



CITY OF CALGARY
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IN COUNCIL CHAMBER
MAY 30 2016
ITEM: 4.1.1 C2016-0472
Distribution
CITY CLERK'S DEPARTMENT



Corporate Alignment

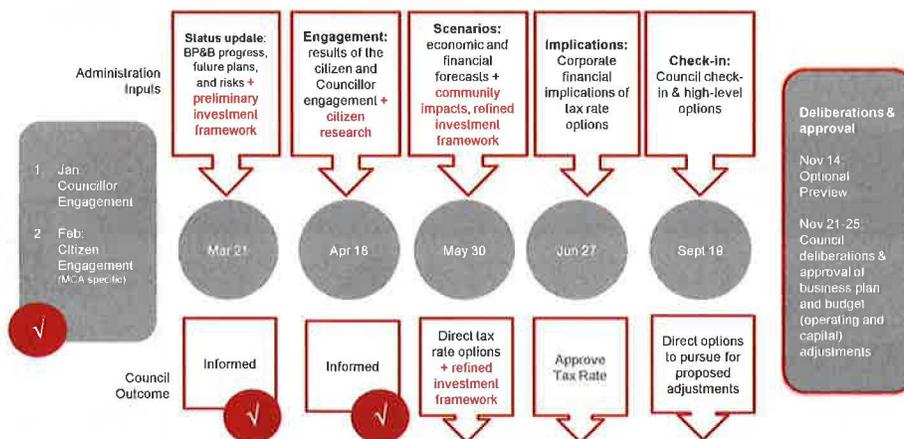
- Leadership Strategic Plan
 - Establish a cooperative and meaningful relationship with Council
 - Better serve our citizens, communities and customers
- Council Priorities (Action Plan)
 - Balance the demand for City services with affordable taxes
 - Regularly collaborate and engage citizens to encourage participation in City decision-making, and better communicate the reasons for the decisions.
- Economic Resilience Strategy
 - Continue to provide services to Calgarians
 - Focus on value for money in service delivery
 - Review the economic situation and respond to impacts on Action Plan
 - Proceed with strategic infrastructure investment
 - Work with partners to identify and respond to what is required

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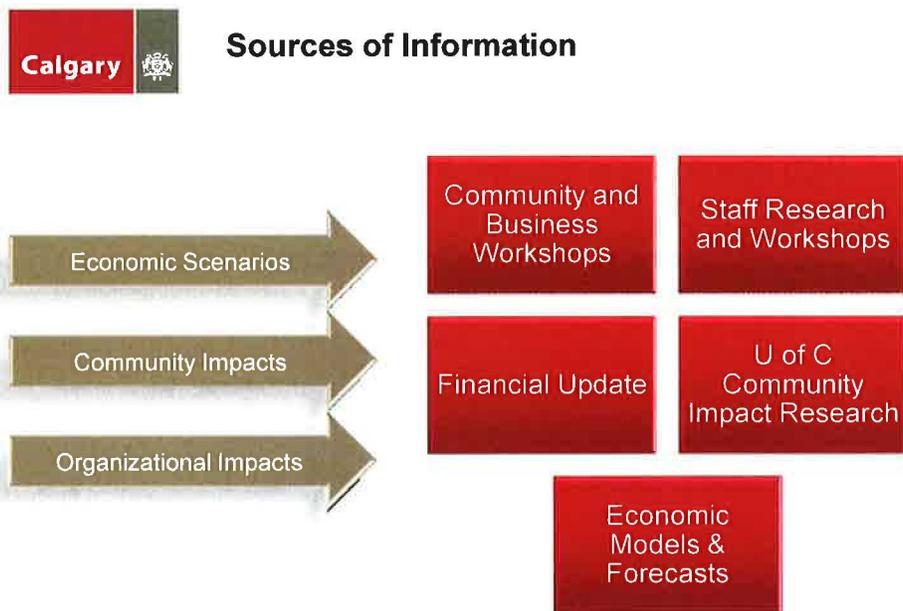
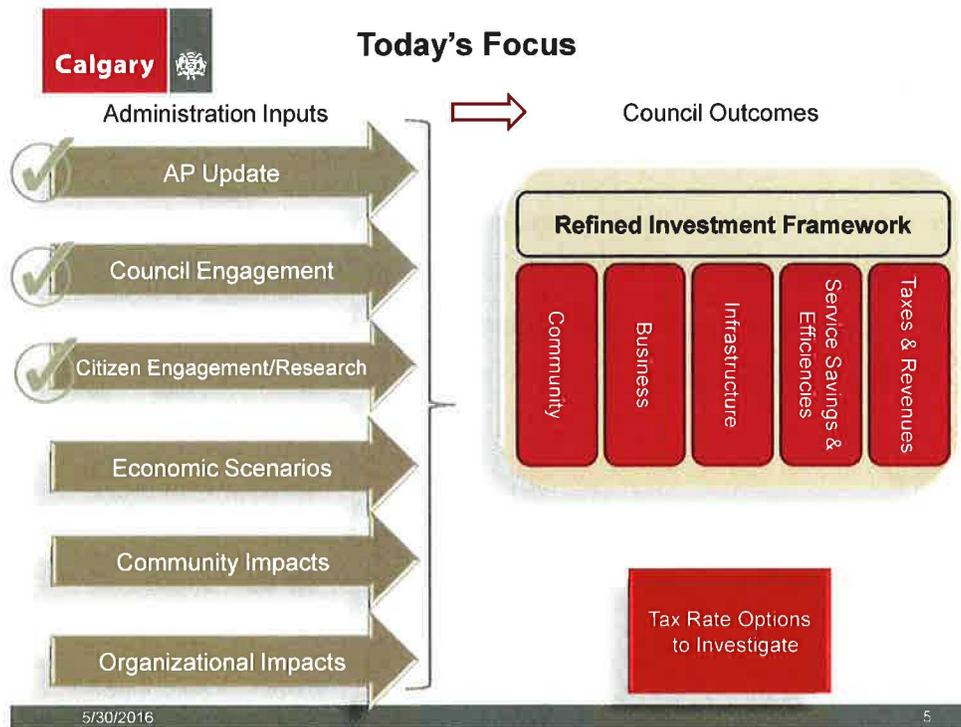


