



PFC2021-0655: 2022 Budget Update - Verbal

2021 May 18

Priorities and Finance Committee



Recommendation

1. The Priorities and Finance Committee recommends that Council receive this verbal update for awareness and discussion.

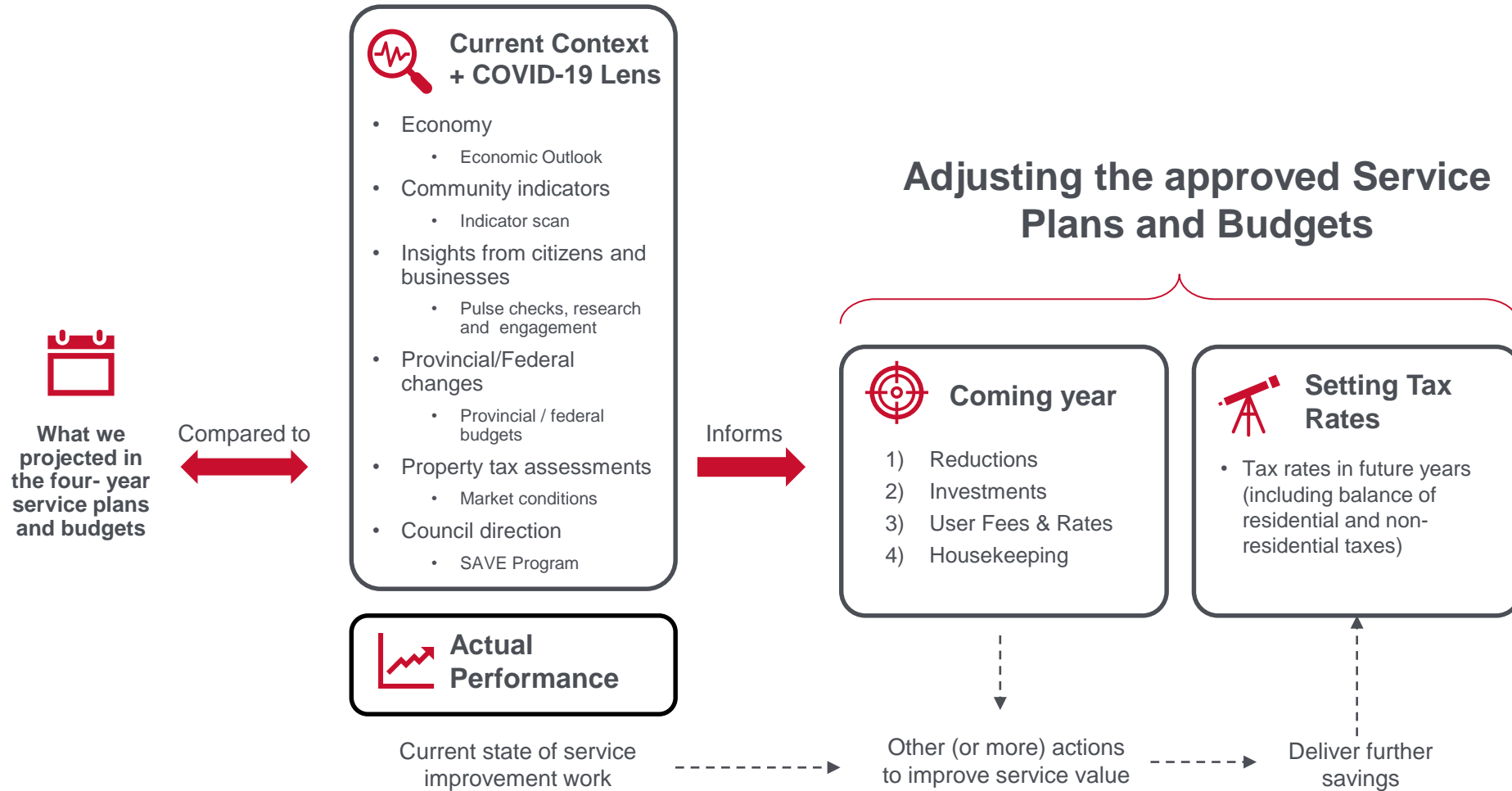


Key messages

- Throughout the COVID-19 pandemic, The City continues to act quickly to mitigate service and financial impacts.
- The City continues to strive for a balance between providing and investing in essential services to Calgarians, especially the most vulnerable groups, and stimulating the local economy in a fiscally sustainable manner.
- Because of uncertainty around long-term impacts from the pandemic to the economy, citizens and businesses, Administration will limit the strain on Calgarians by working toward a 0% change to the property tax rate in 2022.
- Work already under way within the Solutions for Achieving Value and Excellence (SAVE) program will be leveraged to move us in this direction.



