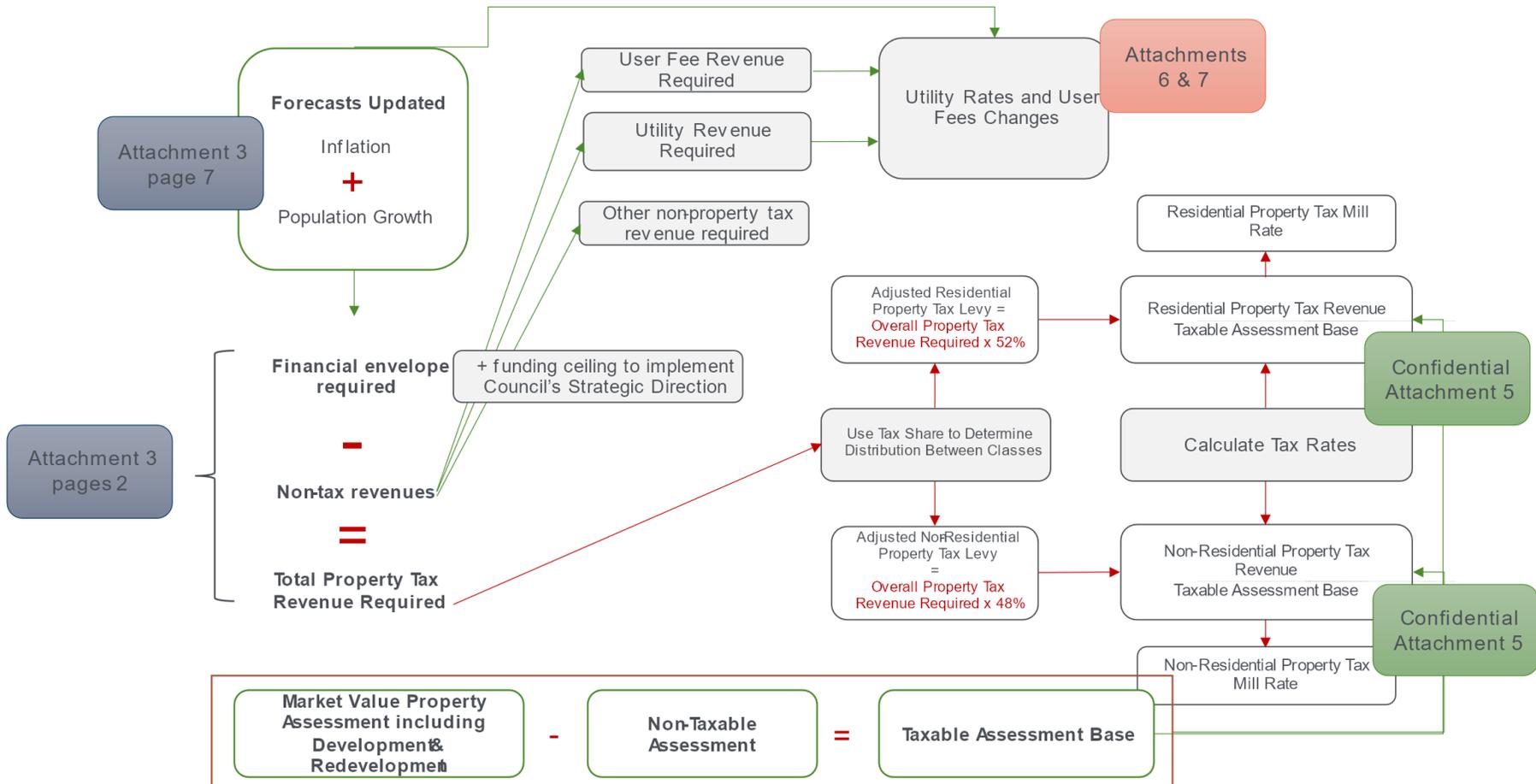


Directing a Funding Envelope for 2023-2026 Service Plans and Budgets

Funding Envelope Overview

On 2022 June 8 Council provided Administration with recommendations which are the basis for this report. Below is an illustrative overview of the elements that will support a funding envelope conversation. Noted in each box are the locations of further information can be found within this report.



