

One Calgary Report to
Strategic Meeting of Council
2019 November 12

ISC: UNRESTRICTED
C2019-1052

2020 Adjustments to the One Calgary Service Plans and Budgets

EXECUTIVE SUMMARY

The City is committed to making life better every day for its citizens, communities, and businesses, and this includes supporting Calgary's economic recovery. A foundational pillar of this is fiscal responsibility, which The City has consistently demonstrated, enabling ongoing financial challenges to be managed in a measured and prudent manner.

Council and Administration have been working together to address these challenges in recent years, and the 2020 Service Plan and Budget Adjustments provide an opportunity for additional collaboration. As per Council's direction earlier this year, this report presents two reduction scenarios, equivalent to 1.5% and 0% tax rate increases. Compared to the previously approved 3.03% tax increase for 2020, these scenarios equate to tax savings for a typical single residential home of \$2.60 and \$5.10 per month respectively.

Capital adjustments are included in this report which reduce the capital budget by \$20.5 million in 2020. The capital budget reductions primarily reduce the use of debt and other restricted funding sources. A complete review of the capital budget considering the impacts of the provincial budget is in progress. An update on the capital budget will be presented to Council no later than 2020 January 27.

Various other items that comprise part of every year's adjustment process are also included in this report for Council approval.

Finally, this report presents the results of the sub-service reviews initiated in 2019 July.

The broader environment in which The City operates provides context for Council's decision-taking. This includes the state of the economy, the current perspectives of citizens and businesses, and the realities of the recently tabled provincial budget. Administration will continue to work with provincial officials as the longer-term implications of the recent provincial budget emerge and will provide updates to Council as relevant information becomes available. The City's strong financial management has placed it in a position to respond effectively to the current environment, but this will require some challenging decisions about priorities and risk.

2020 Adjustments to the One Calgary Service Plans and Budgets

ADMINISTRATION RECOMMENDATION

That Council:

1. Approve adjustments to the One Calgary 2019-2022 Service Plans and Budgets by selecting one of the following scenarios:
 - a. The 1.5% tax rate scenario outlined in Attachments 1a and 1b;
 - b. The 0% tax rate scenario outlined in Attachments 2a and 2b; or
 - c. The 3.03% tax rate already approved and adopted as part of the One Calgary 2019-2022 Service Plans and Budgets;and direct Administration to implement the budgetary changes necessary to effect the scenario chosen.
2. Direct Administration as to the use of any funds released as a result of recommendation 1 so as to ensure a balanced budget, and implement the budgetary changes necessary to effect that direction.
3. Approve the Capital Budget Adjustments in Attachment 5a.
4. Approve the Operating Budget Carry-Forwards in Attachment 6.
5. Approve the Other Operating Adjustments in Attachment 7a.
6. Approve the Performance Measure Adjustments Not Related to Reductions in Attachment 8.
7. For the proposed user fee and utility rates in Attachment 9:
 - a. Approve the user fee changes in Attachments 9A-9C;
 - b. Approve the Long Term Tax Support Rate for Appeals & Tribunals in Attachment 9D;
 - c. Give three readings to each of the bylaws in Attachments 9E-9K.
8. Direct that Attachment 4b remain confidential pursuant to Section 24 of the Freedom of Information and Protection of Privacy Act until 2034 October 31.
9. Direct that Administration report back to Council with an update on the capital budget in response to the funding reductions from the 2019 October 24 provincial budget no later than 2020 January 27.

PREVIOUS COUNCIL DIRECTION / POLICY

On 2018 November 14, Council approved the One Calgary 2019-2022 Service Plans and Budgets, including a 3.03% tax increase for 2020.

On 2019 June 10, Motion C2019-0782, Immediate Tax Relief for Calgary Businesses, directed Administration to identify \$60 million for the 2019 tax year and bring those reductions for approval to Council no later 2019 July 31. Administration responded by identifying \$60 million in permanent operating budget reductions, which were approved by Council on 2019 July 22.

On 2019 July 16 (C2019-0883), Council directed Administration to bring two scenarios, equal to a 1.5% tax rate increase and a 0% increase, to the 2020 adjustments to the plan and budget deliberations in November. These scenarios are equivalent to \$26.5 million and \$52.5 million reductions to tax revenues respectively.