Annual Adjustments – an opportunity to respond to external changes and adjust the 4-year plan and budget





Key Forecast Messages

- Strong, but uneven economic recovery in the Calgary Economic Region
- Economic activity expected to be above the Fall 2020 Outlook
- Main growth drivers:
 - Pent-up demand supported by savings during COVID-19 lockdowns
 - Exports to the U.S.
 - Investment in residential market
- Full recovery in GDP and total employment by the end of 2022

Assumptions

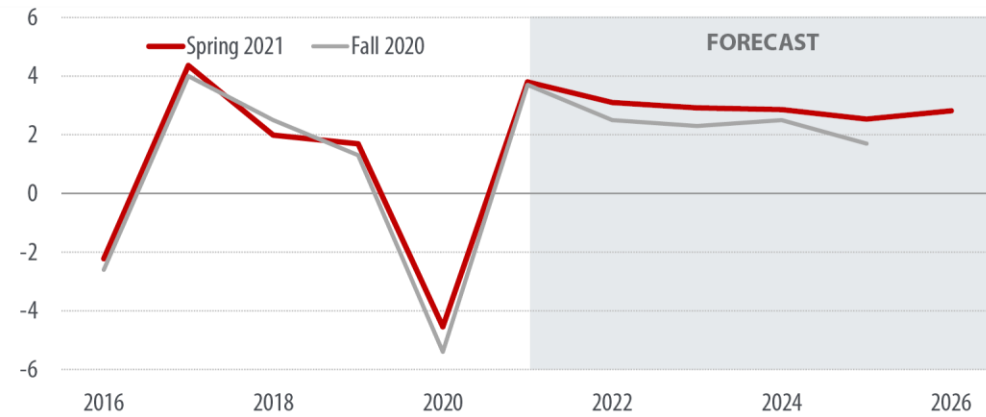
- Uncertainties remain, but vaccination paves the way to a sustainable recovery
- COVID-19 vaccines will be widely available in Canada this summer and they are effective against the new variants
- COVID-19 vaccinations create herd immunity in Canada by the end of 2021 or early 2022
- Low BoC policy rate until late 2022
- Government fiscal measures are working



Forecast comparison: Spring 2021 vs. Fall 2020

Calgary Economic Region: Real GDP Growth

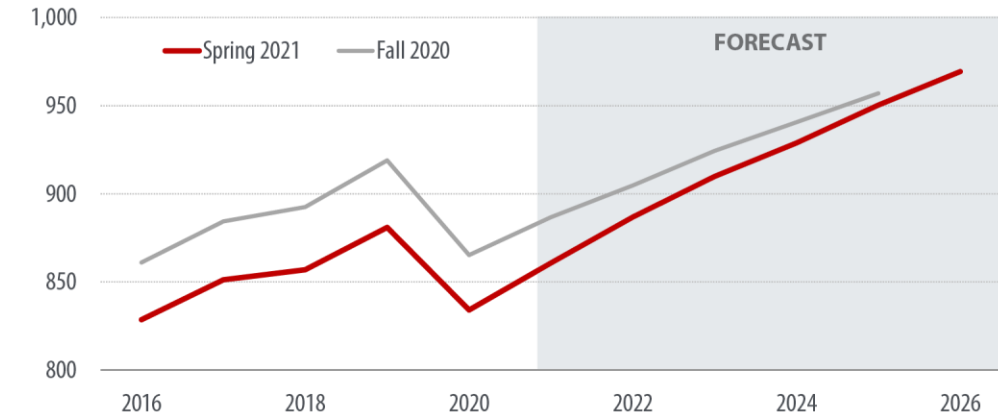
(per cent)



Source: Statistics Canada, Corporate Economics.

Calgary Economic Region: Total Employment

(thousands of persons)

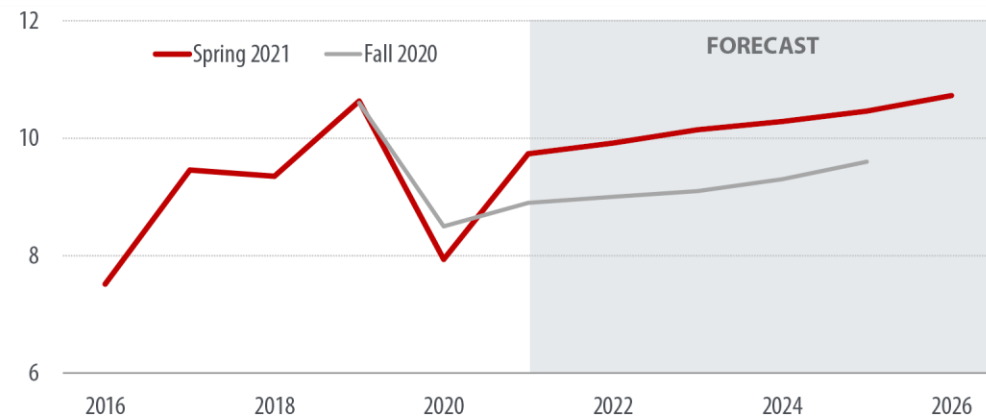


Source: Statistics Canada, Corporate Economics.

**Statistics Canada applied a standard revision to its Labour Force Survey estimates in early 2021. As a result, the historical total employment data are revised down compared to what we reported last fall.*

City of Calgary: Housing Starts

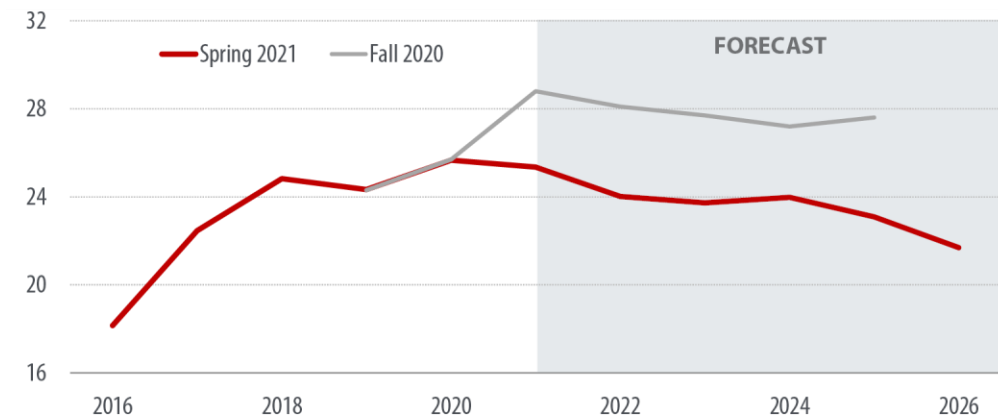
(thousands of units)



Source: CMHC, Corporate Economics.

