2016 RESILIENCE BUDGET

EXECUTIVE SUMMARY

The economic downturn soon after the approval of *Action* Plan 2015-2018 has affected both this organization and the community we serve. As a direct result of the downturn, unemployment levels in Calgary have increased, and municipal revenues have dropped below the level that was budgeted in *Action* Plan. However, based on the most recent civic census, overall service demand and growth pressures in the community have remained high, and are in fact exceeding earlier forecasts.

Administration's proposed 2016 operating budget is guided by the principles of The City's Economic Resilience Program. Despite the increased growth pressure, Administration is proposing to cover the 2016 corporate revenue shortfall through corporate costs, and to reduce the tax rate increase for 2016 by 1.2% to 3.5% through efficiencies and savings while maintaining investment in the community, and without any impact to frontline services.

ADMINISTRATION RECOMMENDATION(S)

That Council:

1. Approve the proposed adjustments to the operating budget for 2016-2018 (Attachment 1);
2. Adopt the proposed 2016 operating budget as amended, including any changes resulting from Council decisions on unfunded items provided in the preceding report C2015-0770;
3. Give three readings to the proposed bylaw to amend the Livery Transport Bylaw 6M2007 (Attachment 2);
4. Receive for information the 2016 Resilience Budget Presentation (Attachment 3).

PREVIOUS COUNCIL DIRECTION / POLICY

On 2014 November 24, Council approved *Action* Plan 2015-2018 as amended (C2014-0863), resulting in a municipal property tax rate increase of 4.5% in 2015 and 4.7% for each year of 2016-2018. The *Action* Plan also included $50 million in efficiencies between 2015 and 2018.

Council approved the 2015-2018 Livery fee schedule in the 2014 November 24 Special Meeting of Council (C2014-0863).

On 2015 February 10, Administration presented to Council the Economic Resilience Program to focus efforts and to 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. In the short term, The City will respond to what is required to retain productive people, businesses, incomes, jobs and investment projects, while preparing for economic recovery. The City will also continue to invest in infrastructure, create employment and prepare for future growth and resiliency.

In line with the Economic Resilience Program, Council approved the creation of the Budget Savings Account on 2015 March 30 (PFC2015-0181).

On 2015 July 27, Council directed Administration to bring a 2016 Resilience Budget to the 2015 September 28 Regular Meeting of Council.

BACKGROUND
Shortly after the approval of *Action* Plan 2015-2018 (C2014-0863), there was a downturn in Calgary's economy largely due to dropping oil prices. On 2015 June 22, Administration provided Council with an update of The City's financial situation for 2016, which included projections of a revenue shortfall for 2016-2018 as a result of lower-than-forecast taxation and franchise fee revenues. The cost of providing City services has not decreased, and the demand for services (as shown through the 2015 Civic Census results) is above the levels provided for in *Action* Plan 2015-2018. At the time of *Action* Plan approval in November 2014, population growth projections averaged 25,000 residents for each year of 2015-2018. Recently-released census data at the end of 2015 July, however, revealed that Calgary's population grew by 35,721 residents since 2014, which is comparable to the rate of growth in the previous year (38,508 additional residents in the 2014 census).

INVESTIGATION: ALTERNATIVES AND ANALYSIS
The City's Current Financial Situation
The City's financial situation has changed since *Action* Plan approvals last fall following the economic downturn. Based on the approved 2016 tax rate increase of 4.7%, The City would expect to experience revenue shortfalls for the remaining three years of the cycle as follows:

Change in Projections since *Action* Plan in:	**2016 ($ millions)**	**2017 ($ millions)**	**2018 ($ millions)**
Franchise Fees	(20)	(16)	(6)
Taxation	(21)	(44)	(57)
Total Revenues	**(41)**	**(60)**	**(63)**

The lower corporate revenue projections are the result of the slower economy, and are driven by two main components:

- Lower franchise fee revenues from depressed natural gas and electricity prices compared to *Action* Plan projections (2016 - $20 million), and
- Lower projected taxation revenues, which are the result of slower economic growth that is slowing the growth in the tax base (2016 - $21 million).

This information was summarized in a briefing to Council on 2015 June 22.

On 2015 August 11, a memo from Councillors Sutherland and Colley-Urquhart requested Administration to investigate various scenarios for tax rate cuts ranging from -0.5% to -3.1% (an amount that reduced the tax rate increase to the equivalent of the current Consumer Price Index). Administration analysed the impact of the scenarios and considered them in the context of the principles of the Economic Resilience Strategy, including The City's ability to deliver services, support the local economy, pursue capital expenditures and maintain the organization's long term capacity.

Impact of Tax Rate Increase Cuts on Service Delivery and the Local Economy
While reducing operating expenditures will reduce the tax rate increase for the average homeowner somewhat, cutting City spending can also have an adverse effect on the local economy. Reductions on The City's operating base budget could affect service delivery, as well as compromise The City's capacity to deliver on capital projects, thus negating its role in stabilizing and stimulating the economy amid the current economic climate.