Forecast Updated- Operating Revenue and Expenditures

The projected revenue and expenditure estimates for 2023-2026 are shown in the table below in \$ millions. These figures reflect the Long Range Financial Plan assumptions on expenditures given the forecasted inflation and population growth. This is an initial high-level forecast for planning purposes. The organization is currently reviewing service levels, offerings and investments as part of the planning and budgeting process, with changes reflected in the recommendations in November.

The 2023 projection includes an adjustment for extraordinary inflationary pressures experienced in 2022. This approach seeks to recreate a baseline for specific budgets to reflect the differences between actual inflation in 2021 and 2022 and inflation budgets originally approved for the 2019-2022 cycle, which resulted in wide variances between some budgeted amounts (e.g., for fuel) and actual costs. These projections are based on a number of high-level assumptions and may not fully capture specific factors and circumstances. Further refinement is expected as submissions from services are reviewed and refined.

	2022 Est.	2023 Projected	2024 Projected	2025 Projected	2026 Projected
Expenditures*	\$4,192	\$4,364	\$4,526	\$4,697	\$4,863
<i>% Change in projected expenditures</i>		4.1%	3.7%	3.8%	3.5%
Non-Tax Revenues	(\$2,181)	(\$2,235)	(\$2,296)	(\$2,356)	(\$2,418)
<i>% Change in projected non-tax revenues</i>		2.5%	2.7%	2.6%	2.6%
Total Property Tax Revenues Required**	(\$2,011)	(\$2,129)	(\$2,230)	(\$2,341)	(\$2,445)
% Change*** in projected total property tax revenues required	5.9%	4.7%	5.0%	4.4%	
<i>% Change property tax from development & redevelopment</i>		1.5%	1.4%	1.3%	1.2%
<i>% Change additional property tax required after development & redevelopment</i>		4.4%	3.3%	3.7%	3.2%

* Estimated expenditures to maintain current services given inflation and population growth. 2023 includes an adjustment for extraordinary inflation experienced in 2022. 2023-2026 figures are based on Long Range Financial Plan projections. In addition, 2023 expenditures rise by an extra 0.1 per cent as a result of the inflation recapture relative to the 2023 Municipal Price Index.

** 2022 figure based on the Long Range Financial Plan and does not equal to the figure presented in the property tax bylaw, mainly due to the education budget, Grant In Lieu of Property Tax & Community Revitalization Levy and Business Tax Consolidation.

*** These figures are not to be interpreted as indicative tax rates but represent an estimate of the total change in Property Tax Revenues from one year to the next based on the projection model.

Non-tax revenues

There are a number of revenue sources besides residential / non-residential property tax. These revenue sources tend to show different responsiveness to inflation and population growth (for examples how our expenditures respond). While some of these are directly affected by external factors, others are specific to a given service and cannot be used to fund other services or offset property taxes.

	2022 Estimated	2023 Projected	2024 Projected	2025 Projected	2026 Projected
Sales of Goods & Services – Tax Supported ¹	(553,669)	(576,473)	(595,462)	(615,416)	(636,275)
<i>% change</i>	-	4.1%	3.3%	3.4%	3.4%
Franchise Fees and Local Access Fees from Natural Gas and Electricity Providers ²	(199,867)	(185,739)	(189,244)	(189,244)	(189,244)
<i>% change</i>	-	-7.1%	1.9%	0.0%	0.0%
Investment Income	(92,566)	(95,390)	(98,299)	(101,297)	(104,387)
<i>% change</i>	-	3.1%	3.1%	3.1%	3.0%
Licenses, Permits and Fines ³	(164,600)	(171,380)	(177,177)	(183,299)	(189,447)
<i>% change</i>	-	4.1%	3.4%	3.5%	3.4%
Government Grants	(82,926)	(84,867)	(86,242)	(87,794)	(89,374)
<i>% change</i>	-	2.3%	1.6%	1.8%	1.8%
Return on Equity from Water services and Subsidiaries ⁴	(175,278)	(176,118)	(176,847)	(177,615)	(178,390)
<i>% change</i>	-	0.5%	0.4%	0.4%	0.4%
Utilities ⁵	(836,166)	(866,365)	(891,536)	(917,980)	(945,620)
<i>% change</i>	-	3.6%	2.9%	3.0%	3.0%
Other Non-Tax Revenue ⁶	(75,921)	(78,506)	(80,701)	(83,024)	(85,323)
<i>% change</i>	-	3.4%	2.8%	2.9%	2.8%
Total Non-Tax Revenue	(2,180,993)	(2,234,837)	(2,295,508)	(2,355,668)	(2,418,060)
<i>% change</i>	-	2.5%	2.7%	2.6%	2.6%