City of Calgary: Downtown Office Vacancy Rate

(per cent)

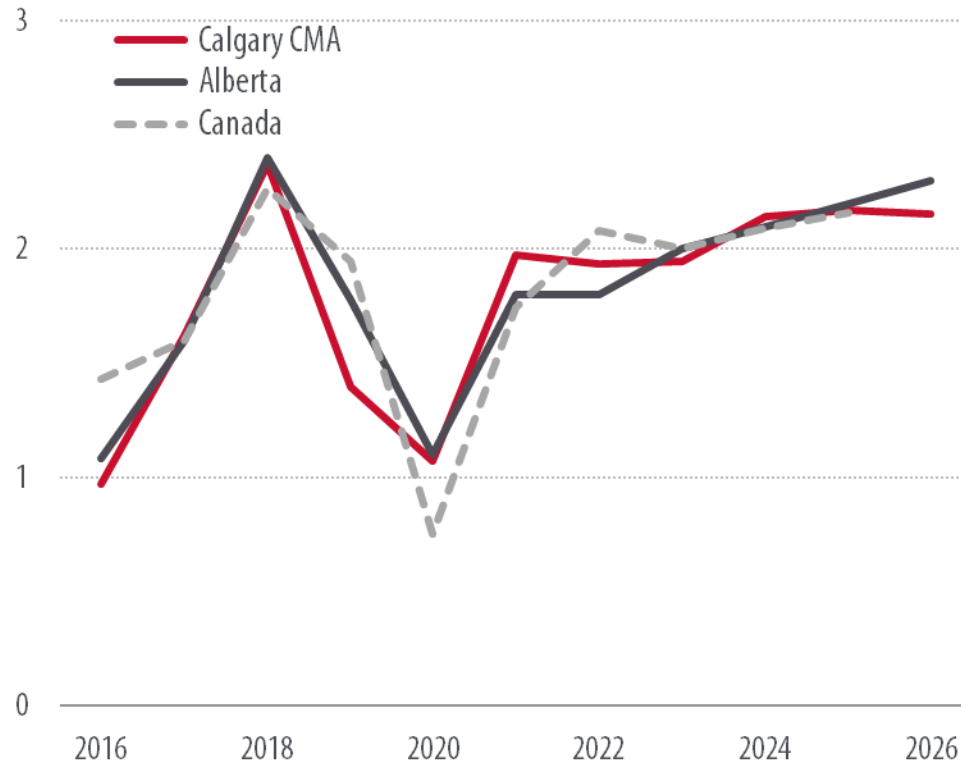


Source: Altus Insite, Corporate Economics.



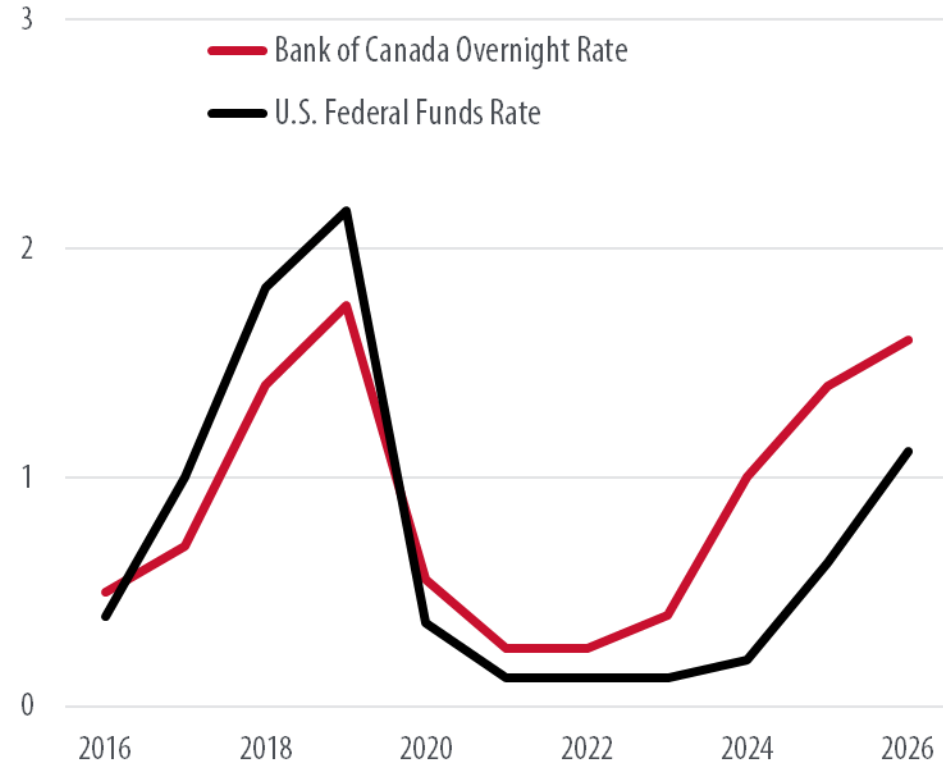
CPI inflation and Canada vs. US Bank

CPI Inflation: Calgary CMA vs. Alberta and Canada
(per cent)



Source: Statistics Canada, The Conference Board of Canada, Corporate Economics.

