

## 2023-2026 Service Plans and Budgets – Guidance on Funding City Services

### RECOMMENDATIONS:



1. Direct Administration to develop the 2023-2026 Service Plans and Budgets to align with estimated total target revenues to afford estimated total expenditures (laid out on page 2 of Attachment 3).
2. Direct Administration to progress Council's Strategic Direction and Focus Areas within these amounts.
3. Direct Administration to use the relevant tax rate reflecting the Council approved budget to forecast the January to June Tax Installment Payment Plan (TIPP) Recalculations and bring back a proposed change to Bylaw 9M2002 no later than 2022 December 20 to enable 10 days notification of change to TIPP participants.
4. Approve the proposed charges and rates for 2023-2026 for the Waste & Recycling service (Attachment 6 – Tables 1 and 2).
5. Approve proposed rate changes for 2023-2026 for:
  - a) Water Treatment & Supply (Attachment 7 – Table 1);
  - b) Wastewater Collection & Treatment (Attachment 7 – Table 3); and
  - c) Stormwater Management (Attachment 7 – Table 5).
6. Direct that Attachment 5 remain confidential pursuant to Section 24 (Advice from officials) of the *Freedom of Information and Protection of Privacy Act* to be reviewed by 2037 July 5.

### HIGHLIGHTS

- This report responds to Council's direction from 2022 June 8. Attachment 3 page 1 provides an illustrative overview of the elements that support a funding envelope discussion, with page 2 summarizing the most current estimates of revenues and expenditures for 2023-2026. The recommendations in this report provide Administration with Council's direction on funding City services, providing the parameters within which the 2023-2026 Service Plans and Budgets will be developed and more clarity to taxpayers to inform their own planning and budgeting.
- **What does this mean to Calgarians?** The funding of City services and strategic decisions regarding service investment are key to delivering the services and service levels that Calgarians value and delivering on *Resilient Calgary: Council's Strategic Direction 2023-2026*.
- **Why does this matter?** Council's decisions will provide Calgarians with preliminary information about what they may expect with respect to potential property tax and fees in 2023-2026, including how Tax Installment Payment Plan (TIPP) calculations for 2023 January to June and beyond will be made. Calgarians have high expectations about fiscal responsibility and receiving value in services provided in return for affordable property taxes and fees. Council's decisions will build trust and confidence that these expectations will be met during November deliberations. They ensure The City collects only as much tax as is needed.
- Calgary has been resilient in the face of stresses and shocks. The City of Calgary (The City) is in a strong financial position but faces challenges including an infrastructure gap, limited revenue sources, cost pressures from inflation and our growing population, and longer-term impacts from the pandemic.

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- In-depth and rigorous economic and financial analysis and feedback from citizens are the foundations of our recommendations.
- Council's guidance on funding City services in 2023-2026 requires important decisions now and is a critical step in our journey to develop the Service Plans and Budgets.
- Administration is committed to continuous improvement, including finding efficiencies. Achievement of efficiencies in 2023-2026 helps to protect against future cost increases.
- The recommendations take into consideration the themes emerging from the Service Value engagement with Calgarians conducted in February and March this year, and the 2022 Spring Research results.
- Background and Previous Council Direction is included as Attachment 1.

### **DISCUSSION**

*Resilient Calgary: Council's Strategic Direction 2023-2026* and our shared strategic agenda provide the vision and strategy for delivering services to Calgarians and contributing to quality of life in our city. The 2023-2026 Service Plans and Budgets represent the value provided to Calgarians for property taxes and fees/rates. They are the roadmap for how we deliver services with the financial plan to support our actions.

To progress the development of the 2023-2026 Service Plans and Budgets towards deliberations in November, Council's direction is sought in the following important areas:

- Setting a funding envelope that includes funding to progress Council's Strategic Direction.
- Determining an approach for future January to June TIPP calculations.
- Setting proposed charges and rates for the Waste & Recycling service.
- Setting proposed rate changes for the Water Utility.

### **Journey to Develop the 2023-2026 Service Plans and Budgets (Attachment 2)**

Attachment 2 includes a listing of reports where Council will provide direction and guidance, to refine and finalize the 2023-2026 Service Plans and Budgets.

