

Mid-Cycle Adjustments to the One Calgary 2019-2022 Service Plans and Budgets

RECOMMENDATIONS:

That Council:

1. Approve the SAVE Adjustments, Other Base Reductions and New Investments in Attachment 7a;
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 balancing budgetary changes necessary to effect that direction;
3. Direct that one-time funds identified in note 4 of Attachment 7a be transferred to the Budget Savings Account and used to fund one-time SAVE implementation costs and reduce the tax loss provision in the 2021 Property Tax Bylaw.
4. Authorize Administration to transfer the budgets in Attachment 7a that are held in Corporate Programs and are related to costs and savings arising from SAVE business cases to the relevant services as required during implementation;
5. Approve the changes to Performance Measures in Attachment 7b arising from the adjustments in Attachment 7a;
6. Direct Administration to:
 - a. Use funds previously allocated in the Fiscal Stability Reserve to provide a one-time rebate to residential taxpayers sufficient to bring the typical single residential home to a 0% increase in net municipal property tax payable in 2021 and release the balance; and
 - b. identify additional savings through the SAVE program to replace this one-time funding with permanent reductions in 2022;
7. Approve the Net Zero Operating Budget Adjustments in Attachment 8;
8. Approve the Carry Forward of Operating Budget from 2020 to 2021 in Attachment 9;
9. Approve the Capital Budget Adjustments in Attachment 11;
10. Approve the Capital Budget Recast in Attachment 12;
11. Approve the Performance Measure Adjustments Not Related to Reductions in Attachment 14;
12. For the proposed 2021 User Fee and Rate Adjustments in Attachment 15:
 - a) Approve the user fee changes in Attachments 15A-15G; and
 - b) Give three readings to each of the bylaws in Attachments 15H-15K

HIGHLIGHTS

- The City continues to reduce costs and modernize our approach despite increased demand for City services.
- What does this mean to Calgarians? Mid-Cycle Adjustments (MCA) support Calgary's economic recovery and COVID-19 response by providing an **overall tax rate decrease of 1.66% for 2021**, exceeding Council's direction for a 0% increase.
- After using some of this financial capacity to replace the \$24 million one-time rebate for 2021 previously directed by Council with permanent reductions, and factoring changes in assessment value, the **overall impact on non-residential taxpayers will be a decrease of 0.55%, while for residential taxpayers the impact will be very close to 0** (a 0.06% decrease).

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- Since assessed values for single residential homes have held up better than other residential property types, the typical single residential taxpayer would see a 0.58% increase in the municipal portion of their property taxes in 2021 despite the overall tax rate decrease. To address this, Administration recommends a one-time rebate to the Residential assessment class in 2021 to bring the typical single residential home to a net increase of 0%, resulting in a 0.67% decrease to residential properties overall.
- Why does this matter? The City remains well-positioned to serve Calgarians due to Council direction promoting prudent management, including creation of the Solutions for Achieving Value and Excellence (SAVE) program and support for priority investments.
- This report recommends approval of adjustments which support modernized and effective service delivery in the current environment while also providing a slight tax rate decrease
- The recommended adjustments include SAVE-related budget reductions, other base budget reductions, new investments in priority areas, changes to performance measures and performance trends, and various other typical annual adjustment items.
- The SAVE program is a strategic approach to savings that reduces the need for the across-the-board reductions used in the past and better reflects Council's principles of service value and least harm to citizen-facing services.
- The proposed changes are a thoughtful, citizen-focused approach to reducing the tax rate and are informed by the latest insights from citizen research and engagement. They are also aligned with Administration's Rethink to Thrive strategy.
- On 2020 July 21, Administration was directed to "bring adjustments to the 2021 service plans & budgets based on a 0% tax rate increase in 2021" (PFC2020-0726).
- Strategic Alignment to Council's Citizen Priorities: A well-run city
- Background and Previous Council Direction is included as Attachment 1.

DISCUSSION

Ongoing direction from Council to reduce costs and improve value for taxpayers led to savings of \$60 million in July 2019 (C2019-0782) and another \$26.5 million in November 2019 (C2019-1052). As a result of these reductions, over half of The City's 61 services are currently operating on net base budgets at or below 2018 levels and total headcount (adjusted for seasonal workers) is currently below 2013 levels.

