

**One Calgary Report to  
Strategic Meeting of Council  
2018 July 04**

**ISC: UNRESTRICTED  
C2018-0848  
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## **One Calgary Program Update – Financial Situation Awareness**

### **EXECUTIVE SUMMARY**

Making life better every day for Calgarians is our common purpose. The City of Calgary delivers on this purpose by being a service and results-driven, accountable and resilient municipal government, placing citizens, customers and communities at the forefront of our plans, decisions and actions. Three Conversations, One Calgary: The City's Strategic Plan for 2019-2022 is the foundation for information and decisions brought forward to Council in the context of One Calgary.

The 2018 July 4 Strategic Meeting of Council on One Calgary will focus on the financial reality on both operating and capital budgets for the 2019-2022 cycle. Administration seeks a strategic discussion with Council to strike the right balance between long-term financial sustainability and resilience, desired service levels, and financial realities. The goal for the strategic meeting is not to solve the puzzle, but for Council to provide direction to Administration as to which strategies for potential investments to investigate further.

Results from the Spring Pulse citizen survey have been analyzed and Council will be presented with a high-level overview of the results. This will be relevant information to accompany the financial reality conversation.

#### **ADMINISTRATION RECOMMENDATION:**

That Council:

1. Receive this report and the material presented on 2018 July 4 for information.

### **PREVIOUS COUNCIL DIRECTION / POLICY**

Please note that, for legibility purposes, only previous Council direction from the last three months are listed below. Additional Council direction/policy related to One Calgary that predate March 2018 is listed in Attachment 1.

On 2018 March 19 (PFC2018-0200), Council directed Administration to report back to Council, through the Priorities and Finance Committee in Q2 2018, with strategic growth recommendations that increase the level of City commitment and investment in new communities. Beginning with the 2019-2022 budget cycle, Administration was further directed to prioritize future growth areas, including financial implications for 2019-2022, future budget cycles, and how any funding gaps for operating and capital would be funded using property tax.

On 2018 March 21 (C2018-0304), Council approved the updated principles for setting indicative tax rates and the updated Capital Infrastructure Investment Strategy. Council renamed this document the Capital Infrastructure Investment Principles. With respect to report C2018-0304, Council adopted the Motion Arising to direct Administration to return to the April 10 Priorities and Finance Committee with updated principles reflecting the incorporation of elements of value to citizens.

On 2018 April 23 (PFC2018-0445), Council approved The City's Strategic Plan Principles, which introduce a set of five overarching principles and associated value dimensions for One Calgary which will guide the development of the 2019-2022 service plans and budgets.

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On 2018 April 25 (C2018-0489) Council approved the indicative property tax rate and the indicative rates for the Waste & Recycling service. At the same meeting, Council referred the decision on indicative rates for Water Utilities (Water, Wastewater and Stormwater) to the 2018 June 18 Strategic Council Meeting.

On 2018 May 16 (C2018-0586) Council approved the long-term tax support rates, and the deferral of long-term tax support rates for Appeals and Tribunals to the 2019 service plans and budgets adjustment process.

On 2018 June 18 (C2018-0755) Council approved the application “Improving Budget Transparency” to the Council Innovation Fund.

Also, on 2018 June 18 (C2018-0787) Council approved indicative rates for the Water Utility (Water, Wastewater, and Stormwater).

### **BACKGROUND**

The Citizen Priority “A Well-Run City” (C2018-0115) aims at achieving *“a modern and efficient municipal government that is focused on resilience and continuous improvement to make life better every day for Calgarians by learning from citizens, partners, and others.”* With the 2019-2022 service plans and budgets, Administration is responding to this request by developing The City of Calgary’s first four-year plan and budget organized by services instead of departments.

Under this priority, one of the Council Directives states that *“we need to recognize that we miss opportunities for innovation in management, service delivery and planning because of an existing culture of risk avoidance. We need to create a culture, including City Council, that embraces appropriate levels of risk, innovation, experimentation, and embraces lessons learned as opportunities to improve”*. The Strategic Meeting on 2018 July 4 will embrace this directive by illustrating strategies for potential capital investments.