Mid-Cycle Adjustment Process



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Economic scenarios

Why

- Understand magnitude of change in the economy
- Understand the risks
- Prepare better for what might happen – more resilient
- Mitigate the risks around economic uncertainty

How:

- Three scenarios based on different assumptions about key drivers
- External economic consultant working with Corporate Economics

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Economic Update – Key findings

- High scenario is well below the Action Plan forecast
- The differences between scenarios is small relative to difference from Action Plan
- Despite current recession, Calgary is still growing
- All scenarios show a recovery in 3-4 years

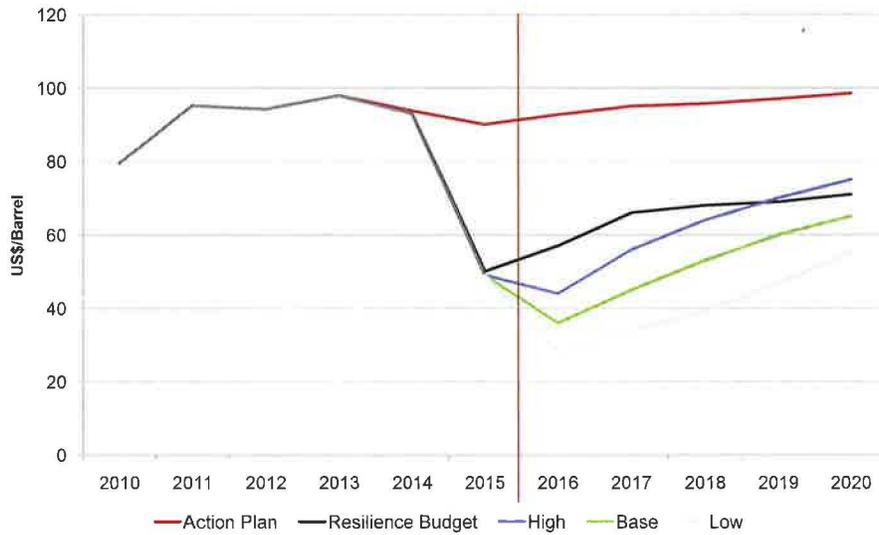
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Economic Scenarios

