2018 Indicative Tax Rate

EXECUTIVE SUMMARY

Council direction on indicative tax rates is required in order for Administration to prepare adjustments to the approved 2018 business plans and budgets. Administration has previously identified a $170 million budget gap for 2018. A 2% tax increase in addition to significant work on cost reductions is recommended in order to manage this gap. This would be a 2.7% reduction from the 4.7% increase approved in Action Plan.

ADMINISTRATION RECOMMENDATION(S)

That Council direct Administration to prepare adjustments to the 2018 business plans and budgets based on a property tax rate increase of 2% and return in 2017 November with the proposed adjustments.

PREVIOUS COUNCIL DIRECTION / POLICY

On 2017 April 25, Council received for information a verbal report outlining The City's current financial outlook for 2018.

On 2017 April 10, Council approved the 2017 property tax bylaws (C2017-0288) which included taking the 2017 tax room. Council approved a subsequent motion arising rebating the tax room in 2017 only, and a second motion arising directing Administration to bring a recommendation to the Business Plan and Budget Process for the use, or rebate, of the tax room for 2018 and further tax years.

On 2017 March 20, Council received for information PCF2017-0234, which included a description of $325 million in base and one-time savings that has been achieved from 2015 to 2017 through efficiencies and reductions.

On 2016 November 21, Council approved the Mid Cycle Adjustments, which was based on a reduction of the 2017 tax rate from 4.7% to 1.5% and a one-time rebate from the Fiscal Stability Reserve (FSR) in 2017 of 1.5%. Council also approved a reduction in the increase of the Utility rates from 8.3% to 2.5% and of Drainage rates from 19.1% to 7.5%.

On 2016 June 27, Council approved a reduction of the 2017 tax rate from 4.7% to 1.5% and a one-time rebate from the FSR in 2017 of 1.5%.

On 2014 November 24 Council, approved Action Plan, the 2015-2018 business plans and budgets (C2014-0863). This included an approved tax rate increase of 4.7% for 2018, the last year of Action Plan.

BACKGROUND

Since approval of Action Plan, the Calgary economy has suffered a significant downturn triggered by a steep decline in oil prices. The City has been taking actions that have allowed the reduction of the approved tax rate increases in 2016 and 2017 to drop from 4.7% to 3.5% and 1.5% respectively (before the provincial tax room and one-time rebate from the FSR). However, as noted to Council on 2017 April 25, The City is facing pressures to the budget totaling $170 million comprising:

- $75 million for the current 4.7% property tax increase
- $33 million related to one-time funding sources used to reduce the 2017 tax rate increase
- $38 million related to lower revenues (dividends and franchise fees)
- $24 million for debt servicing related to Green Line

This gap is illustrated in Attachment 1. The $170 million gap is in addition to the $325 million in base and one-time savings achieved from 2015 to 2017.

Although the 1.5% tax increase in 2017 is embedded in The City's expenditure budget, the one-time 2017 rebate has delayed the impact to taxpayers of the 2017 increase, so that it will not appear on tax bills until 2018. The rebate of the tax room in 2017 similarly delays the impact to taxpayers of associated 1.4% increase until 2018. The effect of the tax room on The City is, however, different in that the tax room is new funding that can be allocated by Council.

In addition to tax rate increases, citizens also face increases in Utility and Drainage rates. Through Mid-Cycle Adjustments, the 2018 increase in Utility rates was dropped to 2.5% for 2018 from the Action Plan approved 8.3%, while the 2018 increase in Drainage rate was dropped from 19.1% to 7.4%. As noted to Council in PFC2017-0402, Utility is facing further challenges due to slower development activity. While no further change to the 2018 rate increases is anticipated at this point, these pressures will likely require higher increases for 2019-2022 than previously indicated.

Administration requires Council's direction on the 2018 indicative tax rate in order to prepare the options for reducing the budget gap and the corresponding adjustments to the 2018 budget. Administration will require Council's approval in November of the options and adjustments, and adoption of the 2018 budget, as noted in Attachment 2. Administration will also bring a recommendation for the use of the 2017 tax room for 2018 and beyond.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

As noted above, Administration has found $325 million in base and one-time savings from 2015 to 2017. This includes $50 million in efficiencies included in Action Plan and combined reductions to tax-supported departmental budgets of $33 million for 2016 and 2017, with minimal service impacts. The focus to date has been on choices of cost savings with minimal service impacts.

Given efforts over time, the ability to find costs savings with minimal service impacts diminishes as more costs are taken out of the system. It is expected that these types of cost savings will be more difficult to find. Consequently, as budgets are reduced further, it is anticipated that increasingly greater service impacts will result.

Therefore, to keep impacts to a manageable level, and in anticipation of the next Business Planning and Budget Cycle, Administration is recommending a 2% tax increase in 2018. This is a reduction of 2.7% from the approved tax rate increase of 4.7% and will result in a reduction to the operating budget of approximately $43 million. The 2% recommended tax increase is equivalent to approximately $32 million. Removing this from the operating budget could have some significant service impacts.

Administration has been working on options for solutions to close the $170 million gap within the recommended 2% tax increase. These options will involve a combination of cost savings and service reductions. One-time draws from reserves will also be considered if some of the pressures are determined to be temporary in nature, although no draws from the FSR are currently being considered.

Administration is expecting that the majority of the $170 million gap will be addressed through cost savings. Two internal initiatives, Workforce Planning and Manageable Costs (line-by-line budget non-wage expenditure analysis), are currently under way and are expected to generate costs savings with only minor service impacts. As well, lower inflationary pressures are expected to provide some cost savings in 2018.

With the deferred impacts of the 2017 rebates noted above, the impact taxpayers see on their 2018 tax bills will be different than Council’s approved tax rate increase (regardless of the rate chosen). However, the recommended 2% tax rate increase will allow the establishment of a funding source for the majority of the estimated Green Line debt servicing costs with the “bow wave” managed in 2018.

Stakeholder Engagement, Research and Communication

This report has been prepared considering the research and stakeholder engagement prepared as part of Mid Cycle Adjustments, along with on-going communications research.

Strategic Alignment

Delivery of most City services will still continue as previously-approved in Action Plan. Some impact on service levels will result from the need to reduce costs; however, Administration will endeavour to limit the impacts to citizen facing services.

Social, Environmental, Economic (External)

The recommended tax rate increase balances the impact of the economy on The City with the need to continue providing services. For citizens, the recommended tax rate increase balances the need to keep tax rates low and the need to continue accessing services.

Financial Capacity

Current and Future Operating Budget:

The results of the recommended tax rate increase would reduce the 2018 approved tax rate increase from 4.7% to 2%, which amounts to a reduction in the operating base budget of $43 million. Further adjustments to address the balance of the funding gap will be brought forward in 2017 November.

Current and Future Capital Budget:

There are no impacts to the capital budget as a result of this report. Infrastructure Calgary will bring any required adjustments to the capital budget to Council in 2017 November.

Risk Assessment
The recommended tax rate includes implicit assumptions regarding the ability to find costs savings in 2018. If cost savings are less than assumed, The City could face an unfavourable variance or more significant service reductions than expected. If Council reduces the tax rate increase further, Administration will be required to reduce services further and have a reduced ability to manage unfavourable costs.

REASON(S) FOR RECOMMENDATION(S):
The tax rate increase included in the recommendation balances the impact of the economy with the need to provide services. The recommendation also resolves the “bow” wave created through the Mid-Cycle Adjustments and establishes a funding source for Green Line debt.

ATTACHMENT(S)
1. 2018 Budget Gap
2. 2018 Adjustment Process