

**Chief Financial Officer's Report to
Priorities and Finance Committee
2020 July 14**

**ISC: UNRESTRICTED
PFC2020-0726
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Mid-Cycle Adjustments – Indicative Tax Rate for 2021

EXECUTIVE SUMMARY

Council direction on an indicative tax rate is required for Administration to prepare adjustments to the approved 2021 service plans and budgets. The context for this decision is one of uncertainty, where the longer term impact of COVID-19 on the economy and on citizen needs is unknown. Due to this uncertainty, Administration is only seeking direction on rates for 2021.

Since Council's approval of the One Calgary 2019-2022 service plans and budgets in 2018 November, The City has undergone extraordinary challenges as the 2020 COVID-19 pandemic and plummeting oil prices have translated into a significant reduction of some municipal revenues and shifted the distribution in others. Without direct financial support from other levels of Government, The City acted quickly to mitigate the impacts of COVID-19 and respond to citizen's needs. As a result, The City is realigning its 2021 budget to the emerging fiscal realities while minimizing the impact on service delivery to citizens.

ADMINISTRATION RECOMMENDATION:

Review By: 2020 July 14

1. That Council direct Administration to recommend adjustments to the 2021 service plans & budgets based on a 0% tax rate increase in 2021; and
2. Direct that this report and attachments be held confidential pursuant to Section 24 (Advice from officials) of the *Freedom of Information and Protection of Privacy Act*, until the Priorities and Finance Committee rises and reports.

RECOMMENDATION OF THE PRIORITIES AND FINANCE COMMITTEE, 2020 JULY 14:

Forward the lost recommendations to Council.

Excerpt from the Regular Meeting of the Priorities and Finance Committee held 2020 July 14:

"ROLL CALL VOTE:

For: (5): Mayor Nenshi, Councillor Davison, Councillor Sutherland, Councillor Woolley, and Councillor Keating

Against: (5): Councillor Chu, Councillor Gondek, Councillor Colley-Urquhart, Councillor Farkas, and Councillor Magliocca"

MOTION DEFEATED

PREVIOUS COUNCIL DIRECTION / POLICY

This report aligns with the direction provided with the approval of the One Calgary 2019-2022 Service Plans and Budgets and the Multi-Year Planning and Budgeting Policy (CFO004). Further detail is provided in Attachment 1.

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BACKGROUND

Since 2006 The City has used a multi-year approach to plans and budgets, with annual adjustments to adapt to any changes in circumstances. In response to Council's questions during the 2020 March 10 (PFC2020-0367) raised at Priorities and Finance Committee (PFC) more details on the multi-year approach can be found in Attachment 2.

Adjustments are informed by Council's direction on indicative tax rates, based upon insights from property assessment changes, community indicators, provincial/ federal changes, the Spring 2020 Calgary & Region Economic Outlook 2020-2025 (Spring Economic Outlook) and Spring Pulse (Attachment 3).

Effective actions taken by The City and the Provincial government to flatten the curve of the pandemic have also had a negative impact on the local economy. The unemployment rate in the Calgary Economic Region spiked from 7.2% in February to 13.2% in May. The Spring Economic Outlook outlines that Calgary's economy is not expected to fully recover from the impact until 2022 and there are expected to be lasting differences in longer-term GDP output, total employment, and population levels relative to the previous forecast.

Most of The City's revenue streams (franchise fees, licences, permits and fines, user fees, investment income, and grants and subsidies) have been impacted and the payment of property taxes delayed. With this volatility in many revenue streams, property taxes become increasingly important as they represent a relatively more stable revenue source for the City.

The City continues to strive to balance the above impacts with the need to continue providing essential services to Calgarians, especially the most vulnerable groups, and to stimulate the local economy in a fiscally sustainable manner. Unlike its provincial and federal counterparts, which can take on long-term debt for programming, the municipality has limited ability to provide financial stimulus in times of crisis.

Administration continues to track and forecast the impacts in 2020 and provide monthly COVID-19 Service Plan and Budget Updates to Council.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Recognizing the economic hardship borne by Calgary's households and businesses, Administration is proposing to limit the strain on Calgarians and avoid increasing the property tax rate in 2021.

Council originally approved a budget that amounted to a tax rate increase of 3.03% for 2021. Due to lower 2020 base revenues resulting from the 2020 adjustments (i.e. a smaller base), the 2021 budget increase now translates to a tax rate increase of 3.23%. To bring the 2021 indicative tax rate from 3.23% to 0% (Attachment 4), the following is required:

- The 2021 net operating gap due to COVID-19 of \$58M (\$138M revenue shortfall offset by \$80M in expenditure reductions) is addressed through a combination of one-time and base budget solutions. It should be noted that this is an initial estimate and given the scale of uncertainty related to both the dynamics of the pandemic development, as well as the economic impact of it, this figure is likely to change.

