

Chief Financial Officer's Report to
Strategic Meeting of Council
2020 June 29

ISC: UNRESTRICTED
C2020-0742

Report and Recommendations of the Financial Task Force

EXECUTIVE SUMMARY

The Downtown Tax Shift persisted from 2015 through to 2019. To support Calgary's economic recovery and financial resiliency, Council identified the need for a Financial Task Force. The mandate was to identify and assess innovative solutions for short-term economic mitigation, long-term economic recovery, and revenue options to improve The City's financial resilience. The Task Force is a panel of citizen members with vast experience in policy formulation, business strategy, property valuation, and finance. The Task Force received support from City staff and met regularly over nine months from 2019 September to 2020 June.

ADMINISTRATION RECOMMENDATION:

That Council:

1. Accept the reports and recommendations of the Financial Task Force in Attachments 2 and 3;
2. Direct Administration to scope the costs of implementation based on Administration's responses and timelines in Attachment 5 and report to Council with a request for approval of resources, where appropriate by 2020 July 29;
3. Direct the City Manager to assign a lead to monitor and report back with a bi-annual schedule for reporting on the implementation of the Financial Task Force's recommendations;
4. Receive a presentation and this report as part of the Council orientation in 2021; and
5. Thank the citizen volunteers for their professional contributions and their passion for Calgary's success.

PREVIOUS COUNCIL DIRECTION / POLICY

A summary of prior Council direction related to the establishment and scope of the Financial Task Force is available as Attachment 1.

BACKGROUND

Calgary's cyclical economy has a direct impact on the local real estate market. The annual property assessment cycle reflects annual changes in the market value of properties due to economic fluctuations that affect the local real estate market.

The decline in oil prices, which started in early 2014, contributed to a 19-quarter decline in the demand for downtown office space. The business needs of companies have changed due to changes in the economy, lowering demand for downtown office space and creating a high downtown office vacancy rate. A growing supply of downtown office inventory combined with sharply reduced demand has resulted in a large decrease in associated property values.

Over the last thirty years, many economic cycles experienced by Calgary did not have an unusually prolonged impact on the valuations of the downtown office market. This time, there was a significant redistribution of the tax base that these properties previously carried to other properties.

All aspects of this issue needed consideration in a coordinated way to move away from "one-off" solution approaches. Short-term mitigation and long-term solutions would support a complete

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resolution. Following Council direction and approvals, mechanisms for communication to property owners, business owners, and the community would need to occur in advance of future property tax cycles. If decision-making and communication happen in tandem with property tax finalization, stakeholder expectations can be better managed.

To support long-term, sustainable solutions, Council directed Administration to convene a Financial Task Force with a mandate to provide recommendations to support short-term economic mitigation, long-term recovery, and The City's long-term financial sustainability.

In addition to the specifics related to the tax shift issue, there was a mandate to examine the potential for alternative revenue sources that can improve Calgary's financial resiliency in the long run. While the Financial Task Force's scope is broad, specific items were out of the Task Forces' scope. Notable exceptions are:

- Recommendations targeted at cost control to avoid duplication with the other initiatives such as the Solutions for Achieving Value and Excellence (SAVE) Program.
- Recommendations aimed at reforming assessment processes and procedures, which were already underway following Council directed work by Heuristics Consulting.

Recent events related to the COVID-19 pandemic and the associated impacts on the global economy and commodity prices will further impact The City and the local economy in ways that are not yet fully understood. While the Financial Task Force's recommendations will potentially contribute to mitigating the impacts of the current situation, this was not the original focus of the Financial Task Force. To support priorities associated with The City's COVID-19 response, The City has established an Economic Resilience Task Force, as well as four additional related task forces. That stream of work is ongoing concurrent with the Financial Task Force's work, and several recommendations of the Financial Task Force identify a continuity through to the Economic Resilience Task Force.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

In 2019 August, The City published an Expression of Interest seeking citizens to participate in The City of Calgary's Financial Task Force. Thirty-one applications were received. The outcome of the selection process was twelve external members with expertise in policy formulation, business strategy, property valuations and finance. Internal experts from a variety of business units and departments supported external members of the Financial Task Force.

The Financial Task Force had a total of seventeen full-day or half-day discussions, in person and, more recently, through a virtual forum. Initial meetings were structured to provide external Task Force members with a foundational understanding of municipal operations and The City's operating context. More recent sessions were structured to allow external Task Force members to synthesize information previously received, formulate conclusions and recommendations.

Background information from subject matter experts identified by Administration was available to support the work of the Task Force. Also, Task Force members were encouraged to do their research and to seek and share alternate sources of information to ensure broad-based information was available to inform the team's work. External Task Force members brought a wide variety of expertise and perspectives that contributed to thoughtful and robust discussions.