WTI Oil Price



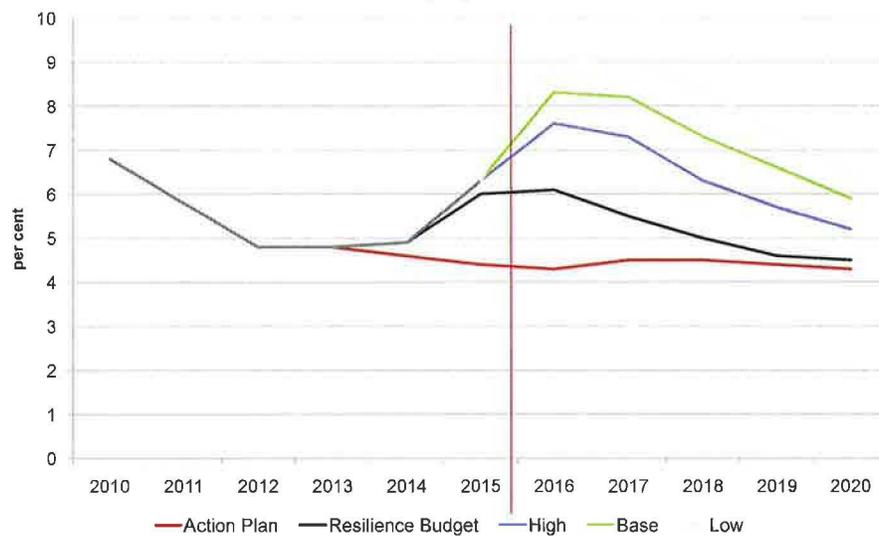
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Economic Scenarios

CER Unemployment Rate



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Economic Projections Action Plan Vs Now

| ECONOMIC INDICATORS | | | PROJECTIONS for 2017 in ACTION PLAN | CURRENT PROJECTIONS* | | |
|-------------------------|------------------|-------------------------|-------------------------------------|----------------------|---------------|-------|
| | | | 2017 | 2017 | | |
| | Units | Geography | | Low | Base/Moderate | Hi |
| Population (000s) | Persons | City | 1,251 | 1,254 | 1,261 | 1,268 |
| WTI oil price | \$/US per barrel | World | 95.00 | 34 | 45 | 56 |
| Alberta Natural Gas | \$/GJ | Alberta | 4.22 | 2.97 | 3.37 | 3.73 |
| CER GDP | Per cent | Calgary Economic Region | 2.6 | -0.80 | 0.30 | 1.60 |
| Consumer Inflation Rate | Per cent | Calgary CMA | 2.1 | 0.70 | 0.80 | 0.90 |
| Unemployment Rate | Per cent | Calgary Economic Region | 4.2 | 9.10 | 8.20 | 7.30 |
| Housing Starts | (000) units | City | 12.30 | 6.50 | 8.10 | 9.60 |
| Building Permits | Billions \$ | City | 4.5 | 4.12 | 4.60 | 5.18 |

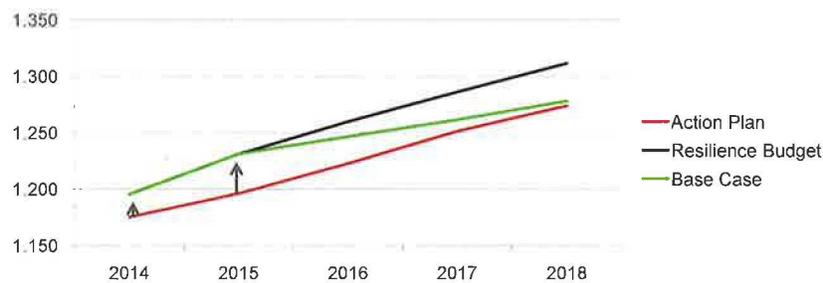
*Source: Corporate Economics & C4SE, March 2016

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Changes in Population Growth Projections



- Higher growth in 2014 & 2015 pushed projected population higher than anticipated in Action Plan
- Slower anticipated growth is expected to align population in 2018 with Action Plan expectations

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Community Impacts: Citizens



Unemployment

- Greater effect on certain groups (men, youth, recent immigrants, aboriginals, single parent families and those earning low wages)
- Underlying cause of many other social impacts



Poverty rate

- Demand for basic needs (food and shelter)
- Housing affordability (including rental housing)
- Homelessness
- Affordability of sports, recreation, cultural events



Community Impacts: Citizens



Mental health problems

- Greater impact on those living in poverty, those with pre-existing mental illness, and "least well educated"
- Increased depression and suicide rates
- Substance abuse



Domestic violence, divorces, family stress

- Linked to job instability, decreasing household income, financial strain
- Potential long-term effect on children



Community Impacts: Community Groups

- ↑
 - Demand for community-based support services
 - Esp. services related to support for basic needs (e.g. the food bank), housing and shelter, mental health, family support)
- ↓
 - Reduced funding from donations.