One Calgary Report to
Strategic Meeting of Council
2019 November 12

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2020 Adjustments to the One Calgary Service Plans and Budgets

Also on 2019 July 16, Council approved that sub-service reviews be conducted in six areas during 2019: Golf Programs and Activities, Low Income Transit Pass, Citizen Engagement, Sailing Programs and Activities, Community-Wide Waste Management Programs and Initiatives, Boulevards and Naturalization, and Corporate Research.

During the 2019 July 29 Council Meeting, Motion 2019-1011, Delivering Modern & Affordable Municipal Services in an Environment of Economic Constraint, directed Administration to seek proposals from external experts about services available to assist Council and Administration to achieve savings on the delivery of municipal services, capitalize on revenue generation opportunities, and identify short and longer-term efficiencies, all while considering Citizen Priorities and Council Directives within an environment of economic restraint.

BACKGROUND

The City has a strong history of prudent financial management. For example, it does not run operating deficits. Section 244 of the *City of Calgary Charter, 2018 Regulation* states that “The City may project an operating deficit, but the budget for the following year must provide for expenditures to cover the deficit over the next 3 years.” Prior to this, The City adhered to similar provisions within the *Municipal Government Act*.

The City carries debt to fund long-term capital investments, but this is serviced at competitive rates. The City also enjoys a strong ‘AA+’ credit rating, which was recently reaffirmed by Standard & Poor’s in 2019 July.

In recent years, tax increases have been implemented to maintain and improve service delivery for Calgarians, but these have been at rates below the rates for population increase and inflation. Related feedback collected via the Citizen Satisfaction Survey has been consistently positive for the overall Level and Quality of City services (70%+) as well as Calgary’s quality of life (80%+ satisfied).

Our ongoing work to reduce cost and improve value for taxpayers led to savings and efficiencies of \$614 million in 2015-2018 and over \$75 million to date in 2019. As a result of these savings and efficiencies in 2019, including the \$60 million reduction in July, the majority of The City’s 61 services are currently operating on net base budgets at or below 2018 levels.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Over the past few months, Administration has undertaken a cross-corporate process to identify ways to achieve reductions corresponding to Council’s specific request for 1.5% and 0% tax rate scenarios for 2020. This work was undertaken in line with the guiding principles provided by Council for the 2019 July reductions, including “least harm” to citizen-facing services. Compared to the reductions made in July, the slightly longer timeframe available to develop the 2020 reduction scenarios allowed for a more strategic approach that better reflects Council’s principles, although some across-the-board methodology was still used.

From 2019 August into September, service owners worked to identify and submit reduction packages that fulfilled the requirements for the two scenarios. These packages were subsequently analyzed to examine their impact on risks, performance measures, workforce and

2020 Adjustments to the One Calgary Service Plans and Budgets

other criteria. After a review of the reductions, the Administrative Leadership Team provided direction to move the least harmful packages into the 1.5% scenario and to move the more harmful reductions into the 0% scenario. These changes were informed by the latest insights from citizen research and engagement work. Further changes were made in response to the gaps created by the October 24 provincial budget release. All expenditure line items were reviewed as part of this process.

Scenarios

Summaries are provided of the reduction scenarios at 1.5% (Attachments 1a, 1b and 1c) and 0% (Attachments 2a, 2b and 2c), including descriptions of the impacts associated.

Each package has been categorized in Attachments 1a and 2a to indicate the degree of impact citizens would experience if this change was made:

- Direct impact to citizen-facing services – changes where citizens will notice the impact of the reductions when they use the service.
- Indirect impact to citizen-facing services – changes where there is a reduction in internal capacity that will likely have an impact on the service over time.
- No impact to citizen-facing services, including budget reductions achieved through:
 - Efficiency – a reduction in cost with no impacts to services.
 - Changes in funding model – funding outside of tax support (e.g. capital budget) will be used to deliver the service.
 - Reductions to planned service growth or enhancement – a reduction that results in at least the same service level as is currently provided.
- Civic Partner impact – changes in civic partner funding.
- Reduction required in Calgary Police Service.