On 2020 July 21, Administration was directed to "bring adjustments to the 2021 service plans & budgets based on a 0% tax rate increase in 2021" (PFC2020-0726) in place of the tax rate increase of 3.23% approved by Council in 2018 as part of the One Calgary 2019-2022 Service Plans and Budgets. Council's direction must be achieved despite forecasted population growth of approximately 20,000 in 2021 and forecasted inflation of nearly 2%, which turns the 0% increase into a reduction in real terms.

The City's broader operating environment provides additional context for Council's decision-making on these adjustments. This includes: increased demand for City services in recent years as The City continues to grow in size and complexity despite the downturn; the evolving state of the local, provincial, national and international economies; the realities of The City's COVID-19 response, relaunch and recovery; and the current perspectives of citizens and businesses. The City remains well-placed to respond effectively to the current environment, but sustaining this position will require challenging decisions about priorities and risk.

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COVID-19

Achieving Council's direction against a projected background of decreased revenue and increased costs due to COVID-19 is challenging.

With significant uncertainty surrounding projections, including the extent to which funding through the provincial *Municipal Operating Support Transfer* can be used to close the 2021 gap, Administration is not proposing any COVID-specific budget adjustments for 2021, but will be managing the financial impacts on an ongoing basis consistent with the approach in 2020.

As of October, the COVID gap for 2020 was identified at \$55 million. For 2021, the gap is projected to be \$52 million. Attachment 2 provides the latest 2021 COVID-19 one-time variance projections for context and information. Also provided for information in Attachment 3 are related changes to performance measure forecasts. Note that October was the last month that Administration will provide monthly reporting on COVID-19 impacts on service plans and budgets. Instead, the impacts of COVID-19 will be reported through the regular Mid-Year and Year-End Accountability Reports.

Solutions for Achieving Value and Excellence (SAVE)

The SAVE program is the first-choice strategy to achieve base budget reductions. On 2019 November 29, Council directed the program (then called the Strategy for Improving Service Value) to target a reduction in operating budgets of \$24 million in 2021 and \$50 million in 2022 in order to deliver modern and affordable municipal lines of service within our City mandate (C2019-1052). New or improved revenue streams were also targeted. Based on this original direction, capital budgets are outside of the program's scope. Calgary Policy Service, which is undergoing its own Service Optimization Review, is also excluded due its legislated separation.

To deliver this work, The City partnered with Ernst and Young (EY) to form a unified SAVE Program Team. Working closely with service owners and informed by feedback from Council and the public, the SAVE team collected more than 2500 ideas, which it refined into more than 40 specific opportunities that were approved for development into business cases. The process and approach used by the SAVE Program is outlined in Attachment 4, and features an exceptional level of rigour, engagement, and analysis.

The program prioritized opportunities with limited citizen impacts and the ability to produce the required savings in 2021. The program surpassed the \$24 million target, identifying \$26 million in net base budget savings, \$1 million in revenue and additional one-time savings, as well as reserves capacity and changes to the tax loss provision that, combined, exceed the one-time implementation costs required. Significant savings in self-supported areas and capital budgets were also identified and the program is also expected to deliver a wide range of non-financial benefits. Executive summaries of the first wave of business cases are found in Attachment 5 and have already been approved by Administration for implementation.

Other Reductions and Investments

Additional base reductions valued at \$63 million are proposed beyond the reductions provided by SAVE. A small number of important strategic investments require a further \$9 million, of which \$6 million is from the base budget.

Service owners (including Police Services) have worked to identify and submit additional reduction packages in their areas totalling \$24 million. A further \$39 million in savings from Corporate Programs has also been identified.