Striking the right balance between delivering on Citizen Priorities and Council Directives, service needs and expectations relating to what Calgarians value, and affordability, budget realities and long-term financial sustainability and resilience requires City Council and Administration to work closely together. Administration seeks the opportunity for a strategic conversation with Council about the financial reality – both operating and capital – that is defining the 2019-2022 service plans and budgets. The organization will prepare our best recommendation, based on the direction received, which will be presented to Council during the September 2018 preview of the 2019-2022 service plans and budgets.

To support Council’s conversation, the results of the “2018 Spring Pulse” survey will be presented to Council on 2018 July 4. As part of The City’s Quality of Life and Citizen Satisfaction research program, the Spring Pulse survey is an annual telephone survey fielded in the spring and meant to complement the fall Citizen Satisfaction Survey. Results from this recent survey will be presented to Council on July 4, and will include:

- Citizen perceptions of their current quality of life, and perceived change in quality of life;
- Perspectives on “making a life” and “making a living” in Calgary;
- Perceptions of the most important issues in Calgary;
- Details of citizen attitudes toward City services, including:
  - satisfaction with services;
  - views on the importance of services; and,

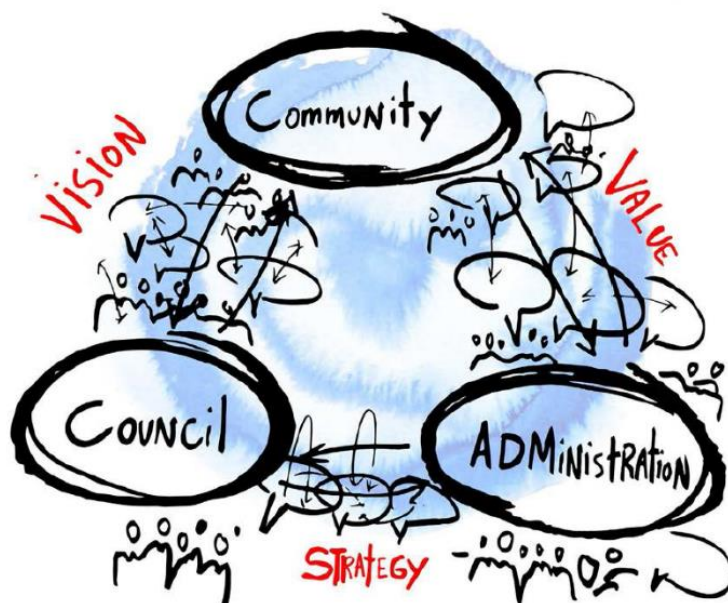
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- perspectives on whether The City should invest more, the same, or less on services; and
- Citizens' perceived value of property taxes and perspectives on taxation and service delivery levels.

Detailed results of this survey are presented in Attachment 2.

### INVESTIGATION: ALTERNATIVES AND ANALYSIS

Three Conversations, One Calgary: The City's Strategic Plan for 2019-2022 is the foundation for the development of the service plans and budgets. The three conversations, as illustrated below, outline the relationship and related expectations between the Community and Council (vision), Council and Administration (strategy), and Community and Administration (value). The discussion on 2018 July 4 will focus on strategy – the conversation between Administration and Council – with regard to The City's financial position and Council's responsibility to guide the organization towards long-term financial sustainability and resilience.



On 2018 April 25, Council approved indicative tax rates of 2.65 per cent to 3.45 per cent for 2019, and 2.5 per cent to 3.0 per cent for 2020-2022. Within this rate range are dedicated amounts of operating and capital for actively developing and new communities of 1.85 per cent to 2.15 per cent in 2019, and 0.4 per cent for 2020-2022. Also included in this range are 0.8 per cent to 1.0 per cent to balance inflationary costs. Subtracting the indicative tax ranges for actively developing and new communities, and the rate for inflation leaves a rate range of 1.3 per cent to 1.6 per cent each year for 2019-2022.

