

## **ACTION PLAN MID-CYCLE ADJUSTMENTS**

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### **EXECUTIVE SUMMARY**

Action Plan 2015-2018 was approved during a time of economic prosperity. However, shortly after it was approved in November of 2014, the local economy shifted downward. Many Calgarians have been affected by the economic downturn, and The City has been responding through a number of initiatives, since early 2015. The Mid-Cycle Adjustments continue and expand on this response, with additional changes that will benefit all Calgarians, and which will also provide some targeted support in areas of greatest need. Citizens and business owners will benefit from initiatives in four broad areas.

- First, the proposed adjustments reduce the previously-approved 2017 tax rate increase from 4.7% down to 1.5%, with a 1.5% rebate for 2017, effectively bringing the 2017 tax rate increase to 0%. The direction for a lower tax rate included a plan to reduce the budget through a combination of corporate funding sources, department savings from operating efficiencies and service reductions. Details of these changes are included in today's report for approval.
- Second, the Adjustments include fee relief in a number of areas, some previously approved by Council (which are provided for information), and others that require Council approval.
- Third, to help those most affected by the downturn and respond to some specific emerging needs, Administration is proposing a number of one-time initiatives funded from reserves that will have no impact on the tax rate. Among these are greater access to affordable housing, increased funding support for community and social programs, and initiatives to support new and existing small businesses.
- Finally, this report also brings forward The City's Capital Investment Plan, which reflects a more strategic approach to investment, including leveraging investment from the private sector and other levels of government in an effort to invest in capital more efficiently, create jobs and deliver value to Calgarians. In the long term, the plan is designed to maximize investment to create jobs, build and maintain needed infrastructure and attract and retain people, business and investment to Calgary. These changes will be funded through capital sources (rather than through property taxes). Included for Council approval is one capital budget adjustment intended to take advantage of the Public Transit Infrastructure Fund.

### **ADMINISTRATION RECOMMENDATION(S)**

Administration recommends that Council:

1. Approve the proposed Mid-cycle Adjustments in Attachment 1;
2. Approve the proposed Capital Investment Plan in Attachment 2;
3. Authorize the Deputy City Manager to continue to identify capital funding sources, including allocations and efficiencies from existing capital budgets and transfer funds to the Budget Savings Account to support recommendation 4.
4. Direct the Deputy City Manager to return to Council no later than Q2 2017 with recommendations for new, or currently unfunded investment projects;

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5. Adopt the 2017 operating and capital budgets, as adjusted;
6. Approve the proposed carry-forward of unspent operating budget to 2017 in Attachment 3;
7. Approve the amended fee schedules related to proposed user fee changes in Attachments 4 to 9;
8. Approve the amended user fee bylaws related to proposed user fee changes in Attachments 10 to 16, and
9. Receive for information the net zero operating budget Adjustments in Attachment 17.

### **PREVIOUS COUNCIL DIRECTION / POLICY**

The Multi-Year Business Planning and Budgeting Policy (CFO004) was approved by Council on 2005 January 31, and then amended in 2008 January 14. This policy stipulates the approach that The City uses for multi-year budgeting and business planning.

On 2013 April 22, Council approved a modified four-year approach to business planning and budgeting (PFC2013-0338). The approval aligns The City's business plan and budget process to the four-year election terms. It included a provision for adjustments in the middle of the cycle, to be informed by a check-in with citizens and an update to Council priorities as a result of changes in the external environment.

On 2015 November 25, Council approved the Capital Infrastructure Investment Strategy and directed that Administration return to Council by Q2 2016 with a recasted capital budget (C2015-0855).

The Mid-Cycle Adjustments process was approved on 2015 December 18 and included a rigorous combination of research, analysis, and engagement with citizens, businesses, community groups, economists, Council members, and business and administrative leaders. (C2015-0956). The results from this work were presented to Council through various Strategic Council Meetings from March through to June 2016.

On 2016 May 30, Council approved the Waste & Recycling services green cart program 2017 – 2018 Indicative Rate (C2016-0440) and directed administration to include a green cart program rate of \$6.50 per household per month for 2017 and 2018 as part of Action Plan 2015-2018 Mid-Cycle adjustment process and return to Council with amendments to the WRS bylaw (20M2001) Schedule B as part of Action Plan 2015-2018 Mid Cycle adjustment process.

