

BRIEFING

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Chief Financial Officer's Briefing to

Combined Meeting of Council

2020 September 14

ISC: UNRESTRICTED

C2020-0938

Service Plan and Budget Update - September

PURPOSE OF BRIEFING

This report provides an update on the current service and financial impacts up to 2020 August 26 and two 2020 year-end projections based on Base Case and Worse Case scenarios. It provides important context for service and financial decisions within 2020, discussions in preparation for service plan and budget adjustments for 2021 and beyond, and longer-term strategic choices.

SUPPORTING INFORMATION

On 2020 April 30, Administration presented C2020-0504 2020 Initial Scenario Forecasts in Response to COVID-19, on the financial and service impacts associated with the COVID-19 emergency. That report included a commitment to monthly reporting which Administration has delivered since.

The City is operating in a heightened risk environment with a number of uncertainties. To better understand impacts and trends, community indicators are being monitored to support decision-making. A few key highlights include:

- The state of physical health, mental health and personal financial situation appears to have worsened for citizens from the most recent citizen perspectives survey (conducted 2020 July 2-10):
 - 12% say their physical health has worsened (up from 8% in the previous month);
 - 21% say their mental health has worsened (up from 15% in the previous month); and
 - 25% say their personal financial situation has worsened (up from 17% in the previous month).
- The unemployment rate in the Calgary Economic Region (CER) remains elevated, standing at 14.9% in July compared to 15.0% in June and 6.5% in 2019 July.
- Walking and cycling remain high and vehicle traffic is steadily increasing, with heavy truck volume generally higher than the same time in 2019. Bus, transit and taxi/ride share trips are also recovering steadily.
- Residential cart collections are higher than seasonal norms but returning to seasonal norms.

The estimated net financial impact as of 2020 August 24 is an unfavourable variance of \$81 million.

The expenditure and revenue impacts of existing and potential relaunch strategies and actions have been included in this update; however, at the date of this report, not all of the potential activities are approved to proceed. This month's relaunch highlights include: mandatory use of face coverings in public spaces as of August 1; reopening of various recreation facilities including: selected arenas, athletic parks, and fields; and the re-opening of the Fair Entry counter at Village Square Leisure Centre.

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Since the move to Stage 2 relaunch, most services have seen their demand remain unchanged, including most internal support services. Demand changes of note for September include: Municipal Elections has changed from increased notably to steady; and Public Transit ridership, which while still low due to remote working/studying options, has seen some increase over the last month.

To support The City in a prudent financial management process, this report also presents 2020 year-end projections based on two scenarios:

- Base Case: Uses the same assumptions as the June and July updates, including a flattened curve and continued progression to economic recovery.
- Worse Case: Assumes a second spike in cases and a decrease in economic activity across Calgary. The purpose of this scenario is to estimate the financial outcome, if the second wave of the pandemic resulted in a substantial shutdown of the economy.

2020 year-end projections for Base Case:

- The projected unmitigated financial gap for 2020 has changed from an initial estimate of \$145 million in 2020 April to \$171 million in 2020 September
- The projected unmitigated year-end financial gap in the Base Case decreased by \$13 million since last month to \$171 million.
 - The positive financial impacts were driven primarily by Recreation Opportunities increasing their revenue estimates (\$4 million) as a result of gradual reopening of facilities as well as decreasing expenditures (\$2 million), Public Transit increasing their revenue estimates (\$4 million) as a result of schools reopening and several other services reducing their cost projections by a total of \$8 million.
 - The positive impacts on the projected variance from July were partially offset by Water Treatment & Supply revising their utility cost estimates (\$2 million), Organizational Health and Wellness reflecting overtime and other support to COVID-19 related activities (\$1 million), Corporate Programs reflecting lower franchise fee and taxation revenue (\$1 million) and other service lines incorporating higher than expected COVID-related expenses (\$1 million).
- The aggregate level of savings generated from temporary COVID-19 changes increased by \$9 million, of which the majority can be attributed to service alignment to lower demand for services provided by Specialized Transit (\$7 million) and other service lines (\$2 million).
- As a result of the above, the requirement to identify other savings to close the financial gap decreased by \$22 million to \$56 million.
- Of the total unmitigated gap of \$171 million, \$12 million is the financial gap for the Calgary Police Service, which has not been updated from the July update. The projection will be updated after further review by the Police Commission. Other savings will need to be identified for any balance that Calgary Police Service cannot close.

2020 year-end projections for Worse Case:

- If the Worse Case scenario materialized, the unmitigated financial gap would increase by \$44 million to \$215 million. Services would be able to narrow this gap through additional temporary COVID changes of \$18 million. As a result, the net negative financial impact would be \$26 million.
- The financial impact compared to the Base Case varies substantially across service lines. To some, the marginal impact would be negligible as the assumptions of the Base

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Case already resulted in significant revenue losses or required them to cut expenditures at the maximum level possible, whereas to others the financial impact would be substantial.

- The most impacted service lines would see further revenue losses: Public Transit (\$13 million), Corporate Programs (\$12 million) and Recreation Opportunities (\$2 million).
- Specialized Transit would be able to realize approximately \$3 million in savings
- The remaining service lines reported either no financial impact (two thirds of all services), or only relatively minor impacts (\$2 million combined).
- Service demand and operations would be impacted by a move to a Worse Case scenario with expected reductions in demand for some services and further facility closures. As such, service plan results for Council-approved strategies and performance measures reflect a more negative outlook than the Base Case scenario. Impacts are due to increased uncertainty related to: ability to deliver programs, events, and training; and technology and communication activities.

While Administration continues to explore a wide range of tactics to achieve financial balance in both scenarios and options are in place to address the financial gap, this requires significant trade-offs, notably in:

- impacts to services that citizens need; and
- increased risk (e.g. from depleting our reserves).

Economic, Financial and Health, Safety and Wellness continue to be top risks to The City. Risk highlights include:

- Increased communications and material on mental health and wellness, and ensuring safety equipment and protocols are established and effective;
- Accuracy of the projected gap and the successful delivery of temporary service changes to generate savings that assist in closing the gap, since with the SAVE program already in progress delivering additional savings will be challenging; and
- Deferred or delayed revenue as a result of COVID-19 and the collapse of crude oil prices.

This update presents the best current estimates of the impacts, but information is continually evolving. As more information becomes available there will be further refinement of projections, and further adaptations of services to support relaunch, so that the emerging picture becomes more accurate over time. Administration's next update of this information will be presented in October.

ATTACHMENT

1. Attachment 1 – C2020–0938 Service Plan and Budget Update-September