¹ Includes revenues from fee-based services such as Transit fees, and Recreation entry fees, however the revenue projections do not include ongoing impacts on Transit & Parking revenues from COVID-19. Administration will propose a funding strategy for 2023-2026 to be included in the Service Plans and Budgets for Council deliberation in 2022 November, which uses one-time funding for 2023 and 2024 to offset the Public Transit and Calgary Parking Authority revenue shortfalls and return to Council as part of the Mid-Cycle Adjustments in 2024 November with a base budget solution, if required.

Services that have user fees will assess current market conditions and develop proposed rates and fees for 2023-2026 using Council-approved 10-year targets for the balance of tax and fee support. This approach reflects the complexity of economic and pandemic recovery, and the review of Council's User Fees and Subsidies Policy (CFO010) that is currently underway.

² Franchise fees and ENMAX local access fee.

³ Includes revenue from fines levied by the Courts, and from fines and penalties under The City bylaws, revenues from building and development permits, and others.

⁴ ENMAX dividends, return on water and Calgary Parking Authority.

⁵ Utilities- include Sales of Goods & Services, Licenses, Permits, Fines, Investment Income, and Developer Contributions.

⁶ Other Non-Tax revenues refer to Community Revitalization Levy, Local Improvement Levies, Grants in Lieu, gain in sales of tangible capital assets, and other miscellaneous revenues.

Illustration of 2023 Tax revenues

Council currently decides the proportional property tax revenue share between Residential and Non-residential properties. In 2022 that distribution share is 52 per cent residential / 48 per cent non-residential. For the table below dollar values are in \$ millions.

	2022	2023 Illustrated	Property Tax Rate Change %
Property Tax Revenues Required (see page 2)	2,011.0	2,129.0	-
% Change property tax revenues required	-	-	5.9%
Property Tax from development & redevelopment ¹	-	30.4	-
% Change property tax from development & redevelopment	-	-	1.5%
Additional Property Tax required ²	-	87.6	-
% Change additional property tax required after development & redevelopment	-	-	4.4%
Bylaw Adjustments ³	34.1	34.1	-
Property Tax Bylaw Revenue	2,045.1	2,163.1	-
% Change property tax bylaw revenue	-	-	5.77%
Residential Property Tax (52%) ⁴	\$1,060.7	\$1,124.8	-
Non-Residential Property Tax (48%) ⁴	\$983.0	\$1,038.3	-

1. Development & redevelopment includes incremental assessment as a result of new properties created by subdivision and new construction (i.e., new buildings, additions, garages, etc.) and is forecasted based on housing starts and economic factors. Incremental tax revenues from development & redevelopment are included within the financial projections for service plans and budgets. Further information on how incremental property tax from development & redevelopment associated with redevelopment is scheduled to be presented to Executive Committee 2022 July 20 (EC2022-0647).
2. Previously referred to as the Council Tax Increase.
3. Bylaw adjustments are required to set tax rates such that the Property Tax Revenues Required are raised. This includes adjustments for grants in lieu, annexed Rocky View County & Foothills County, tax provisions, and Supplementary taxes. Bylaw Adjustments for 2023 will not be determined until next year. For comparative purposes, these are assumed to be the same as the 2022 adjustments.
4. Council currently decides the proportional revenue split between Residential and Non-residential properties (2022 = 52%/48%).