The table below summarizes the effect of various reductions to the tax rate increase, including the four scenarios requested in the August 11 memo as well as one additional scenario identified by Administration (blue-shaded row). This additional scenario reflects the amount of expenditure reduction that is approximately equal to the expected annual (2015) tax-supported operating savings achieved through the Budget Savings Account.

Tax Rate Increase Reduction Below 4.7%	Revised Tax Rate Increase	Impact on City Service Delivery	Monthly Municipal Tax Increase (Typical Household)	Operating expenditure reduction ($ Millions)
- 0.5%	4.2%	None	$5.90	$7.5
- 1.0%	3.7%	None	$5.20	$15.0
- 1.2%	3.5%	None	$4.90	$18.0
- 1.5%	3.2%	Slight	$4.50	$22.5
- 3.1%	1.6%	Significant	$2.25	$46.5

The scenario analysis allowed Administration to conclude that a 1.2% reduction to the tax rate increase would not have significant adverse effects on The City's ability to deliver services to the growing population, nor would they cause significant additional harm to the local economy. At this level, The City could also preserve its capacity to support capital investment projects, which are also critical to The City's Economic Resilience Program.

Administration's Proposed 2016 Operating Budget
Administration proposes the following approach to the 2016 operating budget:

- **Funding the franchise fee revenue shortfall of $20 million through the Corporate Costs budget.** It is anticipated that this shortfall is short-term in nature, given the historically cyclical nature of oil prices and its effect on the local economy, and can be offset by corporate cost funding.

- **Funding the lower projected taxation revenues of $21 million through the Corporate Costs budget (tax revenue contingency fund).** When *Action* Plan was presented to Council in November 2014, the property tax revenue estimates were revised upwards from the levels that had been projected earlier in that year, reflecting the robust economic activity at that time that led to unanticipated additional revenue growth in 2014. However this additional revenue was never allocated to departments, but was placed in the Corporate Costs budget, pending more certainty about the impacts of the economy on cost and revenue growth. Since then, and given more recent economic news, taxation revenue growth has been revised downwards (close to the original *Action* Plan estimates) to reflect the expected slowdown in population growth over the next three years. This reduction in tax revenue projections can therefore be offset through a reduction to the Corporate Costs budget, with no impact on departmental budgets or service levels.

- **Reducing the 2016 tax rate increase by 1.2% by reducing departmental expenditures (equivalent to $18 million).** Administration is proposing a reduction of the previously-approved 2016 tax rate increase of 4.7% to 3.5%. This tax rate increase reduction is equivalent to $18 million in base funding and can be covered by efficiencies and savings identified by Departments throughout the year without any impact to service delivery. The Budget Savings Account (BSA) has demonstrated that Administration is able to find savings of this order of magnitude through efficiencies. The year-to-date (YTD) Q2 update of the Budget Savings Account showed $12 million worth of operating savings from tax-supported operations (C2015-0662) as of 2015 June 30. The Zero-Based Review program has been instrumental in helping business units to find savings through service efficiencies, and will continue to do so.

Administration proposes covering all of the above adjustments through corporate costs in the short term (Attachment 1). Following Council approval, Administration will allocate out part of the corporate reductions to departments (i.e. $18 million), with the balance to be absorbed corporately.

The original intent of the operating Budget Savings Account (BSA) is to house favourable budget variances identified by business units for investment in strategic initiatives (PFC2015-0181). With savings identified being taken out of the base departmental budgets to cover the projected revenue shortfalls, it is anticipated that additional funds available for the Budget Savings Account will be limited. The operating Budget Savings Account will be revisited in 2017 as part of the Mid-Cycle Update.

Administration's focus at this time is on adjustments to the 2016 operating budget. Adjustments to future year (i.e. 2017 and 2018) operating budgets will be considered in the light of further developments in the local economy, and brought to Council in the fall of 2016 through the Mid-Cycle Adjustment process.

Proposed Amendment of Livery Transport Bylaw 6M2007 (Attachment 2)
The economic downturn is resulting in increased financial challenges for members of the livery industry. Traditionally the livery industry is impacted more severely than other sectors of the economy during a downturn, as the industry experiences a significant influx of new drivers due to layoffs in other sectors, viewing the livery system as a temporary means of earning income. In 2015 for instance, there has been a 15 per cent increase in taxi drivers and a 23 per cent decrease in trip volumes per driver.

Recognizing the importance of responding to these emerging concerns in a timely fashion and in accordance with the requirement to review livery fees annually, Administration is moving forward a combination of livery fee reductions for 2016. These reductions will serve to partially mitigate the financial pressures associated with the current economic climate, while also contributing to the Economic Resilience Program. Further, this approach aligns with recent driver survey feedback, which highlighted the importance of reducing fees as a means of supporting industry sustainability. These reductions will have no impact on the mill rate as Livery Transport Services is self-supported and maintains a reserve fund to stabilize industry fees. The required amendments to the Livery Transport Bylaw to accommodate these fee reductions are outlined in Attachment 2. It is important to note that the annual taxi metre rate review is not a part of the fee adjustment changes. A recommendation on the metre rate will be included in the 2015 Sept 30 SPC on Community & Protective Services Limousine Regulation Amendments report.