Canada vs. U.S. Central Bank Policy Rates
(per cent)

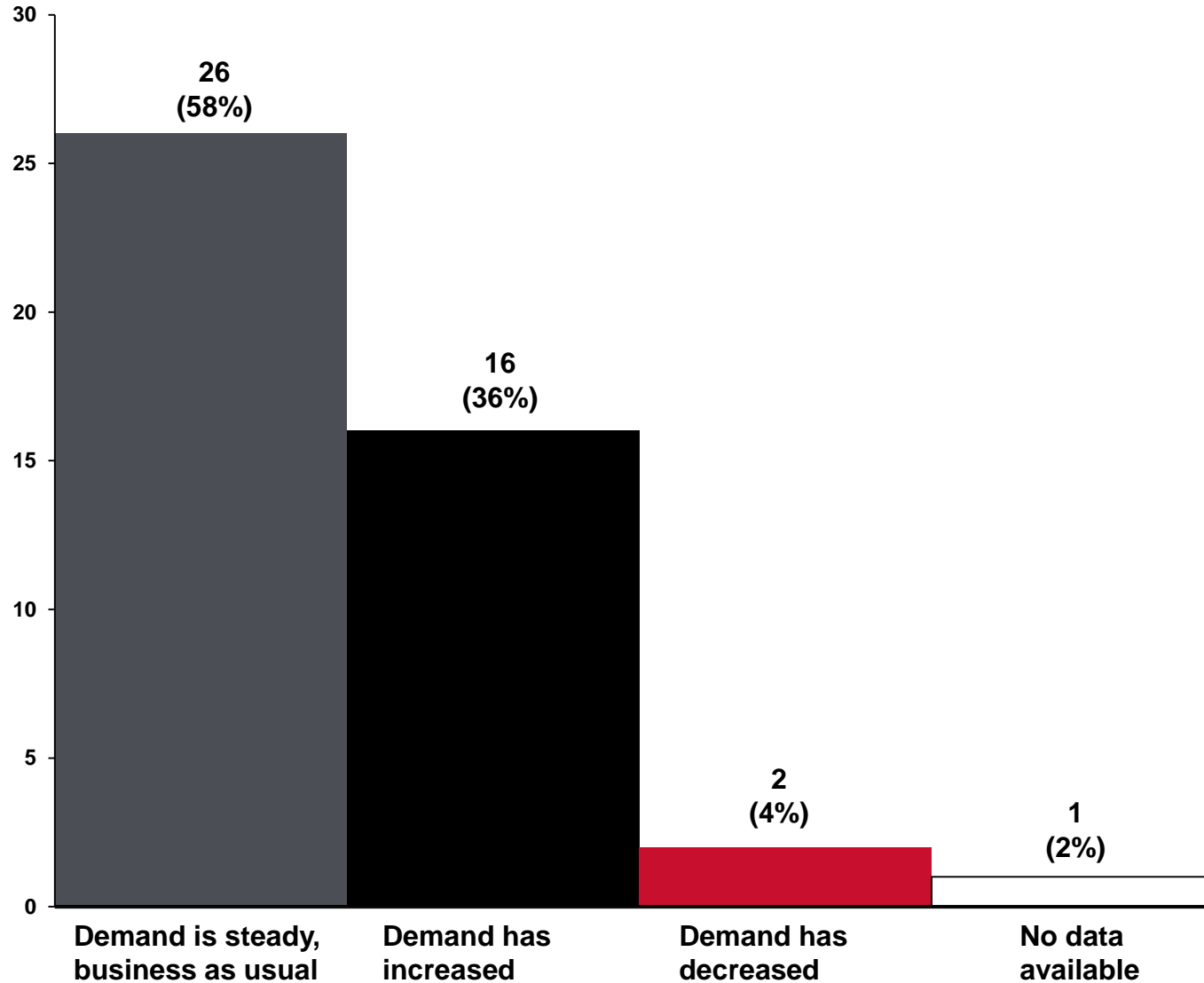


Source: Bank of Canada, Federal Reserve Bank of St. Louis, Corporate Economics.