On 2016 June 27, Council approved a tax rate of 1.5% with a one-time rebate of 1.5% for an effective tax rate increase of 0% for 2017, and provided additional direction with respect to user fees and other initiatives for the Mid-Cycle Adjustments (details are provided in the Background section immediately below).

On 2016 September 19, Council directed a reduction in utility (C2016-0688) and drainage (C2016-0689) charge rate increases. Council also directed that Administration bring forward the

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proposed fee reduction for the 2017 Green Cart Program for consideration during the Mid-Cycle Adjustments process (C2016-0774).

On 2016 September 26, Council approved the recasted 2015-2018 capital budget, amended Council Policy CFO006 for cash flow timing changes and directed that Administration return to Council at the November 2016 Mid-Cycle Adjustments deliberations with identified funding for potential new, and currently unfunded, projects.

### **BACKGROUND**

The consultation and analysis conducted under the Mid-Cycle Adjustment process led to the decision of Council on 2016 June 27 to approve a 1.5% property tax increase, with a one-time 1.5% property tax rebate for 2017 to effectively bring the tax rate increase to zero. In addition, Council decided:

- to fund the reduction in the tax rate through a combination of further efficiency gains, service reductions and corporate funding;
- to maintain the 2016 freeze in transit and some other user fees; and
- to request Administration to identify specific, targeted projects and initiatives to help those most in need as a result of the shift in the economy.

This report responds to this direction from Council and builds on the findings from the work conducted through the year. It provides an overall strategy for The City to deliver results and respond to citizens' needs and priorities through its 2017 and 2018 business plans and budgets.

### **INVESTIGATION: ALTERNATIVES AND ANALYSIS**

Attachment 1, "*Mid-Cycle Adjustments: The City's Response to the Change in the Local Economy*", provides a summary of the response to the economic downturn to date, the findings of the research, analysis, and public engagement that has been conducted as a part of Mid-Cycle Adjustments, the proposed adjustments for 2017-2018 and an in-depth look at each of those changes.

### **Key Findings**

Key findings from the Mid-Cycle Adjustments Process are described in Attachment 1, pages 7 to 10. At a very high level, they are:

- The City has been responding to the change in the economy since early 2015 and has taken action on a number of fronts. These include initiatives such as the Economic Resilience Strategy, the Economic Resilience Fund, and the adoption of a sliding scale for transit fares. In addition, The City is continuing to invest in capital infrastructure and leverage other funding sources, and is managing its labour force through vacancy management and attrition.
- The local economy continues to struggle and it is expected to take longer to recover than originally anticipated.

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- The priorities of citizens have changed since Action Plan was approved, and are now more focused on the state of the local economy and less on growth and expanding of services.
- Citizens' willingness and ability to bear property tax and fee increases have dropped by 10% points in the 2016 citizen satisfaction survey.
- The economic downturn has impacts to the community, and some groups – particularly the unemployed and other vulnerable individuals – are particularly hard hit.
- Preliminary analysis indicates that increased downtown office vacancy rates, decreases in rental rates and resultant declines in property values/assessments will result in a significant redistribution of taxes from downtown office buildings to other areas and property types. These other properties are likely to see an increase in their taxes, despite a zero percent increase overall.
- City revenues are lower than previously forecast and, in some instances, costs are increasing. These are largely attributed to lower than forecast revenue from franchise fees and user fees and increased costs associated with the carbon levy.

In summary, Calgary is experiencing a significant economic downturn and is expected to undergo slow recovery over the next few years. Virtually all Calgarians will have felt the impact in some way, and some are particularly affected. There are a number of things that The City can do to help. Council has already made several decisions that respond to Calgarians' needs, and has directed Administration to bring forward Mid-Cycle Adjustment proposals required to implement previous decisions and respond to the areas of greatest need.

### **Proposed Adjustments**

The proposed adjustments are detailed on pages 16 - 65 of Attachment 1. They are grouped under the Council Priority where they have the most relevance. In effect, the adjustments relate to one of the following three strategies:

#### **1. Tax Relief**

On 2016 June 27, Council approved a tax rate of 1.5% for 2017, with a one-time rebate of 1.5% from the Fiscal Stability Fund (FSR), effectively reducing the 2017 tax rate increase to 0%. The approval of a lower tax rate included a plan to reduce the budget through a combination of corporate funding sources, department savings from operating efficiencies and service reductions, with a total of \$73M reduction for citizens. Details of these changes are included in the November report for approval.