<u>2016 Resilience Budget Presentation (Attachment 3)</u>
Attachment 3 consists of an update of The City's financial situation, as well as Administration's proposed approach for the 2016 Resilience Budget.

<u>Approval of Adjustments to the Capital Budget</u>
Administration is scheduled to bring forward a "capital stimulus budget" at the 2015 November 25 Strategic Meeting of Council for approval and adoption. The impact of capital spending at The City on the local economy will be provided in greater detail, in consideration with any program changes in capital programs from other levels of government.

<u>One-Time Carry-Forward of Favourable Operating Variances</u>
Council Policy CFO004 (Multi-Year Business Planning and Budgeting Policy for The City of Calgary) permits the one-time carry-forward of favourable departmental operating budget variances to be considered with the annual Adjustments process. The carry-forward requests for 2016 will be brought forward at the 2015 November 25 Strategic Meeting of Council for approval.

<u>Items Referred to the 2016 Resilience Budget</u>
The preceding report C2015-0770 identified items that have been referred to the 2016 Resilience Budget for Council information. Traditionally, Council considers all reports that have been referred throughout the year to the Adjustments process (currently replaced by the 2016 Resilience Budget). These unfunded projects total one-time funding of $2.4 million for 2016. Should Council approve one-time funding for these items, they can be accommodated temporarily through the Fiscal Stability Reserve, with no impact to the proposed tax rate. Approval of base funding, however, for these or any other initiatives, would affect the tax rate unless some other source of offsetting base revenues is identified.

<u>Consideration of Risks in the Business Plan and Budget Process</u>
Integrated risk management practices are a key component of the business planning and budgeting process. As part of the process to develop the Action Plan, departments used information gathered from the corporate environmental scan including trends to identify broad areas of risk. Further, as departments defined their strategies and actions, risk events that could affect their achievement were identified along with mitigation measures and management accountability. This strong link between risk management and business planning and budgeting continues, and was a key component of preparing this resilience budget. As a concurrent but

aligned process, department risk registers were discussed and updated over the past few months. These risk registers are used as an input into strategic risk discussions with ALT and further to inform the 2015 Corporate Risk Report that will be presented at the 2015 December 10 Audit Committee.

As noted above, Administration's proposed Resilience Budget balances the need to respond to the economic downturn with careful consideration of risks, including the risks to service delivery, organizational capacity and The City's long-term financial stability. Risks are further mitigated through the opportunity for a more comprehensive adjustment to business plans and budgets as part of the mid-cycle update. In addition, Administration will continue to monitor revenues, expenses and service levels and will report to Council through mid-year and year-end reports, and more frequently as needed.

Stakeholder Engagement, Research and Communication
Extensive public engagement was completed for *Action* Plan. Given that no changes are proposed to the approved *Action* Plan, further engagement at this time is not required. Public engagement is planned, starting in January next year, as part of the mid-cycle adjustments process.

Strategic Alignment
The proposed 2016 Resilience Budget is aligned with the Economic Resilience Program.

Social, Environmental, Economic (External)
Council approval and adoption of Administration's proposed operating budget will signal to businesses and citizens that The City intends to continue to deliver services efficiently, promote stability and support local employment through continued capital spending.

Financial Capacity

Current and Future Operating Budget:
The 2016 Resilience Budget proposes to cover the projected revenue shortfall of $41 million through an operating expenditure budget reduction in Corporate Costs program, with no impact to City services. The recommended 1.2% tax rate increase cut amounts to approximately $18 million, and reduces the previously-approved tax rate increase from 4.7% to 3.5% for 2016. Following Council approval, the $18 million will be covered through Corporate Costs initially. Thereafter, a part of the corporate reduction will be allocated to departments with the balance to be absorbed corporately.

Current and Future Capital Budget:
Administration will bring forward a "capital stimulus budget" on 2015 November 25 for Council's approval and adoption.

Risk Assessment
The 2016 Resilience Budget promises no impacts to City services and increases public confidence and assurance that The City will continue to seek efficiencies and savings in service delivery. There is a risk that further cuts to The City's operating budget in this economic climate would affect service levels and The City's ability to deliver on capital projects that stimulate the local economy.

REASON(S) FOR RECOMMENDATION(S):
Administration recommends that Council approves the proposed adjustments to the 2016-2018 operating budget, and adopts the proposed 2016 operating budget as amended, including any changes resulting from Council decision on unfunded items provided in C2015-0770. This recommendation will bring the previously-approved tax rate increase down to 3.5%, which translates into an increase of $4.90 per month for 2016 in the typical residential property tax (vs $6.75 per month at the previously-approved 4.7% tax rate increase). The budget assures no impacts to City services, while providing a lower tax impact to taxpayers.

With the Livery industry impacted more severely than other sectors of the economy during an economic downturn, Administration is moving forward a number of livery fee reductions in 2016, partially mitigating these industry pressures while also contributing to The City's Economic Resilience Program.

ATTACHMENT(S)
1. 2016 Resilience Budget – Corporate Adjustments.
2. Proposed Bylaw 38M2015 The Livery Transport Bylaw.
3. 2016 Resilience Budget Presentation.