Illustration of 2023 Tax rates

For the purpose of illustrating the impact of market value increases on the 2023 Tax Rates, a hypothetical 10 per cent increase for residential properties and 5 per cent for non-residential are used in the table below.

	2022	2023 Illustration Property Tax Distribution of 52/48	Property Tax Rate Change %
Residential Property Tax (52%)	\$1,060.7	\$1,124.8	-
Estimated Residential Assessment (In millions)	\$225,913.6	\$252,978.0	-
Residential Property Tax Rate	0.0046950	0.0044463	-5.3%
Non-Residential Property Tax (48%)	\$983.0	\$1,038.3	-
Estimated Non-Residential Assessment (In millions)	\$54,962.7	\$58,403.4	-
Non-Residential Property Tax Rate	0.0178843	0.0177779	-0.6%

Background & assumptions

Updated Economic Outlook

Provided for reference in the table below from the Spring 2022 Calgary and Region Economic Outlook and Corporate Economics are the forecasts for:

- **Updated:** Municipal Price Index (MPI) inflation for The City of Calgary. This has been updated by Corporate Economics, since last seen by Council on 2022 May 10. This update speaks to the nature of uncertainty that we continue to operate and make decisions in.
- Population Growth remains the same as presented on 2022 May 10 and in the Spring 2022 Economic Outlook.
- **Updated:** Municipal Price Index (MPI) inflation for Calgary plus the forecast for Calgary population growth. Combined these indicators reflect the dynamics of cost pressures to maintain existing service levels.
- Consumer Price Index (CPI) inflation for Calgary remains the same as presented on 2022 May 10 and in the Spring 2022 Economic Outlook. This outlook reflects the price pressures citizens are forecasted to experience over the same timeframe.
 - Based on the most current information as of 2022 March and expectations on rate policy decisions by Bank of Canada the annual inflation is expected to increase in 2022 by 5.6 per cent. While monthly inflation has remained elevated within the first five months of 2022, we expect to see effects of the Bank of Canada policy rate hike begin to dampen inflation caused by household demand.

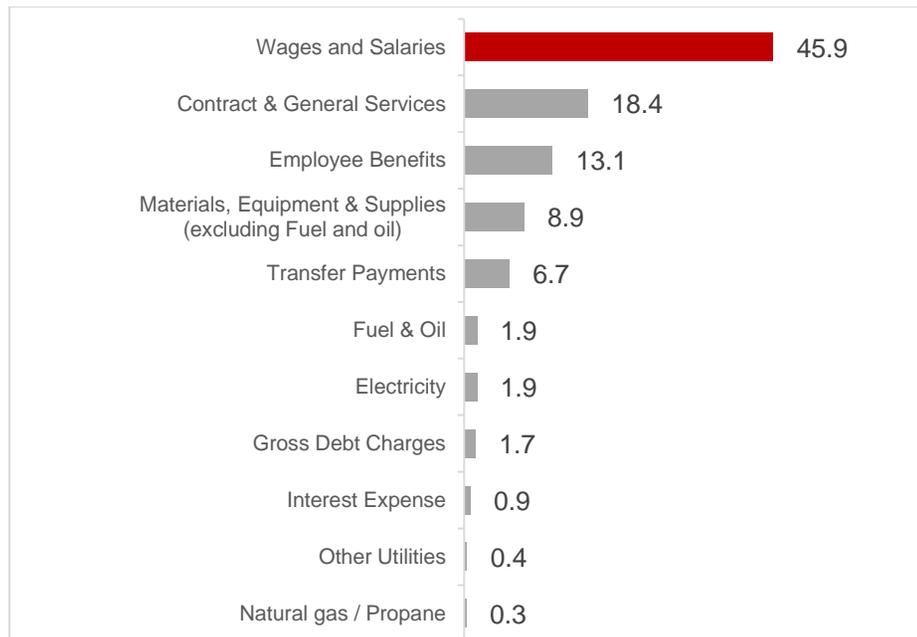
Socio-Economic Indicator	2022	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
Updated: Population Growth & Inflation (MPI)	5.1%	4.0%	3.6%	3.7%	3.5%
Updated: Municipal Price Index (MPI)	3.4%	2.3%	1.9%	2.2%	1.9%
Population Growth	1.7%	1.7%	1.7%	1.5%	1.5%
Calgary Consumer Price Index (CPI)	5.6%	2.6%	1.8%	2.0%	2.0%