Together with the up to \$15 million per year in efficiencies City Administration is committed to identify, this tax rate range will provide some capacity for selected investment decisions and funding of services growth. However, the 2019-2022 budget can be characterized as a budget of restrained resources, including both operational and capital funding, when compared to

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previous business plan and budget cycles that were approved during more positive economic times. To balance between service demands including previous commitments, new requirements identified by citizen expectations and Council Directives, and emerging funding needs, some service level reductions will be required, and Council's service and funding decisions will be based on a more restrained spending and funding environment.

In alignment with the Capital Infrastructure Investment Principles (initially approved by Council on 2015 November 25, C2015-0855, and an updated set of principles on 2018 March 21) the One Calgary program will for the first time create the framework for a corporate-wide understanding of existing service levels and capital requirements, where to invest, and where to find savings or reductions to maximize value for citizens, communities, and customers.

Administration is continuing to work on estimating the extent and amount to which total investment capacity can be available for the four-year period, including capacity that would require choices among services, and reductions/additions.

These initiatives are carried out in conjunction with work directed by Council on 2019 March 19 to identify implications of commitment and investment in new communities for the 2019-2022 budget cycle, future budget cycles, and how any funding gaps for operating and capital would be funded using the property tax. One Calgary is the first process that attempts to integrate (as far as possible) implication of future growth into the next four-year budget cycle.

The process that One Calgary is implementing will create a contingency and resilience plan to increase The City's resilience for unforeseen circumstances and achieve long-term financial sustainability.

### **Situation Awareness – Operating Budget**

The development of the 2019-2022 service plans and budgets will continue with finding efficiencies and effectiveness across all services The City provides. Putting what matters to citizens at the core of the next four-year plan and budget cycle will allow for a strong citizen focus and will make it more transparent for citizens to understand where and how their tax dollars are invested.

While The City is committed to continuously improving service value, it needs to be highlighted that finding efficiencies will become increasingly difficult and complex as the more straightforward opportunities have already been implemented. Further cost reduction, therefore, may not be feasible without cutting service levels and/or service scope (C2018-0489).

The starting point that has been set for the development of 2019-2022 service plans and budgets (all services assume a 2019 starting budget that is the same as 2018 base funding) results in many cases already in a reduction of available funds as services need to find efficiencies or absorb natural increases through other reductions.

Administration has developed prioritization criteria that are aimed at balancing Calgarians' expectations for quality of life, Citizen Priorities and Council Directives, and service needs and expectations with budget realities, long-term financial sustainability and resilience, and affordability of City services. Throughout the September 2018 budget preview, Administration will provide our best recommendation for the 2019-2022 service plans and budgets to create service value for citizens, customers and communities.

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### **Situation Awareness – Capital Budget**

Capital investments play a pivotal role in supporting The City of Calgary's services and building a great city. The capital investment process for 2019-2022 has evolved from previous business planning cycles. While much of the asset and investment planning still happens at the business unit and departmental levels, Infrastructure Calgary now plays a key role in overall enterprise management and has introduced some key changes in how Administration prioritizes, coordinates and allocates funding to projects. An integrated and coordinated approach to capital planning, prioritization and funding – administered at the corporate level by Infrastructure Calgary – helps coordinate and align investments by service, identify efficiencies and achieve economies of scale, optimizing funding.

To facilitate the optimization of capital funding sources, capital budget requests (business cases) were evaluated against corporate prioritization / coordination criteria to categorize how the investments contribute to the services essential, current or enhanced requirements. The corporate criteria (C2018-0586) are characterized as follows:

- Essential:
  - Legal, regulatory, health and safety
  - Critical infrastructure
  - Critical asset risk mitigation
  - Minimizes service delivery costs
- Current:
  - Deliver existing levels of service
  - Attracts private investment, and / or public & other government funding (regional)
  - Improves connectivity, accessibility, and inclusion of communities
- Enhanced:
  - Invests in approved new or expanded services

In alignment with One Calgary, service owners submitted to Infrastructure Calgary capital submissions according to the criteria mentioned above. Service owners submitted 388 capital business cases, with 53 of 61 services requesting capital budgets. Of the total \$7.3B capital budget request received for the 2019-2022 service plan and budgets, \$4.0B is identified by Service Owners as essential investment, \$2.9B as current and \$0.4B as enhanced capital investments. Infrastructure Calgary is in the process of confirming these requests.