Initially, in the 1.5% scenario, \$15.3 million of budget reductions were identified with no citizen-facing service impacts. Service reductions with either a direct or indirect impact to citizens of \$8.1 million were also identified, bringing the total to \$23.4 million of the \$26.5 million needed. Corporate solutions were found that eliminated the remaining gap and provided funding to restore reductions in the most critical areas and enable key investments including, potentially, addressing the gap in funding for the Low Income Transit Pass.

Subsequently, the 2019 October 24 provincial budget included a \$15 million decrease in provincial funding, including a \$13 million decrease in funding for Police Services. The 1.5% scenario now replaces the lost provincial funding for Police Services with tax support, but eliminates the investments that were originally planned and requires much more significant reduction in The City's general costs funds to achieve balance. This will mean The City is exposed to greater risk in the event of unanticipated events.

The 0% scenario includes the vast majority of reductions in the 1.5% scenario, incremental reductions to the packages in the 1.5% scenario, and new reductions in additional areas. For example, while Civic Partners were not included in the 1.5% scenario, they are included in the 0% scenario. In addition, in this scenario The City would only be able to provide \$4.6 million to offset the \$13 million decrease in provincial funding for Police Services, resulting in an \$8.4 million net reduction to the Police Services budget in order to balance.

2020 Adjustments to the One Calgary Service Plans and Budgets

Neither scenario assumes a reduction corresponding to savings from the Provincial Government's elimination of the carbon tax. While this provided some relief in energy costs in 2019, the Federal Government has announced that the federal carbon tax will be applied in Alberta starting on 2020 January 1, eliminating any savings that would have been realized in the 2020 budget.

In the following table, a positive number indicates a reduction and a negative number indicates an increase in tax support.

Description	1.5% Scenario – Net Operating Impact (\$000s)	0% Scenario – Additional Net Operating Impact (\$000s)	0% Scenario – Total Net Operating Impact (\$000s)
Direct Impact to Citizen-Facing Services	\$7,217	\$9,587	\$16,804
Indirect Impact to Citizen-Facing Services	\$4,294	\$2,291	\$6,585
No Impact to Citizen-Facing Services*	\$11,917	\$1,940	\$13,858
Civic Partner Impacts	-	\$3,058	\$3,058
Calgary Police Services – Tax support for provincial impacts and/or required reduction	(\$13,000)	\$8,395	(\$4,605)
Corporate Programs (Common Revenue) – Additional tax support to cover provincial reduction in Grants in Place of Taxes	(\$2,000)	-	(\$2,000)
Corporate Programs (Common Revenue) – Increase in Investment Income	\$3,000	-	\$3,000
Corporate Programs (Corporate Costs) – Savings in Employee Benefits Costs	\$6,000	-	\$6,000
Corporate Programs (Corporate Costs) – Savings in Salary and Wage	\$1,400	-	\$1,400
Corporate Programs (Corporate Costs) – Savings in Utilities and General Costs	\$7,670	\$729	\$8,399
Grand Total	\$26,500	\$26,000	\$52,500

*Represents an efficiency, a change in funding model, or a reduction to planned service growth or enhancement.

**One Calgary Report to
Strategic Meeting of Council
2019 November 12**

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C2019-1052**

2020 Adjustments to the One Calgary Service Plans and Budgets

The 1.5% scenario represents a \$26.5 million reduction, equal to \$2.60/month in property tax savings for the average Calgary homeowner, compared to what they would have paid with the previously approved 3.03% increase. The 0% scenario represents a \$52.5 million reduction, equal to \$5.10/month in savings. These amounts are calculated based on the distribution between residential and non-residential taxpayers as of the date of writing this report.

On 2019 October 21, Council approved the recommendations of the Tax Shift Assessment Working Group (C2019-1323), including that Council make a values-based decision on the proportional share of operating budget responsibility between residential and non-residential property tax classes. A further report to the Priorities and Finance Committee on 2019 November 5 (PFC2019-1394) provided additional information and illustrative examples to inform Council's decision. This report was referred to the 2019 November 18 Combined Meeting of Council, and Council's decisions at that time will determine the actual impact of the reduction scenarios on residential and non-residential taxpayers.