To navigate the budget approval process for the upcoming business cycle, Administration will need to consider both the increases of existing expenditures as captured by the Municipal Price Index, as well as the population growth of our city as all Calgarians deserve equitable access to services provided by the municipality.

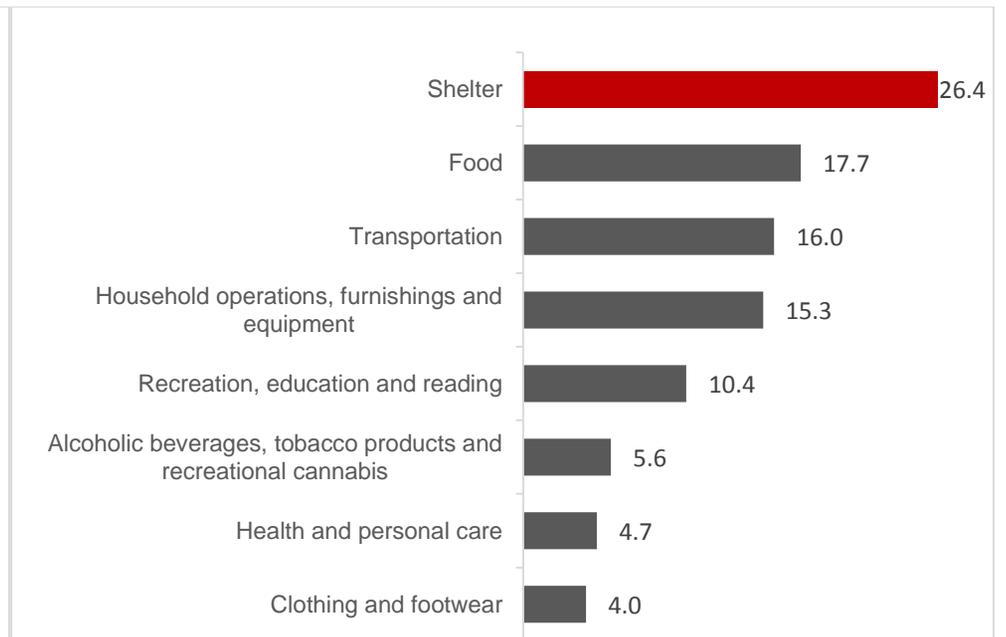
Consumer Price Index (CPI) versus Municipal Price Index (MPI)

The composition of the CPI and the MPI baskets are different. The CPI is a standard, generally reported measure of changes in prices and reflects a basket of goods and services consumed by a typical urban dweller. The MPI, on the other hand, represents the basket of goods and services purchased and consumed by municipal government in order to deliver services to citizens.

MPI Basket of Goods (%)



CPI Basket of Goods (%)