Citizens continue to rely on critical services provided by The City

Current demand impacts by business unit

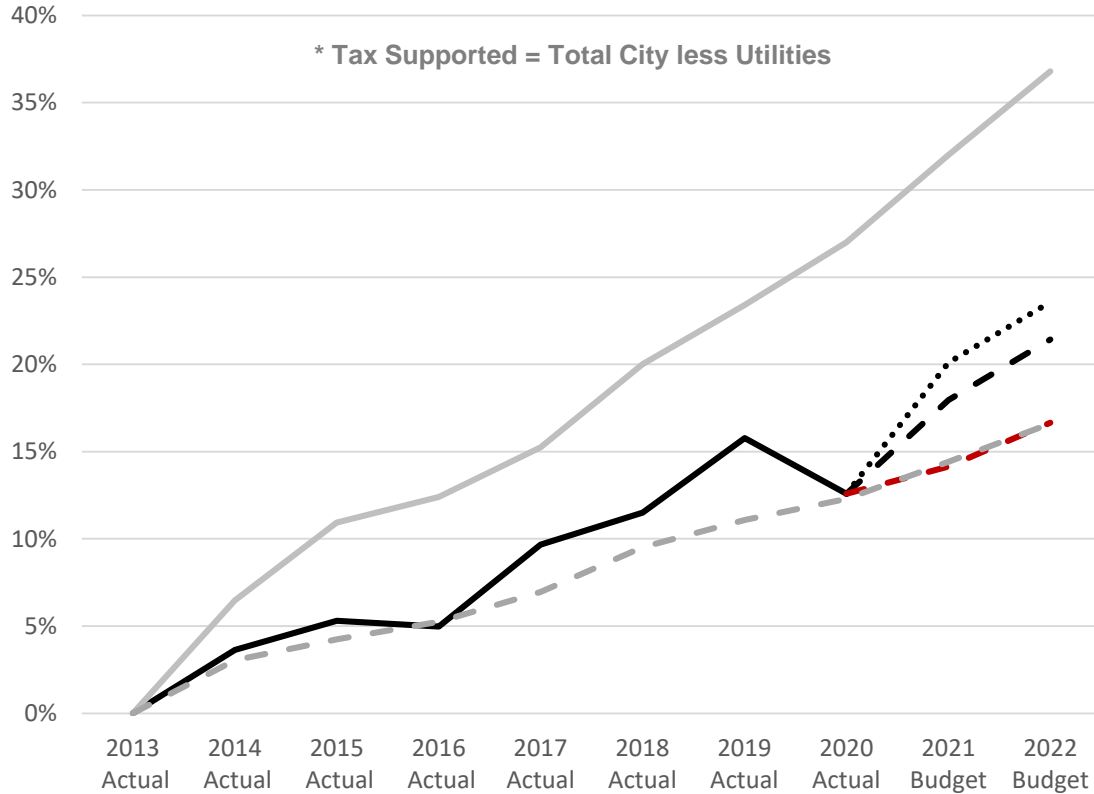


*Information from Calgary Police Services, Civic Partners and wholly owned subsidiaries such as Calgary Housing Corporation was not included as part of this information request.

Despite this strong demand, The City has reduced costs and “turned the curve” on its expenditures

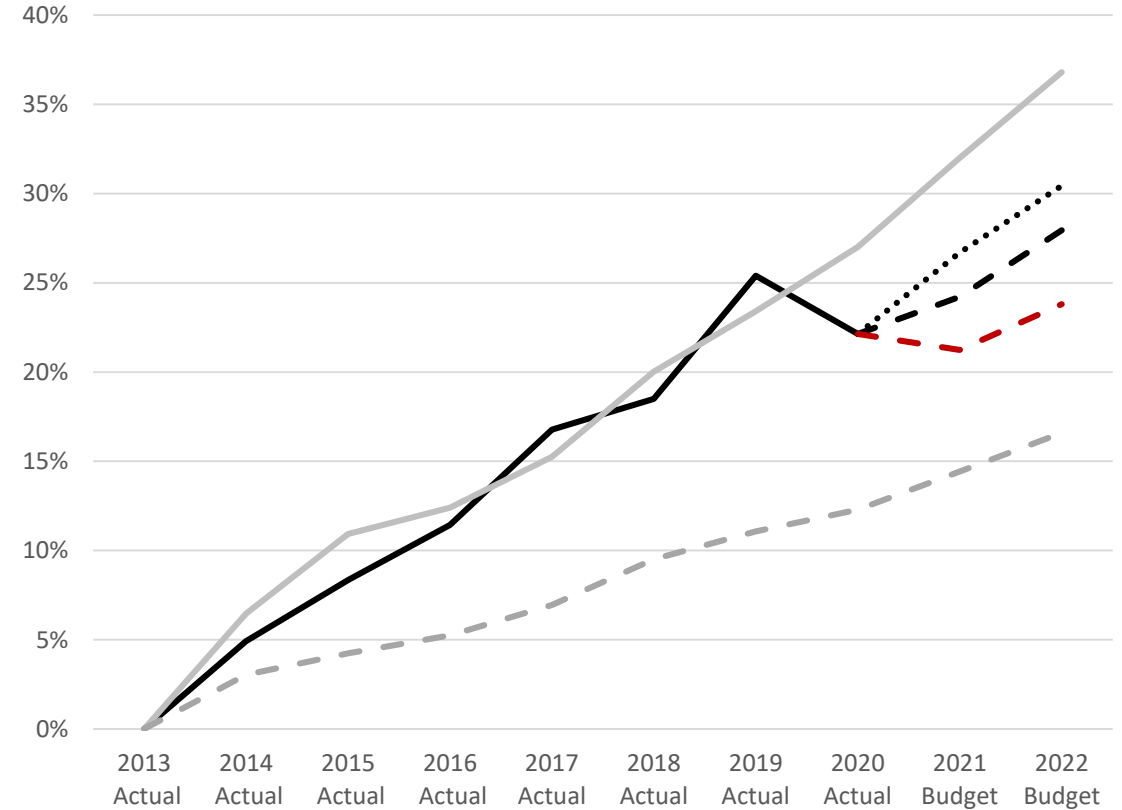
Cumulative Change in Tax Supported* Operating Expenditures vs. Population + Inflation

* Tax Supported = Total City less Utilities



- Actual
- - Revised Budget (2020 June)
- Population + Inflation
- One Calgary Approval (2018 November)
- - Mid-Cycle Adjustments
- - Inflation