These means of reducing the tax rate are all closely associated with the Council Priority "A Well-Run City" and can be found in detail on pages 16 - 27 of Attachment 1.

#### **2. Fee Relief and Revenue Reductions**

Also on June 27, Council directed that the 2016 freeze on transit, recreation, parks and pet licensing fees should be made permanent, and on 2016 September 19, Council reduced the previously-approved increases for utility rates. All of these changes will be included in the November Adjustments report for information. The Adjustments report will also propose (for approval) fee relief in three additional areas for 2017: green cart program fees (as discussed at Council on September 19), planning and development fees, and fire inspection and permit fees.

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At the time of writing of this report, another proposal to freeze 2017 landfill tipping rates is scheduled to be brought forward for Council consideration at the Nov 14 Strategic Council meeting (C2016-0900). Collectively, these measures will reduce the burden on all residences and businesses in Calgary by a total value of close to \$65.9 million, and will also help to support development and building activity in Calgary. In addition, current projections are that in 2017, some other city revenues will be significantly below the previous forecast, by a total amount of approximately \$35 million. The Mid-Cycle Adjustments will include Administration's proposals to offset these revenue shortfalls.

### **3. Targeted Initiatives to Address Emerging Needs**

Council also directed Administration to identify and bring forward initiatives targeted towards those who are particularly hard hit by the economic downturn. The November report will include a number of options for Council to consider in this regard. Among these proposed initiatives are increased funding support for community and social programs; community events funding; support for affordable housing; initiatives to support new and existing businesses, and progress on the pedestrian strategy. Administration is also seeking Council direction for tax relief to benefit businesses experiencing financial hardship. Depending on Council direction, Administration has estimated up to \$15M for this initiative. More information is provided on Page 48 of Attachment 1.

The Adjustments will also include a capital-related proposal to take advantage of the federal and provincial Public Transit Infrastructure Fund (PTIF), in support of The City's transit service level and environmental objectives. The total amount of these targeted investments, excluding tax relief initiative for businesses pending Council direction, is \$9.1 million in one-time operating budget initiatives (funded from reserves), and \$41.6 million in capital projects, funded largely from the PTIF.

### **4. Capital Investment Plan (Investment Plan)**

Infrastructure Calgary is a corporate-wide initiative created to provide governance and oversight of The Corporation's Capital Infrastructure Investment Strategy. Work has advanced significantly in each of the nine key strategy areas since last November. This includes critically examining and recasting cash flows (PFC2016-0713); standardizing processes; funding additional resources (through the Accelerating Capital for Economic Resiliency program), and aligning with federal and provincial government initiatives and priorities. In addition to the capital recast that Council approved in 2016 September, Infrastructure Calgary has been working to identify additional funding capacity within the existing, Council approved capital budget, that can be reinvested through a Capital Investment Plan (Attachment 2, Schedule 2).

The Capital Investment Plan is a proposal for The City to work with government, private sector and public institutions to align, leverage and optimize individual capital investments to bring social and economic value to the larger Calgary community. It proposes that a more strategic and cohesive approach to investment will result in greater collective benefit for the individual organizations and the Calgary region.

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The Investment Plan supports the transition of the existing capital budget into a strategic investment that maximizes existing funds and enables The City to leverage investment from the private sector and other levels of government. Working together, The City and its partners can maximize investment to create jobs, build and maintain needed infrastructure and attract people, business and investment to Calgary. This alignment and coordination minimizes the competition for public support, funding and resources, and can help achieve mutually beneficial outcomes. The Investment Plan aligns projects based on geographic, theme and community investment areas.

Over the next few months, Infrastructure Calgary will continue to reposition the capital budget and develop the recommended funding allocations for investment projects to bring back to Council no later than Q2 2017. The approach to repositioning will be based on the geographic, theme and community investment areas identified in the Investment Plan.

### **Stakeholder Engagement, Research and Communication**

Throughout the mid-cycle adjustments process, there has been extensive engagement, research and communication with both internal and external stakeholders to better understand the impacts, concerns and priorities in this economic climate, and focus the areas for adjustments. The engagement included:

- In January and February 2016, Council members were engaged in one-on-one interviews to better understand emerging issues and challenges in their constituents regarding City services.
- In February 2016, the public was engaged through a variety of online and in-person methods, including the Engage Bus and online surveys.
- To better understand the impact of the economy and the economic scenarios on the community, a series of workshops were conducted with approximately 100 representatives from community organizations, businesses and City of Calgary departments.
- Research on the social impacts of economic downturns was compiled by the University of Calgary, and used to inform economy-driven emerging needs.
- Workshops with City subject matter experts were conducted in June to generate low-cost and no-cost ideas to address emerging needs.