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Community Impacts: Business

- ↓
 - Loss of talent to other cities, public sector.
 - Availability of leaders for the future.
 - Available talent lacks skills needed by other industry sectors.
- ↑
 - Opportunities to:
 - Narrow the salary gap between oil and gas, and other industry sectors;
 - Attract new talent by further developing Calgary's cultural, art and urban quality of life.

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Impacts to City Services



- More demand for free and low-cost, subsidized support programs and services
- Increase in fee assistance applications and redemptions (compared to Q1 of 2015)
- Longer waiting list for Affordable Housing
- Increased attendance at Library, Zoo, Telus Spark

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Impacts to City Services (cont'd)



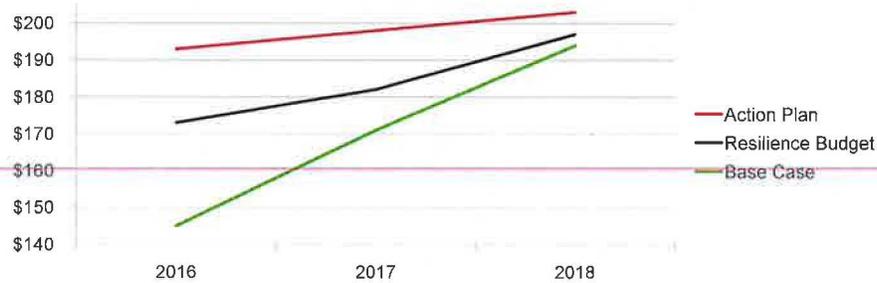
- Decline in Recreation program registration, facility rentals and facility visits.
- Decrease in use of Transit
- Lower building & development permit volumes and values as of Q1 2016

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Impacts to City Finances: Changes to Franchise Fee Projections (\$M)



- Franchise fee revenues affected by lower utility (electricity and natural gas) price forecasts.
- Effect is expected to be temporary

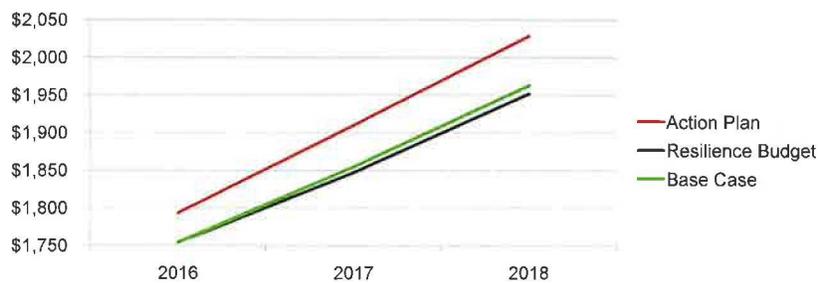
| | |
|-------------------------|--------------|
| Total Budget Shortfall: | 2016 - \$28M |
| | 2017 - \$11M |
| | 2018 - \$3M |

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Impacts to City Finances: Changes in Taxation Revenue Projections (\$M)

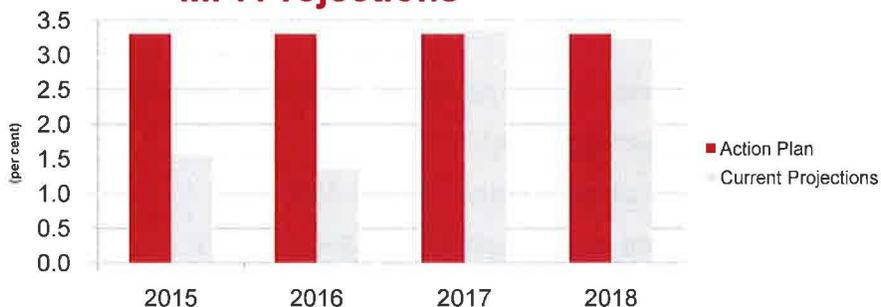


- Taxation revenue growth affected by lower housing starts and building permits.
- Action Plan budgeted revenues were revised upwards in November 2014
 - additional revenue placed in tax revenue contingency fund.
- Resilience Budget revised growth projections downwards
 - Taken out of tax revenue contingency fund
- Resilience Budget also cut the 2016 tax rate increase to 3.5% (drop of 1.2%)
 - \$18M from Business Unit budgets
- Current projected taxation revenues are slightly higher than the Resilience Budget projections but lower than Action Plan

