along with road and utility infrastructure to support those new communities.

Public Safety and Downtown Revitalization: The recommended adjustments will enhance public safety in the downtown core and across Calgary by supporting our 9-1-1 and Fire services and implementing the recommendations of the Downtown Safety Leadership Table.

Inflationary Pressures: The recommended adjustments will support The City in covering the rising cost of labour and materials within Administration as well as in our contracts.

The total financial impact of these recommended adjustments on a typical residential household would be an increase of approximately \$10.27/month (4.8 per cent) on property taxes and \$5.09/month (3.7 per cent) on waste, recycling and water charges, for a combined monthly increase of \$15.36/month (4.37 per cent).

In addition to the budget adjustments, Administration is also recommending a set of metrics for each Council Priority, which will track the progress and impact on the priority areas for Calgarians (Attachment 9). This, along with other key metrics, will form the foundation of our

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reporting framework. Additionally, Administration is making adjustments to selected service performance measures to enhance clarity, ensure consistency, and improve the effectiveness of monitoring progress (Attachment 10). Service plans have been updated to reflect adjusted funding and investment (Attachment 11).

EXTERNAL ENGAGEMENT AND COMMUNICATION

- | | | | |
|-------------------------------------|---|-------------------------------------|---|
| <input type="checkbox"/> | Public engagement was undertaken | <input checked="" type="checkbox"/> | Dialogue with interested parties was undertaken |
| <input checked="" type="checkbox"/> | Public/interested parties were informed | <input type="checkbox"/> | Public communication or engagement was not required |

These investments and changes address the evolving needs of Calgarians and businesses. We base these adjustments on feedback gathered from the Spring and Fall Survey of Calgarians, as well as insights from the City's performance in the Progress Update report.

The Fall Survey reported that Calgarians have placed significantly increased importance on infrastructure – particularly water infrastructure – and roads. While a majority of Calgarians continue to be satisfied with the level and quality of City services and programs, that majority is declining over time. An increasing number of Calgarians report that their quality of life has worsened in the past three years, and fewer Calgarians believe they receive good value for their property taxes. At the same time, Calgarians remain evenly split in their opinions on whether taxes should be increased to maintain or expand services or whether services should be reduced to maintain or reduce taxes.

The Mid-Year Progress Report identified that we were repairing more potholes than ever before, and our total percent of pavement in good condition was declining. The Fall Survey of Calgarians showed that satisfaction with road maintenance including pothole repairs has significantly decreased. This report recommends some funding for improving pavement quality on high-speed roads, but more investment will be required over the long-term to improve pavement quality throughout the city.

In 2023 November, Council approved significant investments in public safety. The Mid-Year Progress Report showed that police non-emergency call wait times were improving, some fire response times were improving, and that the volume of social disorder calls for downtown train platforms was decreasing. However, it also reported that other metrics of fire response times were getting a little worse, we are seeing higher volumes of fire inspections, and increasing volume of calls for police. The Fall Survey showed that perceptions of safety are slightly improved but have room to improve further. This report recommends funding for 9-1-1 and Fire capacity to address increasing demand.

The overall Mid-Cycle Adjustments communication approach prioritizes adaptability, addressing emerging needs, enhancing awareness, educating Calgarians and staff, and fostering active participation through timely, clear, and proactive communications. These efforts aim to raise awareness about the Mid-Cycle Adjustments process and its impact on Calgarians.

IMPLICATIONS

Social

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The recommended adjustments support the social wellbeing of Calgarians both directly and indirectly. Permanent funding is recommended to support the Specialized Transit service in determining eligibility and processing applications for individuals who experience barriers to using standard transit services.

The Mid-Year Progress Update for 2024 described challenges within the Public Transit service. While ridership has largely recovered to pre-pandemic levels, revenues have not. This is due to an increasing proportion of fares being paid through the Low-Income Transit Pass program. The recommended adjustments include permanent support for the Public Transit service to offset revenue shortfalls. One-time funding for the Low-Income Transit Pass, to be funded from The City's anticipated favourable operating variance for 2024, is also recommended to sustain the program while more permanent funding solutions are negotiated.

Administration also recommends sustaining the Equity Program through internally reprioritized funds. This program helps develop Administration's ability to ensure equitable service delivery at all levels, including programs, services, operations and decision-making.