### **Directing a Funding Envelope for 2023-2026 (Attachment 3)**

Direction from Council is sought on a funding envelope for 2023-2026 that includes funding to progress Council's Strategic Direction. This will provide guidance to develop service plans and budgets that: align with and help to achieve Council's Strategic Direction and our shared strategic agenda; and deliver City services that provide value for money, support affordability for citizens and businesses, are financially sustainable based on The City's current fiscal realities and take into consideration Administration's ongoing commitment for service improvement and efficiency.

This report responds to Council's direction from 2022 June 8. Attachment 3 page 1 provides an illustrative overview of the elements that support a funding envelope discussion.

In-depth and rigorous economic and financial analysis is the foundation of these recommendations. The most recent forecasts for Municipal Price Index inflation and population growth, and Consumer Price Index inflation are presented in Attachment 3 page 7. Uncertainty in economic forecasts can impact the financial projections and planning assumptions presented in this report. Administration will continue to monitor forecasts and adapt as they are updated through the year.

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i) **Total financial envelope:** Building The City's budget is complex with many different funding sources forming the budget envelope. Page 2 of Attachment 3 shows the various operating budget revenues and expenditures. Improving the process to focus on the entirety of the funding envelope rather than solely on the previous process of setting indicative tax rates will allow for a more nuanced understanding of The City's financial position. Based on forecasts from the Long-Range Financial Plan model, the projected operating financial envelope required will rise from \$4.19 billion in 2022 to \$4.36 billion in 2023 moving to \$4.86 billion by 2026 (page 2). These projections could be further impacted by future guidance and direction from Council from reports such as Climate Strategy: Pathway to 2050 (CD2022-0465), Citywide Growth Strategy in the 2023-2026 Service Plans and Budgets Cycle (IP2022-0545), Calgary Transit Fare & Revenue Strategy Report (IP2022-0803), or Response to Notice of Motion on Calgary Fire Department Plans and Budgets (EC2022-0538).

ii) **Non-tax revenues:** There are a number of revenue sources besides the property tax, including revenues such as franchise fees, sales of goods and services, and local access fees. Each of these tends to show different responsiveness to inflation and population growth and some are directly affected by other external factors. Some non-tax revenues are specific to a given service and cannot be used to fund other services or offset property taxes. Forecasts project non-tax revenues of \$2.24 billion in 2023 transitioning to \$2.42 billion by the end of the cycle (Attachment 3, page 2).

Administration continues to monitor the impact on Public Transit and Parking revenues from the COVID-19 pandemic and an increased prevalence of hybrid and remote work, but these impacts are not included in the financial projections in Attachment 3. While the resulting financial impacts are still uncertain and difficult to project for the 2023-2026 cycle, Transit is bringing forward IP2022-0803 in 2022 July which will provide additional detail.

iii) **Property tax revenues:** Forecasts of the property tax revenue budget required, Attachment 3 page 2, range from: \$2.13 billion for 2023 to \$2.45 billion in 2026.

iv) **Funding ceiling to implement Council's Strategic Direction:** On 2022 June 8 Council directed Administration to return in July for direction on a funding ceiling to invest in implementation of Council's Strategic Direction and Focus Areas. Administration recognizes that to determine a funding ceiling Council requires information on what initiatives can be chosen to enhance or change to progress Council's Strategic Direction in the next four years.

These details will not be available to share with Council until the fall. This is because, through our updated approach, Administration is currently undertaking a rigorous process where existing and new investment opportunities and resources are reviewed collectively and distributed to achieve the best outcome for Calgarians. Administration further recognizes the financial pressures that citizens and businesses are facing and the need to support taxes, rates and fees that are affordable. As such, if Council does not wish to provide a funding ceiling now, the implicit direction is that Service Plans and Budgets package will include additional options to choose from for investment above what can be provided within current forecast total expenditures estimates.

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### **Tax Installment Payment Plan (TIPP) Calculations (Attachment 4)**

To ensure that property owners pay no more or no less than their annual tax amount, TIPP payments are subject to adjustment twice a year. Administration is not recommending a change to the current TIPP calculation schedule but is recommending a new approach for communicating and calculating the January to June payments.

Using the relevant tax rate reflecting the Council-approved budget for the calculation of January – June instalments supports customer transparency and understanding and strives to mitigate variability in instalment amounts. This will require a change to Bylaw 9M2002 and maintain a minimum commitment to communicate TIPP changes with 10 days notice.