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Calgary  **Impacts to City Finances: Changes in MPI Projections**



- MPI in 2015 & 2016 lower than Action Plan estimates (especially fuel & oil, contract & general services, and natural gas)
- MPI is expected to increase back up to Action Plan estimates for 2017 and 2018

Calgary  **User fees**

- **Transit**
 - Continuing the 2016 transit fee freeze (single year fee increases only for 2017 & 2018) would reduce 2017 revenues by \$9 million
 - Further reduction to the approved rates (e.g. freezing rates again in 2017) would impact revenues further (2017 total = \$18M)
 - Costs not directly tied to revenue
- **Recreation**
 - Continuing the 2016 fee freeze (single year fee increases only for 2017 & 2018) would reduce 2017 revenues by \$2 million
 - Further reduction to the approved fees(e.g. freezing rates again in 2017) would impact revenues further (2017 total = \$4M)
- Other user fees (e.g. permits) will manage within their reserves or relatively minor impact
- No proposed changes to Utilities rates
- W&RS will introduce Green Cart fees in 2017

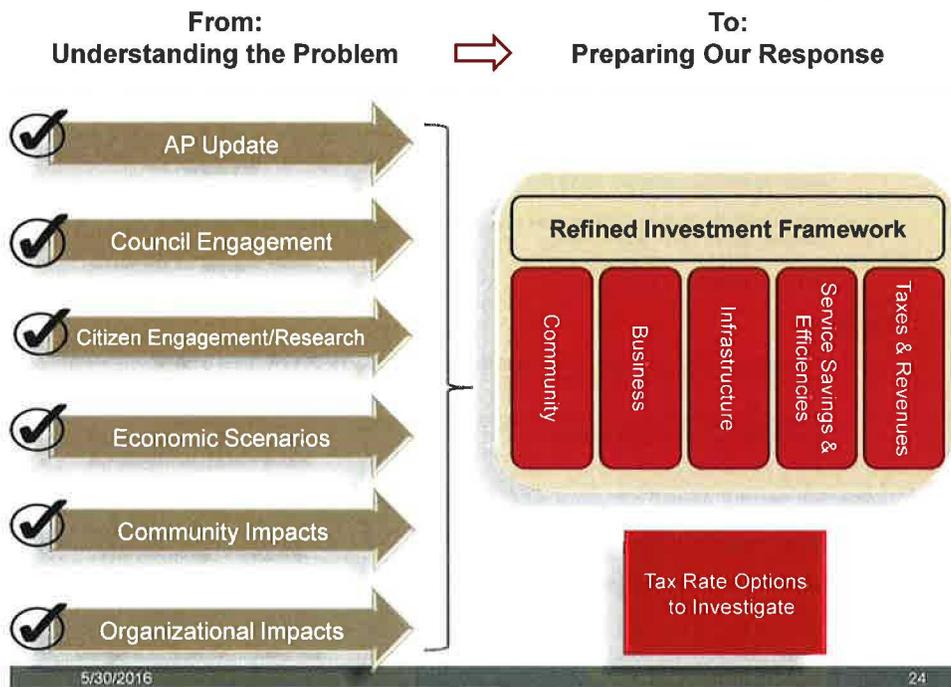


Financial Impact: Summary

- 2017 Corporate revenue down \$10 - 15M (including impact of 2016 user fee freeze only)
- 2017 Corporate expenditures up \$5 – 10M
- Net Corporate impact approximately \$20M in 2017
- Action Plan approved rate = 4.7% for 2017
 - Every 1% reduction = \$15M