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Administration will work collaboratively with the Calgary Police Service to explore funding models that will see \$8 million dedicated from the Police budget to explore community based services in 2021 to improve citizen outcomes and better integrate health, social services, justice, and police response. **Note that Notice of Motion C2020-1266 – Reallocating Policing Resources to Support Community Safety, which was passed on November 3, will be considered as part of the November plan and budget deliberations but could not be included in the MCA package due to timing.**

Combined, the 2021 Mid-Cycle Adjustments result in an estimated net reduction of 162 full-time equivalents (FTEs) from the previously approved 2021 level, which includes impacts from the SAVE Program and other changes. With these impacts, The City will have experienced a total reduction of 574 FTEs since 2019 or 3.5% of the total FTEs budgeted for 2021 in the One Calgary 2019-2022 Service Plans and Budgets.

STAKEHOLDER ENGAGEMENT AND COMMUNICATION (EXTERNAL)

- Public Engagement was undertaken
- Public Communication or Engagement was not required
- Public/Stakeholders were informed
- Stakeholder dialogue/relations were undertaken

The Mid-Cycle Adjustments were informed by the results of online public engagement, social media dialogue and research beginning in July and structured around a series of “financial conversations with citizens”. Conversation One (2020 July 27-September 6) sought broad feedback about priorities and expectations. Conversation Two (2020 August 31-September 16) featured discussions around specific SAVE initiatives that may have citizen impacts. The results informed the Wave 1 opportunities and continues to be used for items in Wave 2. The full reports can be found online at Calgary.ca/adjustments starting November 9.

The conversations approach will continue informally until the end of deliberations and is focused on reaching as many interested and impacted Calgarians as possible. Leveraging The City’s existing communications platforms, this informal conversation will build on the proactive approach to communications and social media used during the 2020 adjustments. Content will focus on sharing information related to The City’s plans and budgets, economy, services and taxes, and actions will be taken to address misinformation as it relates to these topics.

In light of COVID-19, www.engage.calgary.ca/yourservices has been the primary vehicle for engagement, but citizens have also been able to submit feedback via Calgary 311. In addition, a multicultural marketing strategy continues to be executed to encourage Calgary’s diverse population to participate in the financial conversations. All engagement materials, including the What We Heard Reports, were translated into Calgary’s five most commonly used non-English languages (Arabic, Simplified Chinese, Traditional Chinese, Punjabi, and Spanish) and translators in these languages will also be available during the public hearings on 2020 November 23, the first day of deliberations.

Regarding the public hearings specifically, online submissions from the public will be possible starting November 9, when the adjustments are made publicly available. Submissions received

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by noon on November 16 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 23 will be provided to Council at the start of deliberations and be accepted into the record of the meeting. Members of the public can also request to present directly to Council at the public hearing.

In addition to the activities mentioned, significant research has been undertaken by The City in recent months and has been used to inform the MCA package. This includes the 2020 Citizen Satisfaction Survey package (C2020-1015) as well as a series of COVID-19 Snapshots to gauge public sentiment related to the pandemic and The City's response to it.

Relevant Council engagement is outlined in Attachment 1 on previous Council direction. For the SAVE program, verbal updates were provided monthly to the Priorities and Finance Committee, as were two formal updates (PFC2020-0284 and PFC2020-0891) which were also delivered to Audit Committee (AC2020-0323 and AC2020-1048). Several informal discussions have also been held with Councillors individually and in groups.

IMPLICATIONS

Social

The MCA strives to find savings and make reductions with the "least harm" to citizens, including those experiencing the greatest vulnerabilities. The MCA also includes priority investments designed to improve social well-being in Calgary, including a commitment to anti-racism.

Social considerations have been incorporated into MCA analysis and its public engagement has been designed to be as inclusive as possible. This outreach builds upon advice provided to the SAVE program by the Social Well-Being Advisory Committee in June, and SAVE will be returning to this Committee in December for further discussions.

Environmental

Several SAVE business cases include elements that will reduce The City's consumption of paper, electricity, and fuel, and also lower the carbon footprint associated with City activities. For example, the business case on Fleet Operator Management will reduce idling in City vehicles, which reduces both fuel use and greenhouse gas emissions. SAVE's investigation of new work arrangements, including remote working, might also result in lower emissions due to reduced employee commuting.

New investment to support initiatives identified by the Economic Resilience Task Force is expected to support several new initiatives, including some focused on green investments and financing designed to reduce the total carbon footprint per capita in the Calgary community.