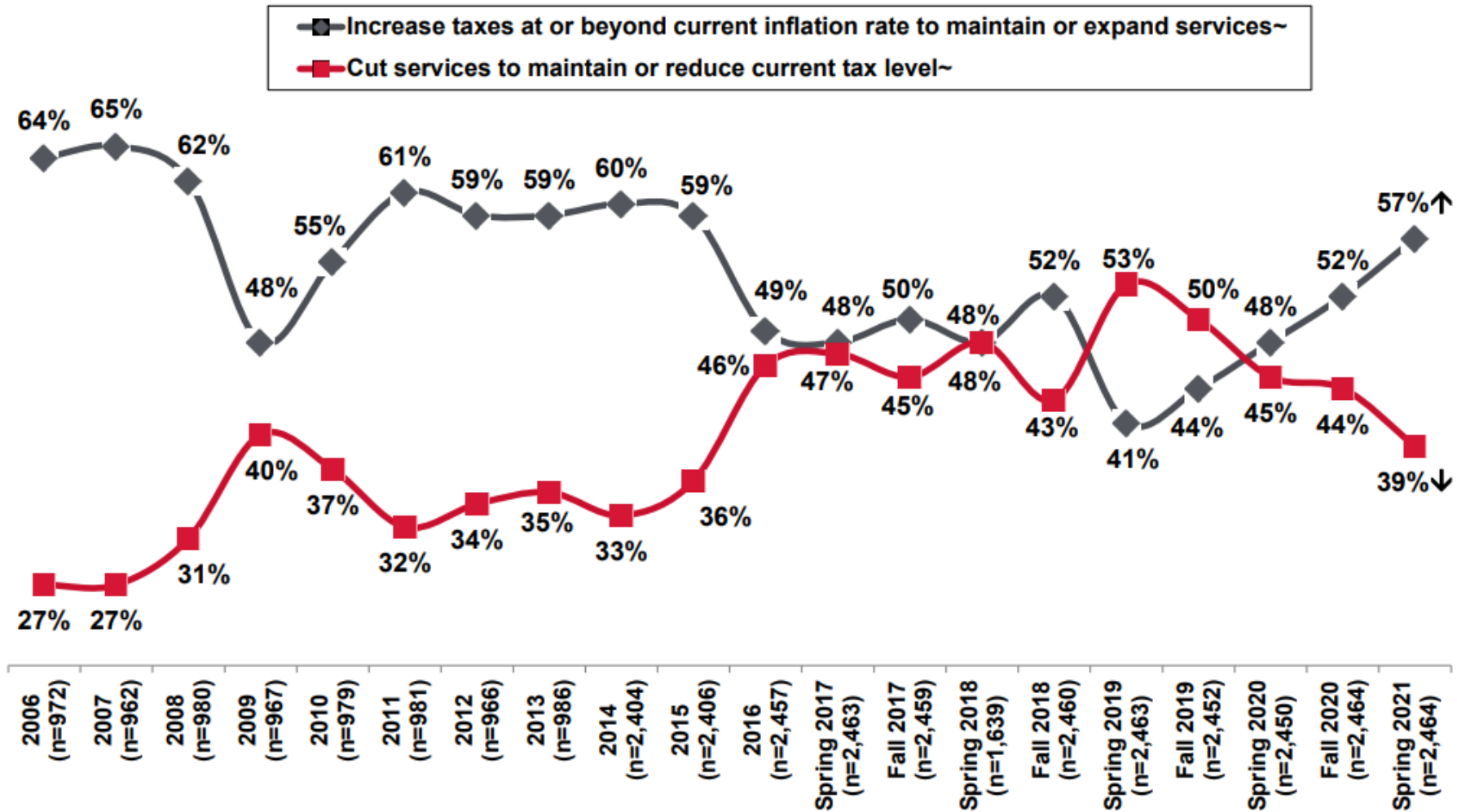
Cumulative Change in Total City Operating Expenditures vs. Population + Inflation



- Actual
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Increase Taxes vs. Cut Services



Municipal property taxes are the primary way to pay for services and programs provided by The City of Calgary. Due to the increased cost of maintaining current service levels and infrastructure, The City must balance taxation and service delivery levels. To deal with this situation, which of the following four options would you most like The City to pursue?