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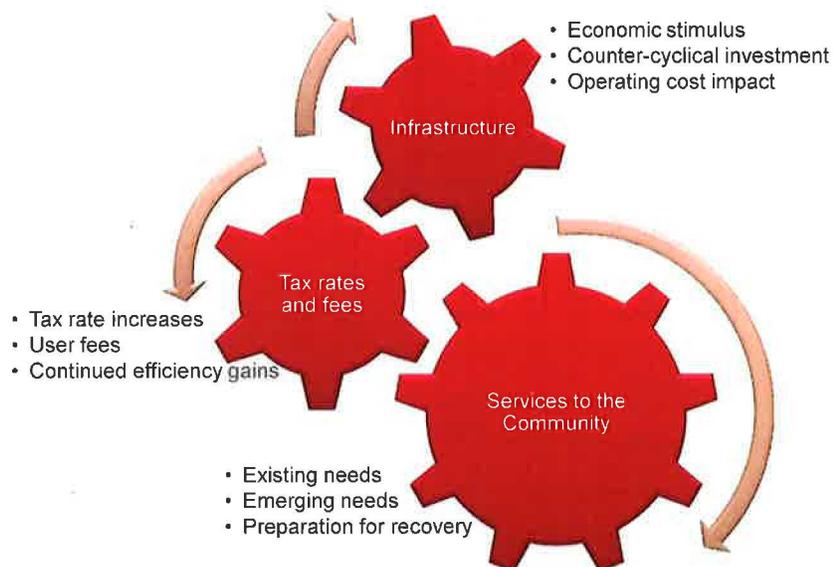


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Striking a Balance



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The Investment Framework: A Proposed NEW Approach to Adjustments

What is it?

A new way of thinking. Bring Adjustments to Council in packages built around focus areas that speak to overall public value.

Why Use It?

- 1 To act as a strategic driver
- 2 To present information in a more meaningful way.
- 3 To encourage cross-departmental discussions and solutions.

Source: March 21 Strategic Council Session: C2016-0252)

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| Calgary  | | Refined Investment Framework | | | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|
| Community | Business | Infrastructure | Service Savings & Efficiencies | Taxes & Corporate Revenues | | |
| <ul style="list-style-type: none"> • Access for low-income / financially stressed • Housing insecurity and homelessness • Emerging needs via partnerships • increases in social program demand | <ul style="list-style-type: none"> • Cultural, recreational and physical landscape • Business diversity • Start/grow new business • Grass-roots economic development • Facilitate growth and development | <ul style="list-style-type: none"> • Emerging business and community needs • Operating efficiencies and/or limited operating costs • Micro-projects • Local job creation • Link to Capital Infrastructure Investment Plan | <ul style="list-style-type: none"> • Efficiency (no service impact) • Efficiency with small up-front investment • Least-harm service reductions (if needed) • User fee revenue drop due to reduced volume. | <ul style="list-style-type: none"> • Corporate costs and revenues • Manage via corporate programs vs. business units • Use of BSA • Base impacts - for 2018 and beyond • Funding for Investment Framework 1X projects | | |

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Research and Stakeholder Consultation: Key Findings

- Higher unemployment leads to more:
 - Basic needs not met
 - Mental illness
 - Domestic violence
- Maintain access to City services
- Financial impact on some community organizations



Community: Areas of Focus

1. Access for low-income / financially stressed
2. Housing insecurity and homelessness
3. Respond to emerging needs via partnerships
4. increases in social program demand

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Research and Stakeholder Consultation: Key Findings

- Arts, culture, recreation, quality of life essential to long-term economic growth.
- Lack of confidence reduces consumer spending.
- Loss of skilled workforce – long term economic impacts.



Business: Areas of Focus

1. Cultural, recreational and physical quality of life
2. Business diversity
3. Start and grow new businesses
4. Grass-roots economic development
5. Facilitate growth and development

Research and Stakeholder Consultation: Key Findings

- Public transportation, traffic flow, local green spaces and recreation facilities.
- Concerns about operating costs of capital.
- Public support for infrastructure investment to support economic recovery.
- Micro-projects with big impact.



Infrastructure: Areas of Focus

1. Emerging business and community needs
2. Operating efficiencies and/or limited operating costs?
3. Micro-projects
4. Local job creation
5. Link to Capital Infrastructure Investment Plan



Research and Stakeholder Consultation: Key Findings

- Citizens want:
 - efficiency and cost reduction
 - maintaining service levels.
- Council asked for clarity about:
 - how cost savings are being achieved
 - what the service impact is (if any).
- Changes in demand for City services.



Service Savings & Efficiency: Areas of Focus

- 1. Efficiency (no service impact)**
- 2. Efficiency with small up-front investment**
- 3. Least-harm service reductions**
- 4. User fee revenue drop (reduced volume)**



Research and Stakeholder Consultation: Key Findings

- Interest in lower tax increases.
- Balance with maintaining services.
- Short and long-term financial impacts.

