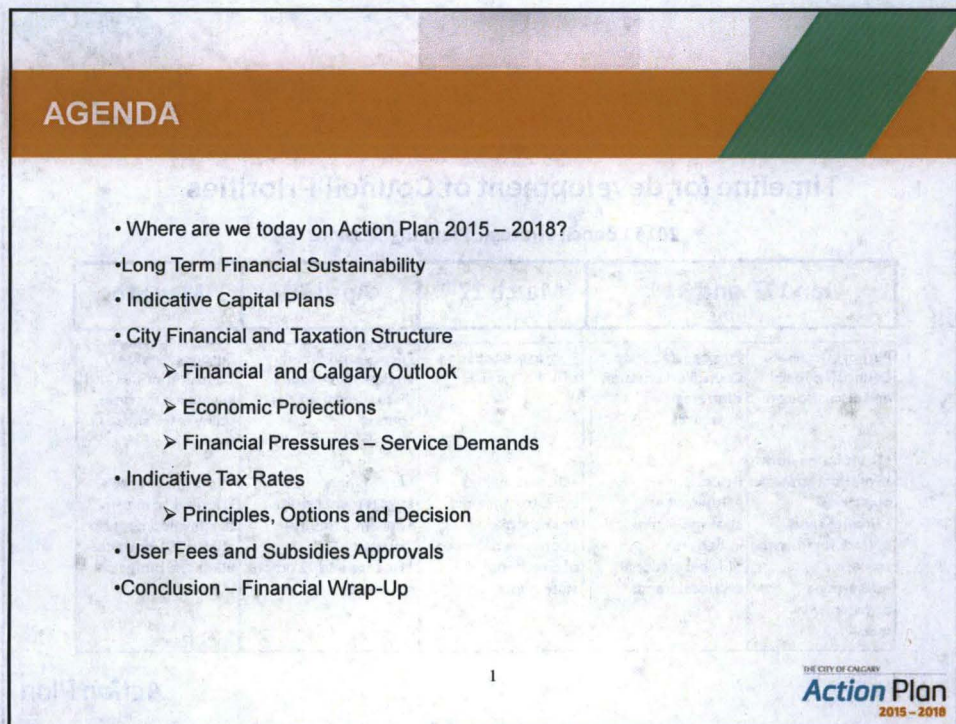
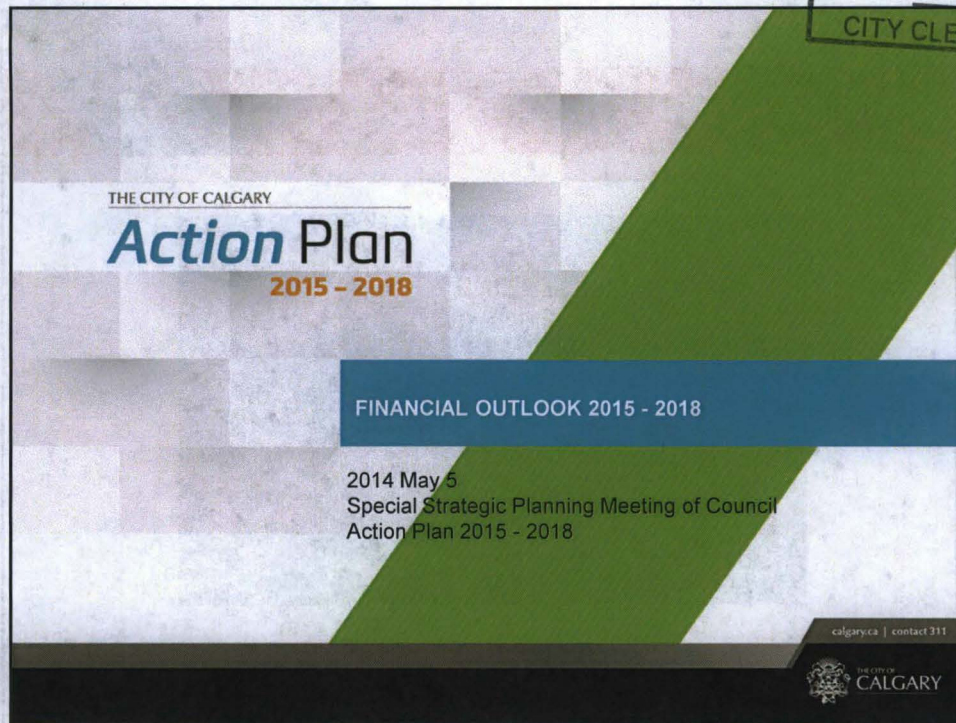