### **2023 Forecasted Assessment Roll, Tax Considerations & Communications (Confidential Attachment 5)**

This attachment provides a confidential update for Council on the 2023 forecasted assessment base. This update outlines market trends for residential and non-residential properties and the next steps on the preparation of the 2023 assessment roll. Calgary's strong housing market will lead to higher property assessment values in 2023. Market value increases are expected across the board for residential properties. Non-residential properties overall have increased, however results vary by property type. The City's budget-based approach means that the final tax rate will change as a result of overall expenditures and assessed values.

### **Waste & Recycling Charges and Rates (Attachment 6)**

Council's decisions regarding Black Cart Program charge, Blue Cart Program charge, Green Cart Program charge, Basic Sanitary rate, and Minimum Load charge for waste disposal at Waste Management Facilities determines most of Waste & Recycling's sources of revenue.

The proposed rates and charges provided in Attachment 6, Tables 1 and 2 were developed to ensure the service can:

- continue progress towards waste reduction and diversion objectives;
- maintain service levels for existing customers, while extending services to support growth;
- preserve capacity and efficiency of its infrastructure as per the Waste & Recycling Infrastructure Investment Plan;
- achieve an updated financial reserve target; and
- respond to inflationary and demand impacts.

Financial objectives for the Waste & Recycling service in 2023-2026 will continue to create a cost structure for residential services that is transparent to the customer, aligns revenue with customer classes and their services, and limits dependency on tax support.

### **Water Utility Rates (Attachment 7)**

Provided in this report are Administration's proposals for the 2023-2026 rates for Calgary's Water Treatment and Supply, Wastewater Collection and Treatment and Stormwater Management lines of service, collectively known as the Water Utility. In development of the 2023-2026 rates, the Water Utility considered drivers and priorities related to:

- customer expectations regarding availability, quality, reliability and responsiveness of services;
- regulatory and legislative requirements;

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- capital investments required to address risks and ensure continued delivery of high-quality services to Calgarians;
- investments required to build service resilience;
- requirements to meet financial plan compliance to support financial sustainability; and
- supporting the needs of a growing city.

The rate changes outlined in Attachment 7 Tables 1, 3 and 5 are the annual percentage rate changes, proposed for the 2023-2026 timeframe for each line of service and accommodate servicing the additional new growth communities included in the portfolio presented by Administration in Citywide Growth Strategies Opportunities report (IP2022-0545). The impact to a typical residential metered monthly bill based on these changes is shared for illustrative purposes, however impact to individual customer bills does vary based on customer class and consumption. The rates charged to customers for these lines of service will also be informed by the Water Utility Cost of Service Study, which will be presented to Council later in 2022 July.

### **Service value through strategic investment (Attachment 8)**

An integrated and coordinated approach to planning, preparing, prioritization and funding helps align resources to Council's strategic direction and identify opportunities to work together better and continuously improve, optimizing value to citizens. Through the process outlined in Attachment 8, Administration examines improvement opportunities considering what we are already doing and what needs to change. To advance Council's strategic direction, Administration will leverage the understanding of the resources to provide services currently as a baseline, providing some additional insights to Council about what this funding supports. Understanding the importance of transparency for accountability and robust decision-making, Administration will explore further with Council any other opportunities that Council may wish to look at to further increase the transparency of The City's budgets.

### **Budget Continuity Reporting (Attachment 9)**

Administration provides regular budget monitoring and reporting of changes to Council throughout each year. Attachment 9 outlines these touch points as well as provides the 2019-2022 service budgets.

## **STAKEHOLDER ENGAGEMENT AND COMMUNICATION (EXTERNAL)**

- Public Engagement was undertaken
- Public Communication or Engagement was not required
- Public/Stakeholders were informed
- Stakeholder dialogue/relations were undertaken

### **Research and Engagement (Attachment 10)**

From 2022 February 2 to 2022 March 7, Calgarians were asked about what they value most in City services. Full results can be found in the [What We Heard Report](#). Some of the key themes from this engagement were that:

- Equity and inclusion are important to consider when making decisions about services and service delivery that impact all Calgarians.

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- Calgarians have high expectations about fiscal responsibility and receiving value for services provided through a balance of property taxes and user fees.
- Quality of life for Calgarians is highly impacted by service affordability and citizens expect us to seek out efficiencies and cost reductions without lowering service levels.
- Calgarians understand that increased densification will support increased efficiency for operations and services.
- Collectively as a city, mental health and wellbeing is important and citizens expect services to reflect safety, accessibility and connections to create a sense of belonging for all Calgarians.