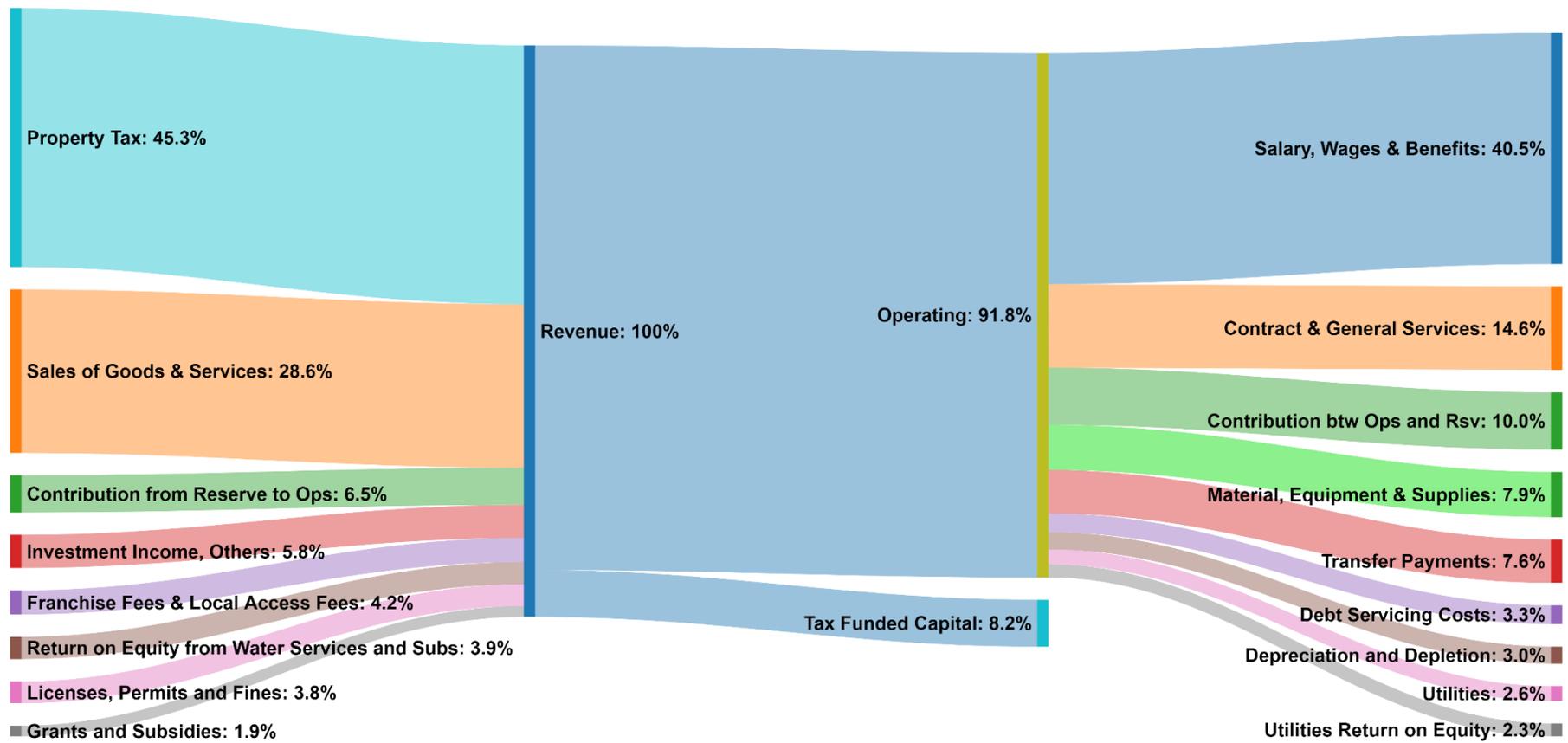


Sources: Corporate Economics, 2022 May

Funding City Services

This chart shows the relative distribution of The City’s revenues and expenditures in the 2022 operating budget. It also demonstrates the complexity of building the City's budget. As indicated on the left-hand side of this diagram, there are many different funding sources that form the budget envelope.