The results of the 2016 Citizen Satisfaction Survey were released on 2016 November 15. They confirm the shift in citizen priorities noted earlier. In particular, while the proportion of Calgarians who believe they receive good value for their tax dollar has remained stable, there is a significant increase in the proportion of Calgarians who would support a reduction in service level in order to keep taxes low. Administration's proposed adjustments reflect the input of the public and the results of engagement with other stakeholders.

Infrastructure Calgary worked closely with business unit capital representatives and finance to identify capacity within the organization that can be allocated to new, or currently unfunded projects that align with the Investment Plan based on the following:

- Projects that could be stopped with minimal risk

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- Release of contingency funds where appropriate
- Offsite levy funding
- Unallocated grants and business unit reserve balances
- Unallocated tax room, corporate reserves and debt capacity.

### **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 has sought to limit the impacts as much as possible.

Selected initiatives have been proposed to respond to the immediate needs and concerns heard in the Calgary community during this period of economic downturn. These proposed initiatives align with Council Priorities.

The proposed initiatives also support strategies within the Economic Resilience Program, in particular "Review the economic situation for financial impacts while mitigating and responding to impacts on Action Plan", "Focus on value for money in service delivery", "Continue to provide services to Calgarians", "Proceed with strategic infrastructure investment" and "Work with partners to identify and respond to what is required".

### **Social, Environmental, Economic (External)**

Administration's proposed adjustments address the social, economic and financial impacts felt by the Calgary community for 2017 and 2018. As noted in the key findings portion of this report, there are a number of significant economic changes with subsequent social impacts that are proposed to be mitigated through the changes recommended in this report.

### **Financial Capacity**

#### **Current and Future Operating Budget:**

Administration's proposed operating budget adjustments are in response to Council's previous direction on 2016 June 27 (C2016-0544). Collectively, they will allow The City to maintain a balanced budget and at the same time reduce the effective 2017 tax rate increase to 0%, offset the impact of revenue losses through selected fee reductions and revenue drops in other areas, and fund a limited number of one-time initiatives.

#### **Current and Future Capital Budget:**

Administration's proposed capital budget adjustment also responds to Council's previous direction. The changes will be funded through capital sources with no impact to property taxes. The additional budget requested for the Transportation projects is funded predominantly through the new Federal/Provincial Public Transit Infrastructure fund, with The City's share funded through Provincial Fuel Tax.

### **Risk Assessment**

The risks associated with the available options for tax rate reductions were presented in the 2016 June 27 report. Risks continue to be evaluated and updated. This includes monitoring the economic climate and any subsequent social impacts that may further develop. The risks

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associated with individual proposed adjustments are provided in the relevant pages of Attachment 1.

### **ATTACHMENT(S)**

1. Mid-cycle adjustments: The City's Response to the Change in the Local Economy (Attachment 1)
2. The City's Capital Investment – Delivering Value to Calgarians (Attachment 2)
3. Carry Forward of Unspent Operating Budget (Attachment 3)

Proposed Revised Fee Schedules for Council Approval:

4. Recreation Fee Schedule (Attachment 4)
5. Parks Fee Schedule (Attachment 5)
6. Pet Adoption Fee Schedule (Attachment 6)
7. Transit Fare Price Schedule (Attachment 7)
8. Planning & Development Application Schedules (Attachment 8)
9. Fire Fee Schedule (Attachment 9)

Proposed Amended Bylaws for Council Approval:

10. Responsible Pet Ownership Bylaw 41M2016 (Attachment 10)
11. Wastewater Bylaw 45M2016 (Attachment 11)
12. Water Utility Bylaw 46M2016 (Attachment 12)
13. Drainage Bylaw 47M2016 (Attachment 13)
14. Licence Bylaw 43M2016 (Attachment 14)
15. Permit Bylaws 44M2016 (Attachment 15)
16. Waste and Recycling Bylaw 48M2016 (Attachment 16)

17. Net zero Operating Budget Adjustments (Attachment 17)