Attachments 1b and 2b set out the impacts to the approved performance measures in the 2019-2022 Service Plans and Budgets. In the 1.5% scenario, 10% (or 26 of 256) of these performance measures are slightly or significantly impacted. In the 0% scenario, 14% (or 37 of 256) are slightly or significantly impacted and some of the performance measures in the 1.5% scenario will decline further.

The relatively small number of approved performance measures impacted reflects the least harm approach, whereby every effort was made to maintain performance in the measures deemed most important to citizens. Despite this, across the 1.5% and 0% scenarios there are a total of three significantly impacted performance measures: Streets (signal timing optimization), Fire & Emergency Response (arrival time of firefighters and equipment), and City Auditor's Office (investigations open past 180 days).

Additional performance measures outside of those in the plans and budgets are expected to be impacted immediately if either reduction scenario is implemented, but the full scope (including the magnitude of these impacts), may not be known for some time. Indirect impacts to citizen-facing services will manifest gradually, for example through reduced investment to ensure continued performance in the future. In other cases, matching budget tightly to current needs has removed service flexibility, responsiveness and agility. Anticipated and emerging impacts will be monitored and reported on through the bi-annual Accountability Reports.

Attachments 1c and 2c show the adjustments made to the 2020 operating budgets of each service since 2019 January 01, together with the budget impact of the reduction scenarios. Note that because of savings and efficiencies in 2019, the net base budgets for the majority of The City's 61 services would remain at or below 2018 levels under both the 0% and 1.5% scenarios.

The Full-Time Equivalent (FTE) impacts of the reduction scenarios are summarized in Attachment 3.

An assessment of the risks associated with the reduction scenarios can be found in Attachment 4a (Public) and Attachment 4b (Confidential).

2020 Adjustments to the One Calgary Service Plans and Budgets

Capital Budget Adjustments

Changes to the 2020 capital budget are set out in Attachment 5a (for approval). They include relinquishments totaling \$24.2 million, partially offset by increases of \$3.7M for a net reduction to the 2020 capital budget of \$20.5 million. Also included are transfers totaling \$32.4 million. The capital budgets for 2021 and 2022 also drop by \$0.6 million each. Provided for information in Attachment 5b is the Capital Budget Continuity Schedule.

The provincial budget released on 2019 October 24 has significant impacts to The City's capital budget. Administration is reviewing the full implications of the provincial funding changes and undertaking a process to review the capital portfolio and identify potential least-harm reductions. This process is similar to other processes led by Infrastructure Calgary in the past to identify capacity and prioritize investments. It looks at what capital investments can be scaled back, delayed or stopped with minimal impact to citizens and service levels and considers risk from an internal and external perspective. Administration requires time to conduct this review and will report back to Council with an update on the capital budget no later than 2020 January 27.

Other Adjustment Items

In addition to the main decisions identified thus far, Council is also asked to approve other adjustments typical in any annual adjustment process:

- Carry Forward of Operating Budget (Attachment 6)
- Other Operating Budget Adjustments for Approval (Attachment 7a) and to receive for information (Attachment 7b)
- Performance Measure Adjustments Not Related to Reductions (Attachment 8) – Services are proposing changes to performance measures that are not related to reduction packages. These adjustments include replacement of existing performance measures, changes to performance measure trends, performance measure deletions, and typographical corrections.
- 2020 User Fee and Rate Changes (Attachment 9) – The majority of user fee adjustments included in this package are changes that have been considered / approved by the Priorities and Finance Committee. The fee changes in Recreation Opportunities are in line with the ZBR commitments from PFC2018-0647.

Results of the 2019 Sub-Service Reviews

Attachment 10 outlines the results of the sub-service reviews undertaken by Administration during 2019. Council may wish to consider the results in reaching a decision on the 2020 Adjustments. The results will also inform the ongoing discussion about longer-term approaches to delivering savings. A further update on the Strategy for Improving Service Value will be provided to Council in Q1 2020. This will include consideration of whether further sub-service reviews should form a part of it. A full update on the results from the Request for Information arising from Motion 2019-1011, Delivering Modern & Affordable Municipal Services in an Environment of Economic Constraint, will also be provided at that time.