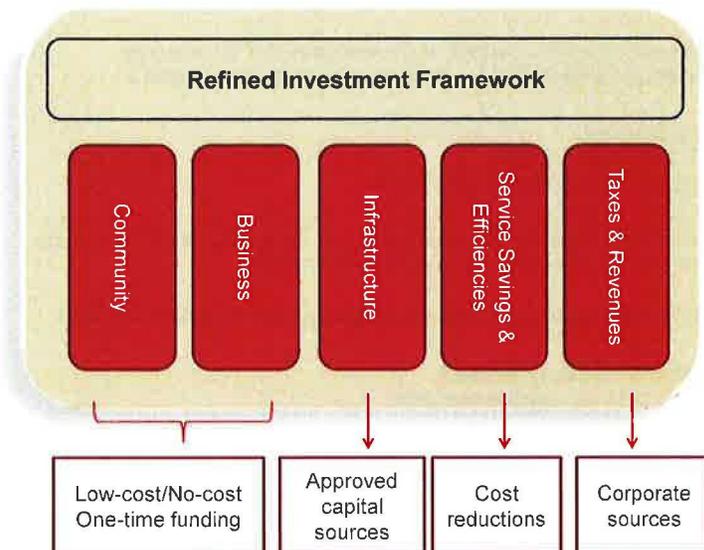


Taxes and Corporate Revenue: Areas of Focus

- 1. Corporate costs and revenues**
- 2. Corporate programs vs. business units**
- 3. Use of Budget Savings Account**
- 4. Base impacts in 2018 and beyond**
- 5. Funding for Investment Framework one-time projects**



Funding the Investment Framework

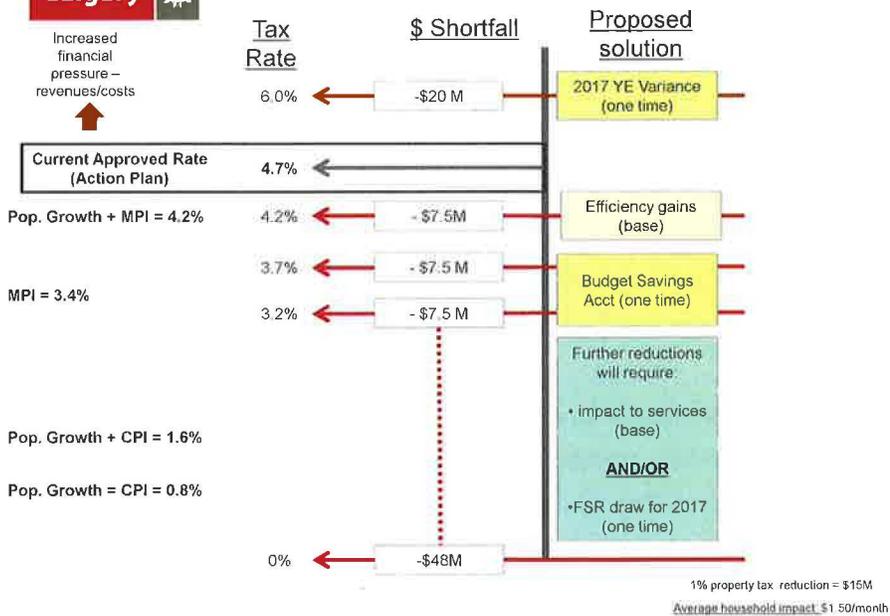


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2017 Corporate Revenue Summary



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2018 impacts

- Balancing 2018 within current approved rate (4.7%) requires permanent funding of 2017 one-time solutions ("bow wave")
- Funding Sources:
 - 2012 tax room (~\$10M)
 - Recovery of Franchise Fees (~\$10M)
- Other one-time funding (BSA) expected to be funded from potentially lower costs due to economy (e.g. labour market)
- Further reductions to be funded through service reductions or FSR
- Significant uncertainty remains
 - Leave 2018 tax decision until 2017

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Recommendations

That Council:

1. Receive for Information Attachments 1, 3, 4 and 5;
2. Approved the refined Investment Framework as the focus areas for mid-cycle Adjustments (Attachment 2, page 2); and
3. Direct tax rate options for Administration to work within and, if necessary, identify possible service impacts for the next Strategic Council Session (2016 June 27).

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