

ACTION PLAN MID-CYCLE ADJUSTMENTS: ECONOMIC AND COMMUNITY IMPACTS, INVESTMENT FRAMEWORK, AND TAX RATE OPTIONS

EXECUTIVE SUMMARY

In 2015 December 18, Council approved the approach for the mid-cycle adjustments for the remaining two years of Action Plan (C2015-0956). In addition to the citizen and Council engagement results presented to Council in April, this report provides Council with information on three economic scenarios or alternative futures, the impacts of the economy on the community and the organization, and an update of The City's financial projections. This information will allow Council to:

- Review and approve the focus areas for the 2017-2018 mid-cycle adjustments through the Investment Framework proposed by Administration in this report, and
- Direct tax rate options for which Administration will, if necessary, identify potential service impacts, and present them at the next Council Strategic Session (2016 June 27).

It is anticipated that Council will provide Administration with an approved tax rate at the 2016 June 27 Council Strategic Session. This approved tax rate will be the basis for Administration to bring forward proposed mid-cycle adjustments for Council's consideration in 2016 November.

ADMINISTRATION RECOMMENDATION(S)

Administration recommends that Council:

1. Receive for information:
 - a. Summary of economic scenarios and social impacts (Attachment 1);
 - b. Economic scenarios – report and presentation slides by the Centre for Spatial Economics (C4SE) (Attachment 3);
 - c. Social Impacts of an Economic Downturn – report by the University of Calgary (Attachment 4);
 - d. Community organizations, business and staff engagement results from workshops (Attachment 5).
2. Approve the refined Investment Framework as the focus areas for mid-cycle adjustments (Page 2 of Attachment 2), and
3. Direct tax rate options for Administration to work within and, if necessary, identify possible service impacts at the next Council Strategic Session (2016 June 27).

PREVIOUS COUNCIL DIRECTION / POLICY

On 2013 April 22, Council approved a modified four-year approach to business planning and budgeting (PFC2013-0338), to align The City's business plan and budget process to the four-year election terms. Given the additional uncertainty associated with moving to a longer-cycle, the four-year approach was designed to include provision for more substantial adjustments at the mid-point of the cycle, a socio-economic update, a check-in with citizens and an update to Council priorities, if needed.

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On 2014 November 24, Council approved *Action Plan 2015-2018*, as amended (C2014-0863). The Action Plan process included a significant public engagement process and the approval of Council Priorities and Strategic Actions to guide the development of the plans and budgets.

On 2015 February 10, Administration presented to Council the Economic Resilience Program to focus efforts and respond to the emerging economic downturn. The seven strategies of the Economic Resilience Program emphasize the need for The City to continue to deliver services to Calgarians in a responsible fashion, and to stay financially prudent in the midst of changing economic conditions (VR2015-0014). In line with the Economic Resilience Program, Council approved the creation of the Budget Savings Account on 2015 March 30 (PFC2015-0181).

On 2015 September 28, Council approved the 2016 Resilience Budget, with a reduction in the municipal property tax rate increase for 2016 (from 4.7% to 3.5%). This was achieved through a further \$18.0M in operating budget reduction with no significant service impacts (C2015-0696).

On 2015 December 18, Council approved the approach for the mid-cycle adjustments (C2016-0956), which included five strategic Council meetings leading up to the November deliberations.