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- The Solutions for Achieving Value and Excellence (SAVE) Program successfully delivers \$24M base budget savings, which offset the impact of the 2020 tax increase, effectively making the 2020 one-time rebate permanent.
- \$32M in base budget savings or additional ongoing revenue are found and the \$24M one-time rebate approved in 2019 November offset the \$56M required to reduce the approved 2021 tax rate increase to 0% (before COVID impacts).

These estimates do not include any adjustments to previously approved fees or any additional relief programs. Any reduction in fees or new relief programs will increase the financial gap. Conversely, if The City receives economic relief from other levels of Government, then the financial gap could decrease.

Administration will eliminate the 2021 budgetary shortfall, currently estimated at \$218M, to ensure a 0% tax rate increase by considering the following areas in more detail: expenditure reductions related to 2021 COVID-19 impacts (currently estimated by service owners to be \$80M), using the \$24M one-time rebate approved for 2021 in C2019-1052, and a potential combination of: use of reserves, re-purposing corporate capital funding, corporate programs, service reductions, and further enhance existing SAVE program initiatives such as efficiencies, reducing manageable costs, and vacancy management. In addition, the SAVE program has also been directed to identify revenue opportunities.

This report recommends only indicative tax rates. The Water Utility is evaluating the impact of slower growth, and development in 2020 that is lower than anticipated. Additionally, utilities are evaluating the impacts of potential changes to financial plans – policies, measures, targets, and the timeline for achieving targets. Recommended financial policy revisions and rate changes for 2021 and 2022 will be brought forward to the 2020 October 13 meeting of PFC. These will align with commitment to provide affordable services, while maintaining the financial capacity to deliver on Council Priorities while incorporating the impacts of combined factors including land forecast, financial policy changes, ongoing operating and capital priorities.

Stakeholder Engagement, Research and Communication

This report has been prepared considering the results of the 2020 Spring Pulse conducted in the first three weeks of March along with on-going Citizen Perspectives Surveys. Preferences to cut services to maintain or reduce taxes (45%) have significantly decreased since Fall 2019 (50%) and Spring 2019 (53%), whereas preferences to increase taxes to maintain or expand services (48%) are significantly higher since Fall 2019 (44%) and Spring 2019 (41%).

Strategic Alignment

Delivery of many City services will continue as previously approved in One Calgary 2019-2022 Service Plans and Budgets. Some impact on service levels may continue as a result from COVID-19 public health measures and the need to reduce costs, however, Administration will

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endeavour to limit the impacts to citizen facing services, particularly Calgarians experiencing vulnerabilities.

Social, Environmental, Economic (External)

The City plays a key role by providing critical services that citizens rely on, and leadership to protect environmental health and restore Calgary's economic activity and prosperity. The recommendation in this report balances the need to keep tax rates low and continue to meet the demand for City services.

Financial Capacity

Current and Future Operating Budget:

There are significant impacts on current and future operating budgets as described in the section "INVESTIGATION: ALTERNATIVES AND ANALYSIS" above.

Current and Future Capital Budget:

There may be impacts to the capital budget. Changes required from the SAVE Program recommendations, repurposing capital dollars to address operating shortfalls in self-funded services, or new investments made from potential stimulus funding could all impact the capital budget. Infrastructure Calgary will bring any required adjustments to the capital budget to Council in 2020 November.

Risk Assessment

The recommended tax rate change of 0% relies on the ability to find significant additional cost savings in 2020 and 2021. Due to the uncertainty, including length of pandemic and if there is a second wave caused by COVID-19 the estimated budget variance is potentially subject to further change. Consequently, there remains a high degree of uncertainty regarding the magnitude of the financial impact (also considering any potential deficit that may carry over from 2020) and how it might change in 2021.

If cost savings are less than assumed, The City could face an unfavorable variance or require more significant service level reductions, which may lead to a decrease in citizen satisfaction. If Council reduces the tax rate further, Administration will be required to reduce services further and have a limited ability to manage unfavorable costs. Existing initiatives like SAVE that are to find cost savings may be limited in capacity to expand the scope in the immediate term.

Additionally, in 2019 The City made use of reserves and implemented across the board reductions to limit a budget increase. As a result there may be limited ability to implement similar strategies to make up for 2021 financial gap.

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REASON(S) FOR RECOMMENDATION(S):

As the COVID-19 pandemic continues to create a high degree of uncertainty and strain on sources of revenue The City is proposing to limit the strain on Calgarians and avoid a tax increase in 2021.

ATTACHMENT(S)

1. Attachment 1 – Previous Council Direction and Policy
2. Attachment 2 – Multi-Year Business Planning and Budgeting
3. Attachment 3 – Mid-Cycle Adjustments Touchpoints
4. Attachment 4 – 2021 Operating Budget Gap