These and related MCA benefits support sustainability (environmental and economic) while also advancing Council-approved initiatives such as the Resilient Calgary Strategy and Calgary's Climate Resilience Strategy.

Economic

Reducing the previously approved tax increase of 3.23% to an overall decrease of 0.28% (after consideration of the one-time rebate in 2020) allows Calgarians to reduce the amount of disposable income used to pay their municipal taxes. It also supports Calgary's competitiveness, fiscal sustainability, and the long-term economic resilience needed to meet the challenges of COVID-19 and a prolonged slump in energy prices.

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In addition, the SAVE program's mandate aligns with several of the Financial Task Force's recommendations. SAVE's emphasis on service improvement and modernization also provides a positive signal in support of ongoing efforts to improve Calgary's attraction and retention of investment and talent.

Most of the new investments in the MCA are designed to bolster Calgary's economy. This includes funding for implementation of the Financial Task Force recommendations on fiscal sustainability, enhancing communication with the business community through funding for the Business and Local Economy Team, and support for a range of new job creation and economic recovery initiatives through funding for the initiatives identified by the Economic Resilience Task Force.

Service and Financial Implications

The overall structure of the MCA is outlined in the table below, which illustrates how a slight overall 0.28% tax decrease for 2021, as well as replacement of the one-time \$24 million rebate directed by Council last year, can be achieved.

Description	Amount (\$000's)
SAVE Program – Base Savings	(26,401)
SAVE Program – Revenue	(948)
Additional Reductions from 34 Services	(23,883)
Corporate Reductions	(39,500)
Base Operating Net Budget Reductions	(90,732)
One Calgary Approved 2021 Tax Rate Increase of 3.23%	56,000
Proposed New Investments (Base)	5,953
Base Operating Impact on the Tax Rate¹	(28,779)
Replacement of One-Time 2020 Tax Rebate	24,000
Net Impact to Taxpayers²	(4,779)

1. Base operating impact is equivalent to a **1.66% decrease** in the overall property tax rate.
2. Net impact to taxpayers is equivalent to a **0.28% average decrease across all taxpayers** once accounting for replacement of the one-time 2020 rebate. After this rebate and changes in assessment value are factored in, the net impact on non-residential taxpayers will be a decrease of 0.55% while for residential taxpayers the impact will be very close to 0% (a 0.06% decrease).

Replacement of the one-time \$24 million rebate, which applies to all types of properties, with permanent reductions provides greater financial certainty for The City and Calgarians. It removes the "bow wave" in future years and also reduces the challenge of finding additional ad hoc savings by "locking in" these reductions on a permanent basis. For 2021, it also releases the one-time funds originally ear-marked for the \$24 million rebate for potential deployment to

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other needs, including support for Calgarians experiencing the greatest vulnerabilities or a phased-in tax program for non-residential taxpayers.

As assessed values for single residential homes have held up better than other residential property types, the typical single residential taxpayer in this category would see a 0.58% increase in the municipal portion of their property taxes in 2021 despite the overall tax rate decrease. To address this, Administration recommends that funds be allocated to deliver a one-time rebate to the Residential assessment class to bring the typical single residential home to a net increase of 0% in 2021. The rebate would change the net reduction for residential taxpayers overall from 0.06% to 0.67%. The amount of funds needed to achieve this is currently estimated at \$6 million. Administration will then work to replace this one-time funding with permanent reductions in 2022 through expanding the SAVE program.

Attachment 6 describes a small number of priority investments that are necessary to meet the changing needs and expectations of Calgarians. These will increase the tax supported base budget by nearly \$6 million in 2021 but are still managed within the proposed tax decrease.

Attachment 7a outlines for approval adjustments made to 2021 operating budgets including the recommended budget impact of the SAVE adjustments, other base reductions, and new investments.

Attachment 7b sets out for approval the impacts of the adjustments in Attachment 7a to approved performance measures in the One Calgary 2019-2022 Service Plans and Budgets.