Base: Valid respondents | ~Slight wording variation prior to Fall 2020

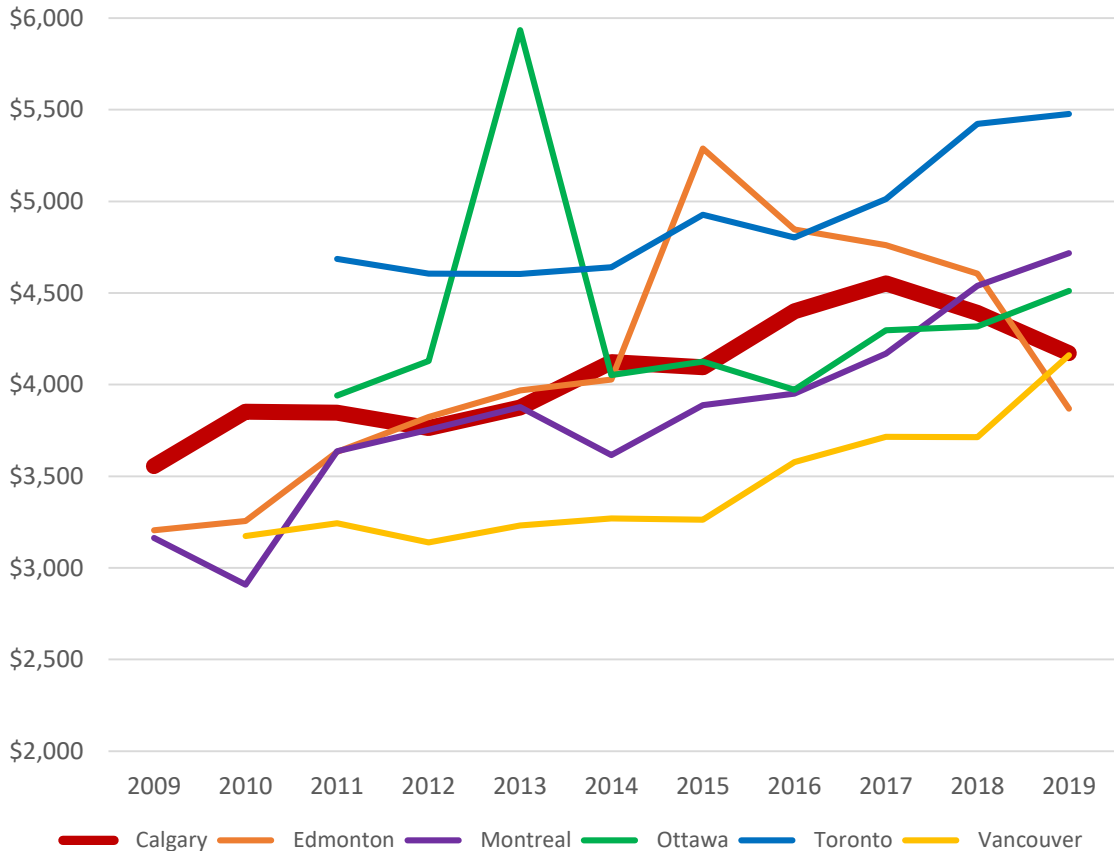
Source: 2021 Spring Pulse Survey

↑ Statistically higher than Fall 2020
↓ Statistically lower than Fall 2020

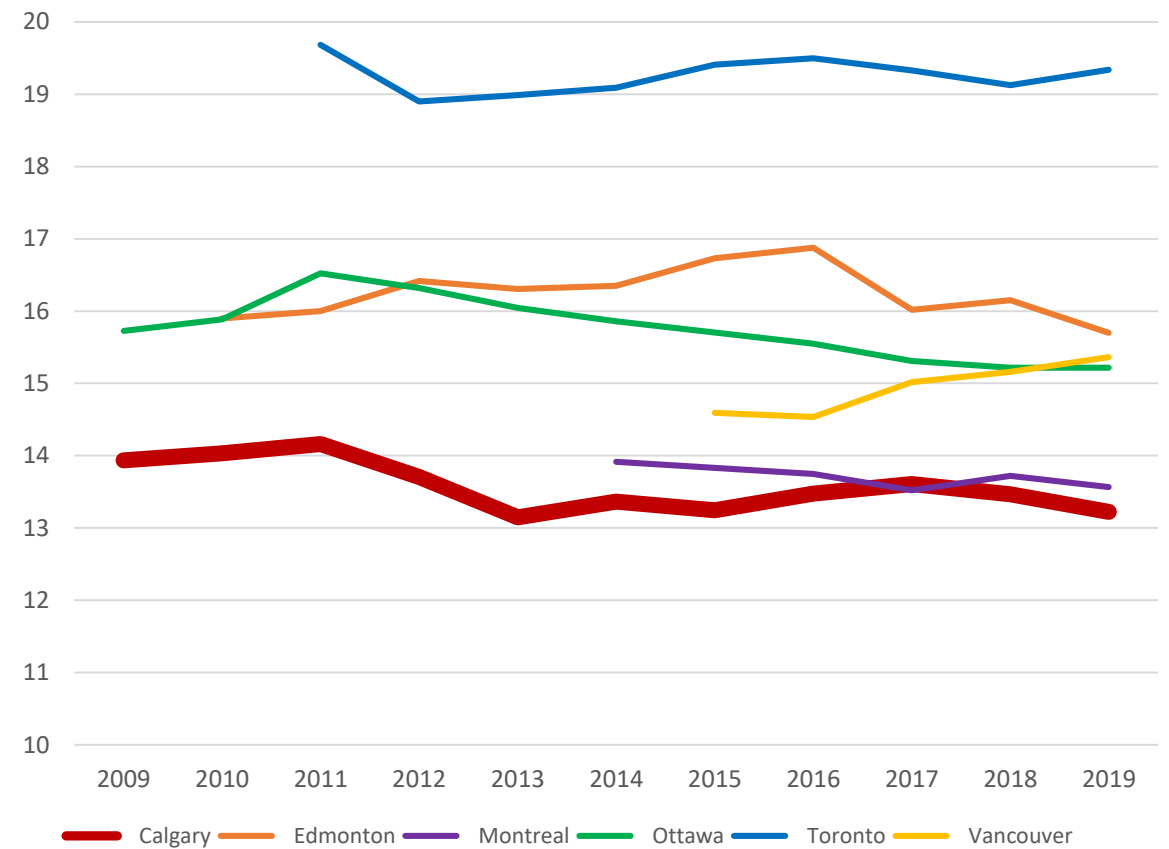


Putting The City's spending and size in context

Total Expenditures per capita



Full Time Equivalent (FTEs) per Capita (1,000 people)



Information sourced from each city's annual report. No adjustments have been made to account for differences in services, service levels or reporting.

*Vancouver expenditure data includes an estimated share of City of Vancouver costs related to Translink and Metro Vancouver.

**Vancouver FTEs represent City of Vancouver source from budget documents and include estimates for Translink but do not include Metro Vancouver.