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The development of recommendations was through a highly collaborative process through which Task Force members embraced the opportunity to understand, challenge, interpret and augment information previously considered. After several iterations, thirty-six final recommendations emerged, which are before Council today for consideration. They are organized under Four Pillars, and based on themes that emerged:

- Decision-making **priorities** for municipal finances
- **Practices** that align with economic drivers of change
- **Processes** that respond to stakeholder expectations
- **Policies** to support achieving fiscal sustainability

The recommendations of the Financial Task Force to support long-term fiscal sustainability can be summarized as follows:

- Improve the understanding of municipal finance circumstances
- Bring property taxation into the twenty-first century
- Improve tax efficiency for long-term fiscal sustainability
- Respond to Calgary's cyclical economy using existing tools
- Prepare for changes that would occur as the economy evolves
- Make Calgary more competitive, livable and attractive
- Support regional economic development
- Work better with partners in achieving progress

Although summarized above, the complete content of the thirty-five recommendations is available as Attachment 2. Attachment 3 is a comprehensive report and recommendations that also includes the context for recommendations.

Stakeholder Engagement, Research and Communication

The work of the Financial Task Force included a targeted engagement process with key external stakeholders. The goal was to ensure the strategies and recommendations to Council reflect Calgary community input and are generally supported. The sessions allowed engagement with a cross-section of relevant stakeholders, including:

- BILD Calgary
- Building Owners and Managers Association (BOMA)
- Business Improvement Area (BIA) Executive Boards
- Calgary Economic Development (CED)
- Calgary Chamber of Commerce
- NAIOP Calgary

The Task Force Chair (or delegate), along with a citizen Task Force member, was joined by a couple of City staff. After introducing the proposed recommendations, a question and answer discussion followed.

The engagement process identified several key themes, including:

- Leverage opportunities to promote the value and quality of life in Calgary
- Structure the fiscal and tax environment in Calgary in a way that entices people, investment and jobs to the city
- Align Calgary's economic strategy with the transition to the new economy

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- Make sure the regulatory environment is fair, transparent, stable, predictable, and perceived to be so
- Continue to engage and communicate with stakeholders

Stakeholders also identified the importance of The City to:

- Take action to be successful;
- Move quickly to implement recommendations;
- Build trust by assigning accountability for execution, and;
- Get support from the provincial government.

A comprehensive overview of the engagement findings is available as Attachment 4 - What we Heard Report.

Strategic Alignment

The mandate of the Financial Task Force aligns with the desire of Council to provide support for economic recovery and resiliency within the City of Calgary. The proposed recommendations and opportunities identified by the Financial Task Force align with two Council Priorities:

- A Well-Run City, and
- A Prosperous City

The Financial Task Force's work also shares further alignment with the Resilient Calgary Strategy, in particular, Pillar 1 – The Future of Calgary's Economy, by supporting and maintaining a diverse and strong economy.

Social, Environmental, Economic (External)

Events of the recent past have led to structural changes in Calgary's economy. The decline in oil prices, which started in 2014, led to a cascade of impacts on Calgary. Some Calgary industries, such as the construction industry and the professional, scientific and technical services industry, have not recovered to 2014 levels of economic activity. While downtown office space increased, there was a reduction in the number of workers in these industries required in downtown Calgary. It eventually affected property values for downtown office buildings and the property taxes paid by the affected non-residential property taxpayers. After developing a thorough and shared understanding of factors contributing to the current situation, the Financial Task Force has assessed and identified innovative recommendations for short term economic mitigation, long term economic recovery, and revenue options to improve long-term financial sustainability for The City.

Financial Capacity

Current and Future Operating Budget:

There is no immediate impact on The City's operating budget. Any decisions related to the sharing of tax responsibility or additional revenue opportunities associated with the work of the Financial Task Force will inform impacts on the operating budget and how property tax bylaws are prepared and finalized in the future. Implementation of the recommendations will require resources. Administration will scope the costs of implementation and report to Council with request for approval of resources where appropriate.

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Current and Future Capital Budget:

Funding for some capital projects is through the operating budget. Any changes to the capital portion of the operating budget will inform Administration's future work.

Risk Assessment

Task Force members have developed implementable recommendations to support short- and long-term economic recovery and improve financial resiliency for The City. There is substantial risk to the City if it does nothing and remains vulnerable to future economic stresses and shocks.

REASON(S) FOR RECOMMENDATION(S):

Consistent with the direction of Council, a Financial Task Force assessed innovative solutions for short-term economic mitigation, long-term economic recovery, and revenue options to improve financial resilience for The City. The Financial Task Force's recommendations in this report (including attachments) target long-term financial sustainability and align with Council directives for a Well-Run City. The recommendations will form the basis for any future recommendations regarding the property tax system to the Province.

ATTACHMENT(S)

1. Attachment 1 – Previous Council Direction
2. Attachment 2 – Executive Summary of Recommendations
3. Attachment 3 – Report and Recommendations
4. Attachment 4 – What We Heard Report
5. Attachment 5 – Preliminary Responses from Administration