In addition, MCA includes attachments typical to any annual adjustment process, many of which require Council approval:

- Net Zero Operating Budget Adjustments for approval (Attachment 8)
- Carry Forward of Operating Budget from 2020 to 2021 for approval (Attachment 9)
- Operating Budget Continuity Schedule (Attachment 10)
- Capital Budget Adjustments for approval (Attachment 11)
- Capital Budget Recast for approval (Attachment 12). The Capital Budget is recast annually to reflect updated cash flow projections and current circumstances. This year's recast is indicative of typical project management practices including updates to schedules, cost, and risk. The recast also reflects changes based on the COVID-19 environment, where investments have been temporarily put on hold for reasons that include protecting the safety of front-line workers, increased material costs, and rethinking spaces in a post COVID-19 environment.
- Capital Budget Continuity Schedule (Attachment 13)
- Performance Measure Adjustments Not Related to Reductions for approval (Attachment 14), which includes replacement of existing performance measures, performance measure deletions, and typographical corrections.
- 2021 User Fee and Rate Changes for approval (Attachment 15), which includes fee freezes in Building Safety, Development Approvals, Public Transit, Waste & Recycling, Water Treatment & Supply and Stormwater Management. The majority of user fee adjustments included in this package are changes that have been considered / approved by the Priorities and Finance Committee.

The net budget impact resulting from these adjustments translates into different tax impacts for different types of properties, as illustrated in the examples found in Attachment 16. Factors affecting the 2021 tax impact to individual properties include changes in assessment value, the applicable municipal and provincial tax rates, the 2020 and proposed 2021 property tax rebates,

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and for applicable non-residential properties, the previous impact of the 2020 Phased Tax Program.

Other:

Costs for the time of many City staff across the organization supporting the various elements contributing to MCA have not been estimated, as the work has generally been absorbed by existing teams and budgets given its high priority.

Expenditures related to execution of the SAVE program remain on track. The Request for Proposal (RFP) for the consultant was valued at up to \$3 million in one-time operating funds, and spending on this contract is closely monitored. Costs related to City staff driving the program, led by resources usually deployed to the Zero-Based Review (ZBR) and One Calgary programs, remain stable and represent a further investment of around \$3 million per year from base operating budgets.

If the SAVE program had not been initiated, this energy and funding would have likely been used for ZBR activities and other service reviews, including deployment of external consultants in targeted areas. Using a comprehensive, City-wide program like SAVE brings greater scale and structure to these activities, creates more awareness of best practice and continuous improvement, and allows the program to be leveraged for broader organizational transformation.

RISK

The primary risks related to the SAVE program and MCA are found in Attachment 17 to support decision making. Analysis of risks associated with the SAVE initiatives shows that the risks of inaction are rated higher than risks associated with implementation and future state operations.

ATTACHMENTS

1. Previous Council Direction, Background
2. 2021 COVID-19 One-Time Variance Projections
3. Performance Measure Forecast Changes Related to COVID-19
4. SAVE Program Approach and Results
5. SAVE Business Case Summaries
6. Description of New Investments
- 7a. SAVE Adjustments, Other Base Reductions and New Investments - **For Approval**
- 7b. Related changes to Approved Performance Measures – **For Approval**
8. Net Zero Operating Budget Adjustments – **For Approval**
9. Carry Forward of Operating Budget from 2020 to 2021 – **For Approval**
10. Operating Budget Continuity Schedule
11. Capital Budget Adjustments – **For Approval**
12. Capital Budget Recast – **For Approval**
13. Capital Budget Continuity Schedule
14. Performance Measure Adjustments Not Related to Reductions – **For Approval**
15. 2021 User Fee and Rate Adjustments – **For Approval**
16. Property Tax Examples
17. Risk Analysis for the Mid-Cycle Adjustments

Chief Financial Officer's Report to
Special Meeting of Council
2020 November 9

ISC: UNRESTRICTED
C2020-1215
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Department Circulation

General Manager	Department	Approve/Consult/Inform
David Duckworth	City Manager's Office	Approve
Chris Arthurs	Deputy City Manager's Office	Approve
Katie Black	Community Services	Approve
Stuart Dalgleish	Planning and Development	Approve
Dan Limacher	Utilities and Environmental Protection	Approve
Doug Morgan	Transportation	Approve
Michael Thompson	Green Line	Approve