One Calgary Report to
Strategic Meeting of Council
2019 November 12

ISC: UNRESTRICTED
C2019-1052

2020 Adjustments to the One Calgary Service Plans and Budgets

Stakeholder Engagement, Research and Communication

The 2020 Adjustments have been informed by the 2019 Citizen Satisfaction Survey, as well as external engagement conducted from 2019 September 27 to 2019 October 7 (Citizen Conversations about Budget).

The public will have the opportunity to speak at the Council meeting on 2019 November 25, the first day of deliberations. Online submissions from the public will be possible starting November 12. Submissions received by noon on November 20, will be provided to Council and posted publicly in advance of Council's deliberations. Submissions received after this date but prior to the Council meeting on November 25 will be provided to Council at the start of deliberations and be accepted into the record of the meeting.

Strategic Alignment

Maximizing results for citizens with limited resources, and effective and efficient decision-making by Administration and Council, are both key to achieving the Citizen Priority of a Well-Run City. This 2020 Adjustments package supports this priority by facilitating a clear and contextualized conversation about The City's Service Plans and Budgets.

More specifically, the reduction scenarios presented in this report demonstrate fiscal responsibility while minimizing impacts on citizens.

Social, Environmental, Economic (External)

There are economic benefits to maintaining the approved 3.03% tax increase in that government spending creates jobs and supports consumer spending, and many of The City's services support the economy as a whole. There are also economic benefits to reducing the 3.03% tax increase to 1.5% or 0%, namely a reduction in Calgarians' taxes paid, which will increase disposable income. To achieve this economic benefit, there will be some impacts in other areas, including slower progress on some social and environmental initiatives.

Financial Capacity

Current and Future Operating Budget:

This report includes reduction scenarios equivalent to 1.5% and 0% tax rate increases in 2020. If implemented, the reductions chosen by Council will reduce The City's operating budget. The 1.5% scenario will reduce the net budget to services by \$26.5 million while net budget to services will fall by \$52.5 million if the 0% scenario is implemented.

This report also includes other operating changes such as net zero adjustments and one-time budget carry forwards required to realign to business needs.

Current and Future Capital Budget:

The adjustments requested for approval reduce the 2020 capital budget by \$20.5 million, and the 2021 and 2022 capital budgets by \$0.6 million each. These reductions primarily reduce the use of debt and other restricted funding sources.

One Calgary Report to
Strategic Meeting of Council
2019 November 12

ISC: UNRESTRICTED
C2019-1052

2020 Adjustments to the One Calgary Service Plans and Budgets

The reduction scenarios in this report include the capitalization of a small number of positions. An update on the capital budget addressing the reductions in funding announced in the 2019 provincial budget will be brought back to Council no later than 2020 January 27.

Risk Assessment

As noted previously, Attachment 4a (Public) and Attachment 4b (Confidential) provide risk assessments of the reductions scenarios, including financial, growth, and reputational risks.

As Council has encouraged, Administration's approach to the 2020 Adjustments reflects a willingness to undertake a higher but still prudent level of corporate financial risk. For example, corporate costs usually used to manage fluctuating prices have been used to cover unforeseen shortfalls created by the 2019 October 24 provincial budget on a permanent basis.

ATTACHMENT(S)

- 1a. Reduction Packages 1.5% Scenario
- 1b. Changes to Approved Performance Measure Trends at 1.5% Scenario
- 1c. Operating Budget Continuity Schedule 1.5% Scenario
- 2a. Reduction Packages 0% Scenario
- 2b. Incremental Changes to Approved Performance Measure Trends at 0% Scenario
- 2c. Operating Budget Continuity Schedule 0% Scenario
3. Full-Time Equivalent (FTE) Impacts of the Reduction Scenarios
- 4a. Risk Analysis Related to 2020 Adjustments
- 4b. Confidential Risk Analysis for 2020 Adjustments
- 5a. 2020 Capital Budget Adjustments for Approval
- 5b. Capital Budget Continuity Schedule
6. Carry Forward of Operating Budget from 2019 to 2020 for Approval
- 7a. Other Operating Budget Adjustments for Approval
- 7b. Other Operating Budget Adjustments for Information
8. Performance Measure Adjustments Not Related to Reductions
9. 2020 User Fee and Rate Changes
10. Results of the 2019 Sub-Service Reviews