Among major municipalities, Calgary has been uniquely successful in freezing and reducing its tax rates

City	2019	2020	2021
Calgary Approved	2.45%	0%	-1.66% (Target 0%)
*Initial Rate	3.45%	3%	3%
Edmonton Approved	2.6%	1.3%	0%
*Initial Rate	-	2.1%	3.2%
Montreal Approved	-	-	0%
*Initial Rate	-	-	-
Ottawa Approved	3%	3%	3%
*Initial Rate	-	-	-
Toronto Approved (overall tax rate)	1.8%	1.43%	0.51%
*Initial Rate	-	-	-
Vancouver Approved	4.5%	7%	5%
*Initial Rate	4.9%	8.2%	-

*Note: Initial adjustment rate reflects the year's original or proposed tax increases prior to any adjustment process. Findings are based on information available through web research.

0% tax rate changes may not be sustainable going forward



Inflationary pressures will re-emerge as CPI to return to pre-crisis levels in Calgary

- 2016 – 2020 (average CPI ~1.5%)
- 2021 – 2026 (average CPI ~2.1%) - forecast



Population growth trend, including net migration, continues despite prevailing economic conditions, which increases demand for City services



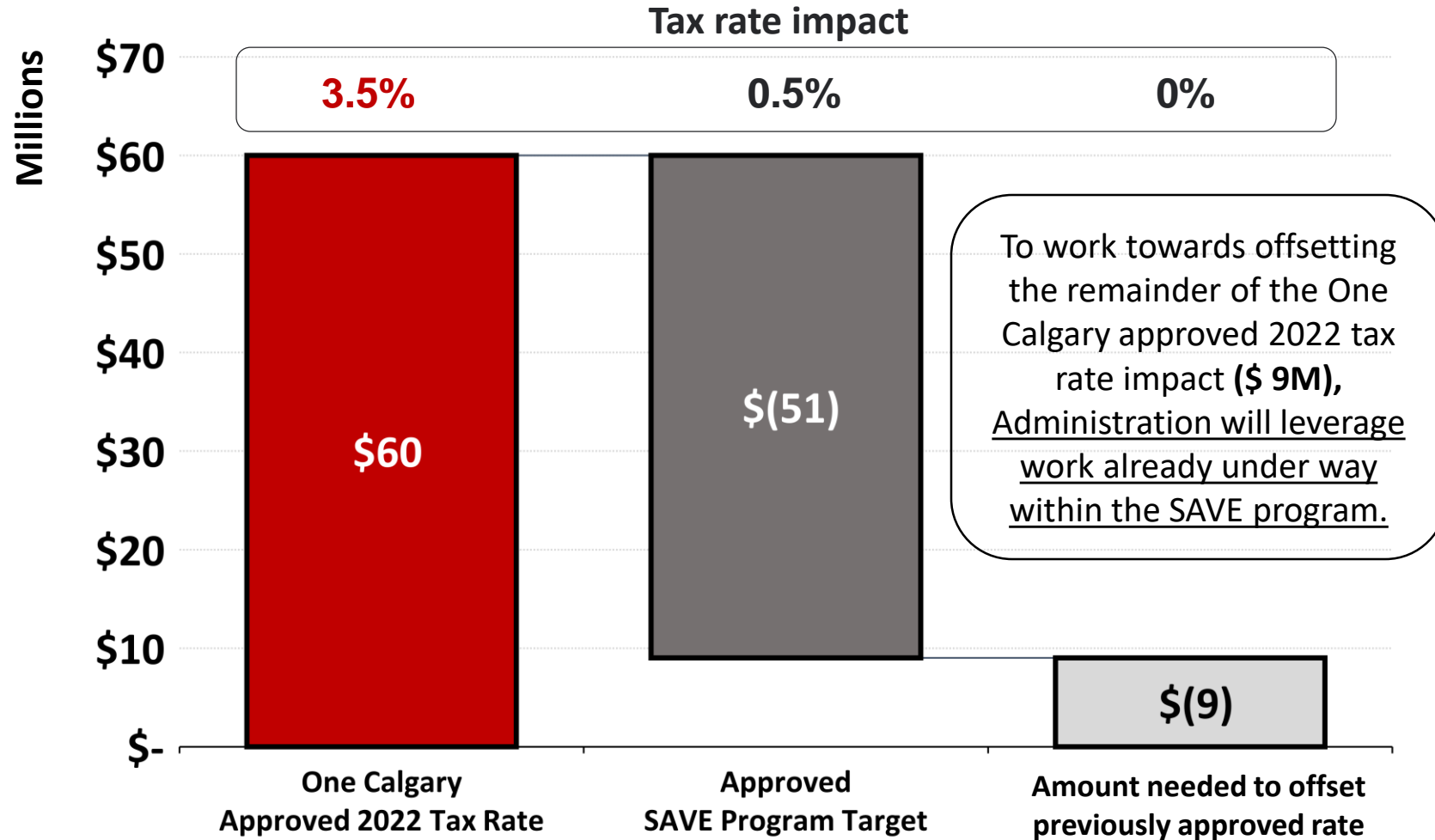
The impact of changes in global energy markets – and from the global pandemic – will continue to pose fiscal challenges for The City



Currently, over half of City's service lines' net budgets are below 2018 levels



2022 total operating base budget gap to 0%



The City will leverage SAVE in striving towards a 0% tax rate change



The SAVE program exceeded its \$24 million financial target for 2021 by identifying \$26 million in net base budget savings.

- Service teams across the organization are now implementing these business cases to ensure that benefits are realized and sustained.



Early indications are that Administration is on track to achieve SAVE's 2022 financial target.

- The 2022 target was recently revised to \$51.2 million (previously \$50 million) after finalization of the Property Tax Bylaw on March 22.



The business cases already in development will help Administration work toward finding the additional \$9 million required for a 0% tax rate change and no new business cases will be initiated at this time.



Recommendation

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