Environmental

The investments include options that have a strong focus on transit, transit enabling projects and sustainment of previous investments in the 5A Network. Increasing transit ridership and reducing the number of vehicles on the road will have a positive impact on reducing The City's greenhouse gas emissions and is in alignment with the Climate Strategy: Pathways to 2050 and the 2023-2026 Climate Implementation Plan.

Economic

Infrastructure – including water, waste management, and roads – is the backbone on which Calgary's economy is built. The recommended infrastructure investments are critical to maintaining an economically viable city where businesses can thrive.

Service and Financial Implications

Other:

Operating Budget

Operating budget adjustments with no net budget impact are in Attachment 6 and result in no change in funding from corporate revenue sources and improve the alignment of budgets to anticipated actual spending. This represents an increase in base revenue by \$173.7 million, recoveries by \$74.4 million and expenditures by \$248.1 million with no impact on the total City net operating budget. Also, the services are requesting to realign approximately \$0.6 in one-time revenue and expenditures.

Attachment 7 contains carry forward of one-time operating budget adjustments reflect unspent one-time operating funding for projects that cannot be completed by the end of the current year. Proposed adjustments request to carry forward \$176.8 million in one-time budget from 2024 to 2025 from the \$209.7 million currently approved for these projects. This impact continues to be primarily driven by the Downtown Calgary Development Incentive Program.

New operating requests requiring on-going funding starting in 2025 total \$113 million (of which \$62 million is new and \$50.8 million corporately repurposed) and additional \$12 million as of

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2026. Moreover, \$25.1 million, and \$4 million in one-time funding is being submitted for approval for 2025 and 2026, respectively.

Capital Budget

The recommendations in this report result in a \$2.01 billion increase in the 2024 – 2027+ capital budget to \$14.9 billion. The recommended capital budget adjustments in Attachment 5 result in \$143.5 million in relinquishments, \$1.889 billion in increases as well as \$175.5 million in net zero transfers to better align for capital delivery. The increases are mainly driven by required water utility investments as well as a combination of smaller projects.

Additionally, services are requesting \$228.9 million in corporate capital funding to pursue additional capital investments.

RISK

The adjustments recommended in this report represent Administration's best advice to manage operational and strategic risk facing the organization today. It represents a balanced approach to respond to risks that have manifested, as well as emerging risks, while keeping a focus on affordability for Calgarians.

Additional risk considerations are outlined in Attachment 12 to inform Council's decision making. The risk analysis provides an overarching summary of risks and respective pressures relevant to budget adjustments.

While a risk assessment supports deliberations as an input into decision making, following Council's decisions The City will regularly update its risk profile it implements any decisions made, as well as to account for any changes in the internal or external environment in which we operate.

ATTACHMENTS

1. Mid-Cycle Adjustments Overview
2. Calgary's Population Growth and its Financial Implications
3. Recommended Investments
4. User Fee and Rate Adjustments
5. Capital Budget Adjustments
6. Operating Budget Adjustments with No Net Budget Impact
7. Carry-Forward of One-Time Operating
8. Property Tax Analysis
9. Priority Metrics and Advancing Measurement and Reporting
10. Technical Performance Measure Adjustments
11. Initiatives Adjustments
12. Risk Analysis
13. Green Line Financial Update
14. Municipal Fiscal Gap
15. Borrowing Bylaws
16. Operating Budget Continuity Schedule
17. Capital Budget Continuity Schedule
18. Previous Council Direction, Background

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19. Presentation

Department Circulation

General Manager/Director	Department / Business Unit	Approve/Consult/Inform
David Duckworth, Chief Administrative Officer	Chief Administrator's Office	Approve
Les Tochor, Acting Chief Financial Officer and General Manager	Corporate Planning & Financial Services	Approve
Stuart Dalgleish, Chief Operating Officer	Chief Operating Office	Approve
Tim Doruch, Acting Director	Corporate Planning & Performance	Approve
Ryan Vanderputten, Acting Director	Capital Priorities and Investment	Approve
Chris Arthurs, General Manager	People, Innovation & Collaboration Services	Approve
Katie Black, General Manager	Community Services	Approve
Debra Hamilton, General Manager	Planning and Development Services	Approve
Jill Floen, City Solicitor and General Counsel	Law, Legislative Services & Security	Approve
Doug Morgan, General Manager	Operational Services	Approve
Michael Thompson, General Manager	Infrastructure Services	Approve
Edwin Lee, Director and City Assessor	Assessment and Tax	Consult

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