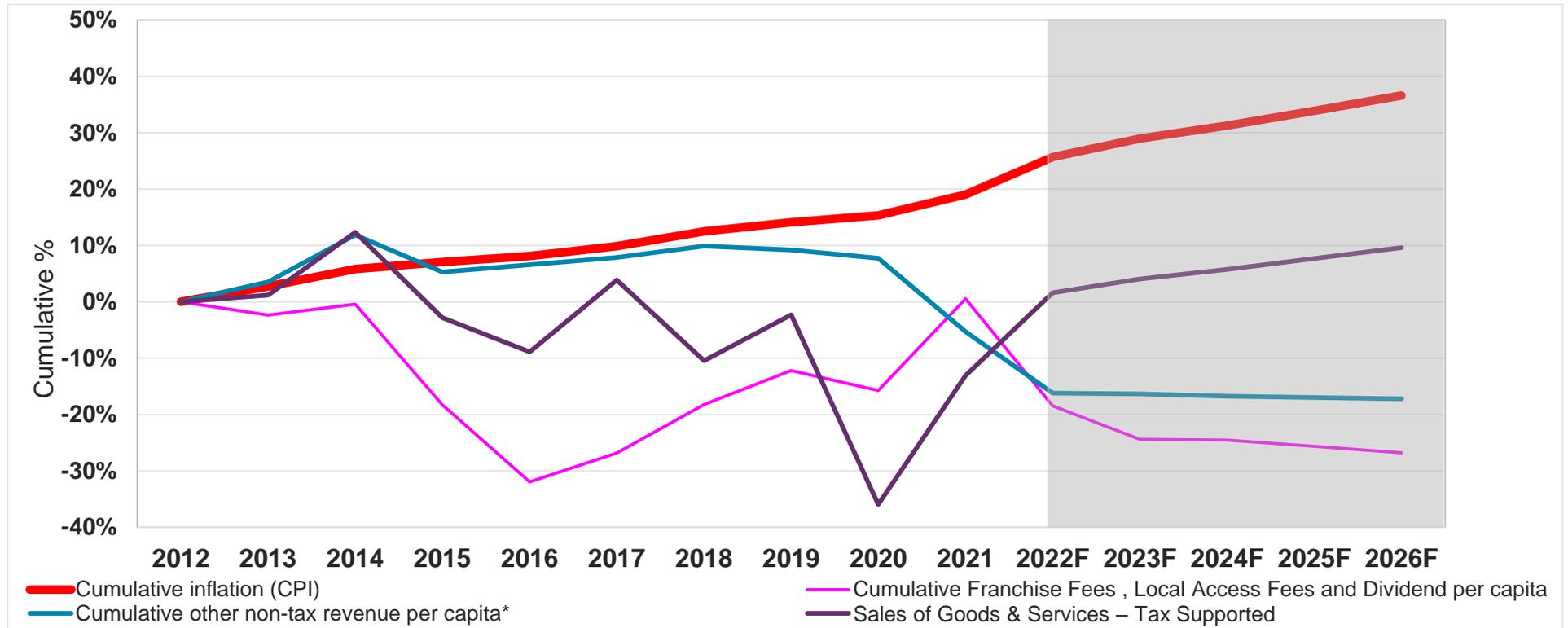
When setting the budget, many of the conversations center on property tax revenues; however, property taxes make up slightly less than half of the total revenues. Currently, as per Council direction, the property tax revenue is composed 52% from residential and 48% from non-residential sources. The sale of goods and services contributes to approximately 29% of our revenue. Furthermore, a portion of our operating revenue is used to fund various capital projects. In total, over 90 percent of operating revenue is used to fund operating expenditures (displayed on the right-hand side of the diagram) that support the services that Calgarians rely on everyday.



Non - property tax revenues do not keep pace with population growth & inflation

Non-tax revenue sources have not kept up with the combined impact of inflation and population growth. The 2023 to 2026 forecasted revenues are based on 2022 budgets, and do not reflect any adjustment for reductions in revenues due to COVID-19.

Council directed the implementation of Financial Task Force recommendations 9, 13, 21, 22 and 24, resulting in a Municipal Finance White Paper that is currently being prepared. This work, which will include an exploration of non-property tax revenue sources, is expected to be delivered to Executive Committee in 2023.



* Includes the following revenue accounts: Revenue in Lieu, Return on Water, Calgary Parking Authority shared in surplus, Government Grants, Miscellaneous revenue, Proceeds on Sale of Tangible Capital Assets (TCA) and Gain/Loss on Sale of Tangible Capital Assets (TCA).