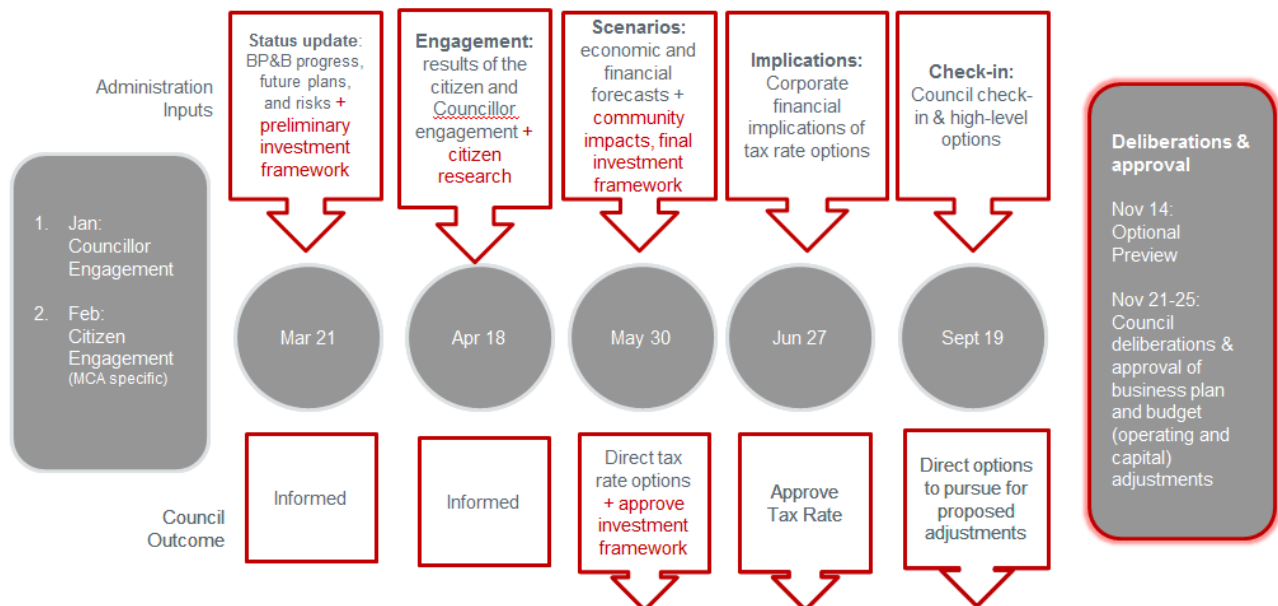


Fig. 1. The approved approach for the mid-cycle adjustments process (C2016-0956), with items in red indicating process enhancements since the original approval.

On 2016 March 21, Administration informed Council about the proposed approach for developing mid-cycle adjustments using the five categories of the Investment Framework (C2016-0252).

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On 2016 April 18, Administration shared with Council the results of the engagement with Councillors and citizens, highlighting priorities and issues common to both groups (C2016-0337).

BACKGROUND

When Administration first proposed the Investment Framework to Council, the framework categories and the guiding questions within it were still preliminary. Administration committed to bring back a refined framework that would reflect stakeholder information and research collected from a variety of sources, through the mid-cycle adjustments process, including:

- Business plan commitments for the last two years (2017 and 2018) of Action Plan (provided to Council on 2016 March 21);
- The primary themes that emerged from the one-on-one Council engagement and public engagement and research (provided to Council on 2016 April 18);
- The three alternative economic scenarios for Calgary - low, moderate and high – based on consideration of the drivers of the Calgary economy, and the resulting conditions, presented in this report (Attachments 1 and 3);
- Impacts of the economy on the community as gathered through a series of workshops with approximately 100 representatives from community organizations, business and City of Calgary departments, as well as a research summary of the social impacts of economic downturns carried out by the University of Calgary (Attachments 1, 4 and 5), and
- The impact of the economy on The City's services and financial projections.

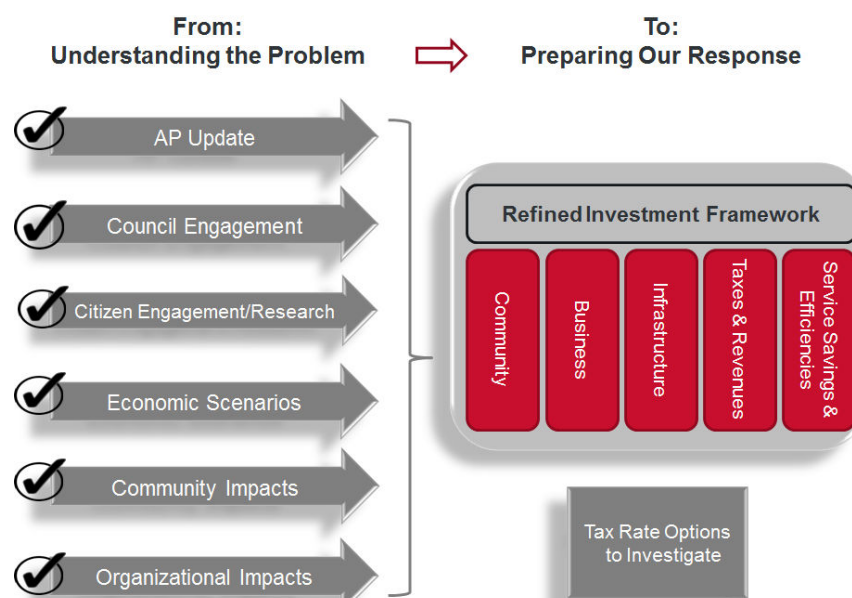


Fig. 2. Sources of information considered in the refined Investment Framework and Tax Rate Options.

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All of these information sources will inform The City's response through the adjustments process.