The recommendations in this report are founded on these themes and consider other sources of research and engagement such as the [2021 Fall Citizen Satisfaction Survey](#) and [Spring Research results](#), both of which revealed that over 50 per cent of Calgarians would support tax increases to maintain or expand services at or beyond the current inflation rate, with 50 per cent in the fall and 55 per cent in the spring.

This summer and fall, we will be conducting further research and engagement around citizen and business perceptions regarding service prioritization and delivery. This will include five focus groups with Calgarians and five focus groups with business leaders in Calgary, plus an online engagement portal and in-person events in every ward, providing additional feedback and themes for Council's consideration when making decisions in November.

### **IMPLICATIONS**

#### **Social**

The recommendations outlined in this report support *Resilient Calgary: Council's Strategic Direction 2023-2026*, specifically the foundation of social resilience. Further, the Council approved Multi-Year Planning and Budgeting Principle of Equitable, "We consider Calgarians diverse needs, strengths, and social realities, recognizing that different barriers exist for diverse individuals and groups, and delivering services in a way that all people have the opportunity to benefit equally." will guide the development of the plans and budgets.

#### **Environmental**

The recommendations outlined in this report support *Resilient Calgary: Council's Strategic Direction 2023-2026*, specifically the foundation of climate resilience. The proposed investment amount as part of the overall guidance on funding City services will contribute to advancing The City's progress in this area.

#### **Economic**

The recommendations outlined in this report support *Resilient Calgary: Council's Strategic Direction 2023-2026*, specifically the foundation of economic resilience.

#### **Service and Financial Implications**

The recommendations provide Administration with funding guidance which will impact the proposals developed for the 2023-2026 Service Plans and Budgets for Council deliberation.

Delivering value for money is a guiding principle of the service planning and budgeting process and Council's direction on affordability for citizens, businesses and customers is a key input.

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### **RISK**

The recommendations in this report represent important decisions that will contribute to the management of the following Principal Corporate Risks.

- *Financial Sustainability Risk* – The City is anticipating a high degree of financial risk going into 2023-2026 due to funding constraints. For operating, this includes reduced revenue and failing to keep up with inflation. For capital, this includes inflationary pressures and cost increases, continued supply chain disruptions and delays, and unpredictable funding transfers from the provincial and federal governments, creating an inconsistent environment that impacts long-term planning. A Council-approved tax revenue budget helps to manage this financial sustainability risk by providing Administration with the parameters within which to develop the proposed 2023-2026 Service Plans and Budgets.

In addition, there is a significant amount of uncertainty related to forecasting. Using the cost pressures from population growth and inflation as the drivers for the property tax revenue budget helps to manage this uncertainty. With regard to recommendation 3, the risk is low as TIPP payments will be adjusted at the time of annual billing to ensure that a property owner pays no more or no less for the year than their actual tax levy.

- *Reputation Risk* – Calgarians' expectations continue to evolve and there is public demand for The City to invest in and develop new approaches in areas such as diversity, inclusion and equity, and climate change. The recommended overall guidance to funding City services help to manage this risk by demonstrating a commitment to fiscal responsibility and investment in areas of importance to Calgarians.

In addition, should decisions on guidance for funding City services be delayed, risks associated with delivery of the proposed 2023-2026 Service Plans and Budgets increase in likelihood and impact, including: the ability to meet Council and the public's expectations; as well as leadership and employee capacity and wellbeing.

### **ATTACHMENTS**

1. Background and Previous Council Direction
2. Journey to Develop the 2023-2026 Service Plans and Budgets
3. Directing a Funding Envelope for 2023-2026
4. Tax Installment Payment Plan Recalculation
5. CONFIDENTIAL - 2023 Forecasted Assessment Roll, Tax Considerations and Communications
6. Waste and Recycling Charges and Rates
7. Water Utility Lines of Service - Rates
8. Service Value Through Strategic Investment
9. Budget Continuity Reporting
10. Research and Engagement
11. Presentation

**Chief Financial Officer's Report to  
Combined Meeting of Council  
2022 July 5**

**ISC: UNRESTRICTED  
C2022-0798  
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Department Circulation

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