Infrastructure Calgary is working with Finance and operations to recommend a funding allocation that optimizes restricted sources, effectively utilizes the 2019-2022 capital funding capacity, and supports the delivery of City services. The shift to corporate infrastructure investment planning, prioritization and allocation supports a service-based approach as service need is the primary criterion for identifying, prioritizing and funding capital investments.

Infrastructure Calgary has identified that due to a significant decrease in 2019 and 2020 capital funding transfer commitments from the Government of Alberta announced in the 2018 Budget, the anticipated capital budget for 2019-2022 will be lower than in previous budget cycles. Negotiations are underway for a new infrastructure funding formula for provincial capital transfers through work on the City Charter. However, without firm provincial commitment to expedited implementation, the impact of the front-end funding decrease may not be addressed in this cycle. As a result, investments which have been identified by City services as essential

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may not be fully funded. This capital affordability gap may impact the ability to maintain infrastructure assets that support existing services, while also accommodating rapid and significant growth.

During the 2018 July 4 Strategic Meeting, Council will be provided with different strategies to allow for potential investments and address the capital funding gap. Through the work of One Calgary and Infrastructure Calgary, further exploration continues to refine the operating and capital budgets required to deliver The City's services and create service value for citizens, communities and customers.

### **Stakeholder Engagement, Research and Communication**

Throughout the One Calgary process, engaging and gathering input from citizens, communities and customers in a meaningful way has been a focus for Administration. Compared to previous budget cycles, the depth and content of this engagement and research has changed. Responding to times of constraint and limited resources, Administration utilized to a large extent existing data and information from ongoing surveys, such as the Citizen Satisfaction Survey and the Spring Pulse. Engagement and research conducted by One Calgary targeted gaps that either were not covered by existing information or were important due to the new direction of service plans and budgets, especially around value propositions.

### **Strategic Alignment**

The development of Three Conversations, One Calgary: The City's Strategic Plan for 2019-2022, including service plans and budgets, is one of the most significant pieces of work that The City undertakes as it advances our common purpose and helps to deliver on Calgary's vision for the future. The work aligns with Council policies for Multi-Year Business Plans and Budgets, as well as the Strategic Plan Principles.

### **Social, Environmental, Economic (External)**

Service plans and budgets are a tool that allows consideration of the social, environmental and economic environment during the business planning and budgeting process. The plans and budgets will be developed using a results-based performance framework. This includes information on how each City service contributes to quality of life for Calgarians and their aspirations for the community.

### **Financial Capacity**

#### ***Current and Future Operating Budget:***

As outlined above, the process Administration has established aims to understand existing service levels across the organization, corporate-wide prioritization of services and services delivery, where to invest, and where to find savings or reductions to maximize value for citizens, communities, and customers.

#### ***Current and Future Capital Budget:***

On 2018 May 16, Council was presented with an overview of Administration's capital investment process. Capital investments play a pivotal role in supporting The City of Calgary's services and building a great city. The capital investment process for 2019-2022 has evolved from previous

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cycles. An integrated and coordinated approach to capital planning, prioritization and funding helps coordinate and align investments by service, identify efficiencies and achieve economies of scale, optimizing funding and value to citizens. The direction from Council on 2018 July 4 will guide further refinement of capital investment for the 2019-2022 service plans and budgets.

### **Risk Assessment**

As with previous business planning and budgeting cycles, consideration of risks is a key factor informing the plans and budgets. Given the city's current economic context, risk will need to be considered in a different way, including re-thinking assumptions, and placing considerably more emphasis on weighing the costs as well as the benefits of risk mitigation strategies, to ensure that they provide good value. In other words, the organization may want to consider higher levels of tolerance for some types of risks, where the trade-offs between risk reduction and cost indicate that this is warranted. This resilience mindset builds on recent developments where decisions have been made to embrace or accept some risk to improve service value.

### **REASON(S) FOR RECOMMENDATION(S):**

The conversations before Council on 2018 July 4 are instrumental for the direction of the 2019-2022 service plans and budgets.

### **ATTACHMENT(S)**

1. Attachment 1 – Previous Council Direction
2. Attachment 2 – Spring Pulse Survey Results