The purpose of this report is to:

- Bring forward the results of the remaining research,
- Present a synthesis and analysis of all research completed to date,
- Seek Council's approval of the refined Investment Framework, which reflects the key findings of the research and analysis, and
- Seek Council's direction on tax rate options to investigate, with the results to be brought to the June 27 Strategic Council meeting.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Economic Scenarios & Community Impacts

Three economic scenarios – low, moderate and high – were developed by the Centre for Spatial Economics (C4SE) and The City's Corporate Economics group. These scenarios allow Administration to consider a range of possible outcomes for the future and respond with strategies for adjustments that are valid across all three scenarios. The scenarios considered the key drivers of Calgary's economy (such as oil prices, natural gas prices, and exchange rates) as inputs into the economic model, to produce alternate outcomes for economic conditions.

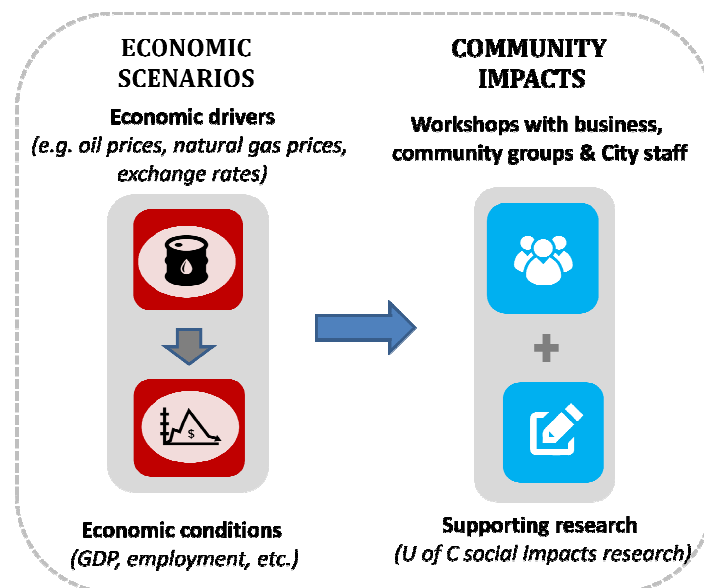


Fig. 3. Diagram showing how the economic scenarios were developed and then used to better understand the community impacts, through workshops and supporting research.

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One of the key findings of the economic scenario work is that even the highest (or most optimistic) scenario predicts a level of economic activity that is significantly lower than the forecasts on which Action Plan was predicated. The only exception is population growth, which is expected to remain very close to the original Action Plan projections. Another notable finding in all three scenarios is that the Calgary economy is expected to rebound and return to reasonably healthy levels by 2019. The full report and presentation slides on the economic scenarios can be found in Attachment 3.

To understand the impacts of the current economic downturn on the community, Administration has drawn on research prepared by the University of Calgary, and on information obtained through workshops with representatives from community organizations, business and City of Calgary departments, to understand how the economic downturn is likely to affect individual citizens, businesses, community organizations and The City.

The research revealed that:

- Those already in vulnerable positions appear to be hit the hardest, including low income families, single parents, children and youth, and recent immigrants.
- Impacts of a recession often include increases in poverty rates, challenges in meeting basic needs such as food and shelter, social isolation, mental health problems and domestic violence.
- Businesses face a drain of talent that may affect future economic growth potential, as massive layoffs have forced potential candidates to leave Calgary for other US and Canadian cities.
- Demand for certain City services has increased while other City services have seen a decline in use.

A summary of the economic scenarios and associated community impacts is provided in Attachment 1. Details from the University of Calgary research and the stakeholder workshops are in Attachments 4 and 5 respectively.

Refined Investment Framework

The research and stakeholder input indicate the need to find the right balance between three different priorities and needs:

- Adapting and maintaining services to Calgarians, to continue to meet the needs of the growing population, respond to some critical emerging needs, and ensure the city is well-positioned for economic recovery;
- Ensuring The City is as efficient as possible, restraining tax rate increases, and reviewing selected user fees; and
- Investing strategically in infrastructure to stimulate the local economy and build assets to support future needs.

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Fig. 4. Diagram showing the balance between three different priorities and needs.

The refined Investment Framework addresses all three of these priorities in five categories as detailed on Page 2 of Attachment 2. The framework categories and questions are provided for Council's consideration and approval, and will be used to guide the rest of the Adjustments process from now until November, by seeking changes that address these specific issues. Within each category are 3-5 questions that reflect the most critical emerging needs. The questions were developed in consultation with Directors and staff from a number of City departments, as well as the Chief Executive Officer of Calgary Economic Development.

Proposals within the five categories of the investment framework will also be financially balanced, to fit within the tax rate directed by Council:

- The "Service Savings and Efficiencies" category will seek new efficiencies, i.e. cost reductions with no service impacts. If further cost reductions are needed, it will focus on "least harm" options, where the impact to services and outcomes is the most manageable. Information on service impacts (if any) will be provided to Council.
- Initiatives in the "Business" and "Community" categories will include low-cost and no-cost options. Where additional funding is required to support a proposal, one-time funding will be used.
- Projects in the "Infrastructure" category will be funded from currently approved funding sources, including any capital funds freed up by the capital budget recast.
- The "Taxes and Corporate Revenues" category will look for corporate funding sources to offset some of the financial impacts; it will also identify one-time funding for initiatives in other categories.

Financial Update

The corporate revenue projections for 2017 are the result of the slower economy, and are driven mainly by lower franchise fee revenues from depressed natural gas and electricity price

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forecasts, partially offset by slightly higher projected taxation revenues, relative to the Resilience Budget estimates. This is compounded by the ongoing impact of the 2016 user fee freeze (assuming that the previously-approved increases occur in 2017 and 2018) and some higher expenditures.

The projected total shortfall for 2017 from the above factors is approximately \$20 million. This shortfall is equivalent to approximately a 1.3% property tax rate increase. Administration has identified one time sources that can mitigate this shortfall without impacting the tax rate, and will include this information in the presentation to Council on 2016 May 30. The on-going base impact in 2018 and beyond may also be manageable within the approved tax rate increase if lower cost pressures emerge as expected.

The previously-approved 2017 tax rate increase is 4.7%. With every 1% further tax rate reduction equivalent to approximately \$15M, Administration is seeking Council direction on tax rate options to consider in order to provide an assessment of the impacts for discussion at the 2016 June 27 Council Strategic Session.

Action Plan also included an approved tax rate increase of 4.7% for 2018. Given the uncertainties remaining in the economy and the impacts to The City, Administration is proposing that discussion around the 2018 be deferred until the spring of 2017, when a better assessment of The City's financial position can be done.

Stakeholder Engagement, Research and Communication

Throughout the mid-cycle adjustments process, there have been extensive engagements, research and communication with both internal and external stakeholders. In January and February 2016, Council members were engaged in one-on-one interviews to better understand emerging issues and challenges they are hearing about from their constituents regarding City services. In February 2016, the public was also engaged through a variety of online and in-person methods, including the Engage Bus and online engagement tools. To better understand the impact of the economy and the scenarios on the community, a series of workshops were conducted with approximately 100 representatives from community organizations, business and City of Calgary departments. As well, research on the social impacts of economic downturns was compiled by the University of Calgary, and used to inform this report.

In subsequent Council Strategic Sessions in the fall, Council will receive an update on the economic and financial outlook (2016 September 19), as well as the results of the Citizen Satisfaction Survey (2016 November).

Strategic Alignment

The proposed process aligns with The City Manager's Leadership Strategic Plan outcomes to "establish a cooperative and meaningful relationship with Council" and "better serve our citizens, communities, and customers".

It also supports the Council Priority of "A Well-Run City", in particular Strategic Action W4 "Balance the demand for quality City services with affordable taxes" and Strategic Action W5 "Regularly collaborate and engage citizens to encourage participation in City decision-making, and better communicate the reasons for the decisions".

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The proposed Investment Framework approach supports 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".

The process is also consistent with approved Council policy and past direction.

Social, Environmental, Economic (External)

The economic scenarios work and community impacts analysis have produced useful information on the impacts of the social, environmental and economic situation, which will inform Administration's proposed mid-cycle adjustments for 2017 and 2018.

Financial Capacity

Current and Future Operating Budget:

The costs for the work associated with developing the economic scenarios and the community impact workshops were accommodated within previously-approved budgets. Impacts on the operating budget and tax increases are part of the mid-cycle adjustments.

Current and Future Capital Budget:

There are no capital budget impacts as a result of this report. Administration will bring forward the results of the recast of the capital budget on 2016 June 27. The recast capital budget will be reprioritized and brought forward during the mid-cycle adjustments deliberations in November 2016.

Risk Assessment

The mid-cycle adjustments process considers risk in at least three ways. First, all departments and business units are in the process of reviewing and updating their risk registers, and will use this to inform recommendations about proposed adjustments that are brought to Council in the fall. Second, the economic scenarios / community impacts assessments are a form of risk mitigation insofar as they help to understand the impacts of a variety of possible futures. Finally, risk management includes situational monitoring and adaptation. The Mid-Cycle Adjustments process was designed around a series of strategic discussions with Council members, to bring up-to-date data and to provide for process adaptations as new information becomes available over the course of the year.

ATTACHMENT(S)

1. Summary of Economic Scenarios & Social Impacts
2. Refined Investment Framework
3. Economic Scenarios – Report & Presentation Slides by the Centre for Spatial Economics
4. Social Impacts of an Economic Downturn – Report by the University of Calgary
5. Community Organizations, Business and Staff Engagement Results from workshops.