CITY OF CALGARY
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IN COUNCIL CHAMBER

MAY 05 2014

ITEM: *Attach #3 to*
C2014-0401

CITY CLERK'S DEPARTMENT



"THE JOURNEY"



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THE CITY OF CALGARY
Action Plan
2015-2018

ACTION PLAN 2015-2018: COUNCIL PRIORITIES

Timeline for development of Council Priorities

2014 Council Strategic Planning Sessions

Jan 17 th and 31 st	March 17 th	April 7 th	May 5 th	
<p>Purpose: facilitate Council feedback and discussion on:</p> <ul style="list-style-type: none">• Draft framework• Potential strategic objectives• Finances and options for financial scenarios• Determine engagement question	<p>Purpose: facilitate Council's discussion of strategic objectives</p> <p>Review :</p> <ul style="list-style-type: none">• Other cities' strategic planning initiatives• Global, national and local trends	<p>Purpose: discussion of utility rates</p> <ul style="list-style-type: none">• Discuss utilities' infrastructure and financial plans• Continue discussion of directional statements	<p>Purpose: preliminary engagement results discussion; financial context</p> <ul style="list-style-type: none">• Preliminary engagement results• Revenue Neutral discussion• Finance and Taxation structure	<p>Purpose: finalize Council Priorities and suggested tax rates, utility rates and user fees</p> <ul style="list-style-type: none">• Confirm Council's Priorities to inform the development of 2015 – 2018 business plans and budgets

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Action Plan
2015-2018

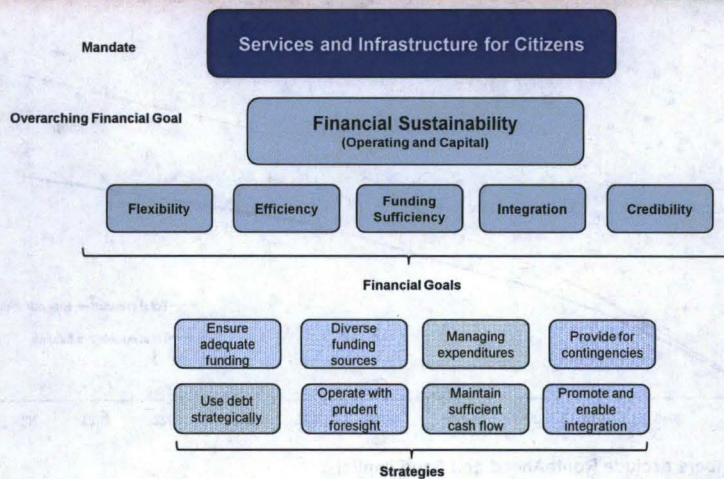
LONG TERM FINANCIAL SUSTAINABILITY



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THE CITY OF CALGARY
Action Plan
2015 - 2018

LONG TERM FINANCIAL SUSTAINABILITY GOALS



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2015 - 2018

THE CITY OF CALGARY'S FINANCIAL REPUTATION

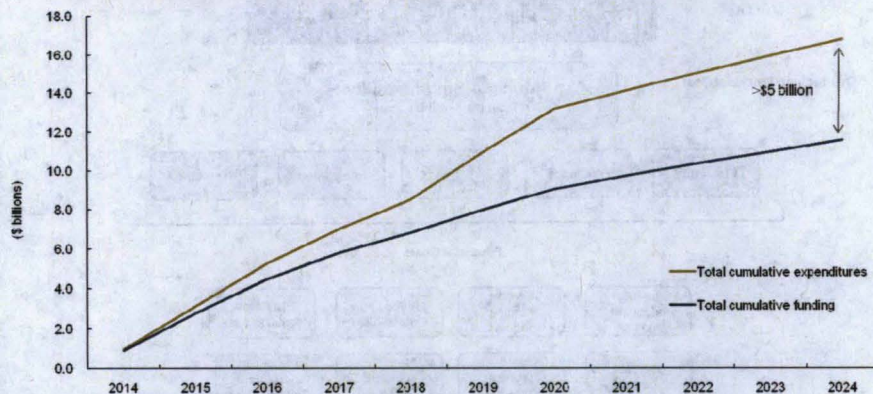
Financial Reputation is characterized by:

- Prudent fiscal practices
 - Longer-term planning horizon
- Low residential taxes
- Substantial reserves
 - Reserve policies
- High but manageable debt
 - Debt policies
- AA+ credit rating
- Leader in best financial practices
 - Identified by the Government Financial Officers' Association (GFOA) of the United States and Canada

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THE CITY OF CALGARY
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2015 - 2018

CAPITAL INFRASTRUCTURE DEFICIT / FUNDING GAP

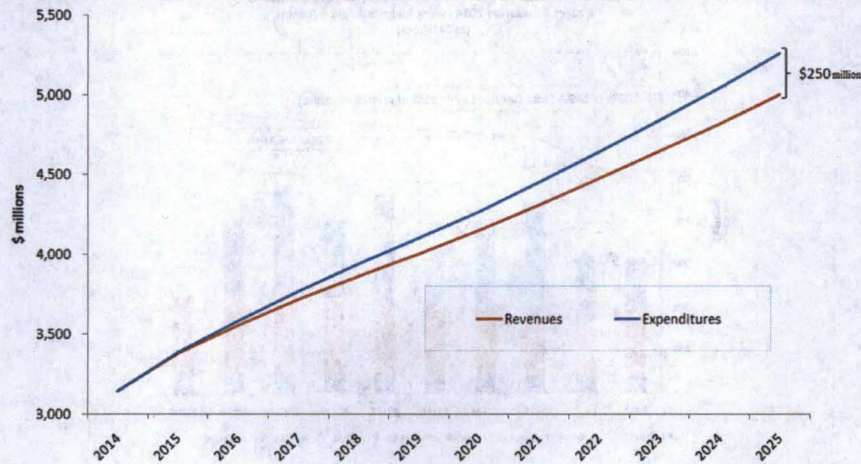


- These numbers exclude RouteAhead and flood capital
- Infrastructure Status Report - \$7 billion gap includes \$2.1 billion in operating

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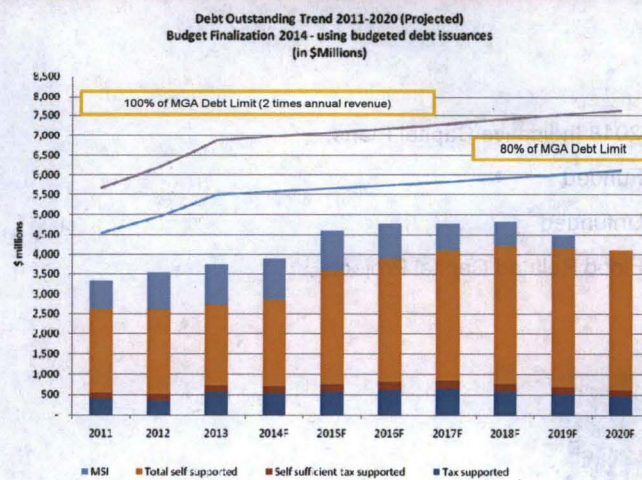
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LONG RANGE FINANCIAL PLAN – OPERATING GAP



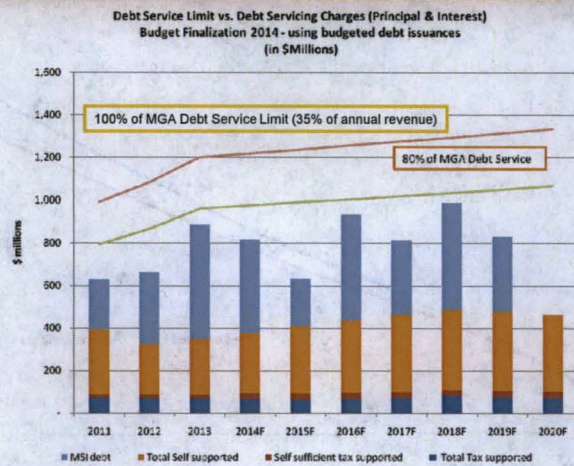
THE CITY OF CALGARY
Action Plan
2015 – 2018

FINANCIAL OUTLOOK – DEBT LEVELS DEBT OUTSTANDING



THE CITY OF CALGARY
Action Plan
2015 – 2018

FINANCIAL OUTLOOK – DEBT LEVELS DEBT SERVICE LIMIT



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THE CITY OF CALGARY
Action Plan
2015 - 2018

INDICATIVE CAPITAL PLANS

2015 to 2018 Indicative Capital Plans:

- Funded
- Unfunded
- Flood Related Capital Projects



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THE CITY OF CALGARY
Action Plan
2015 - 2018

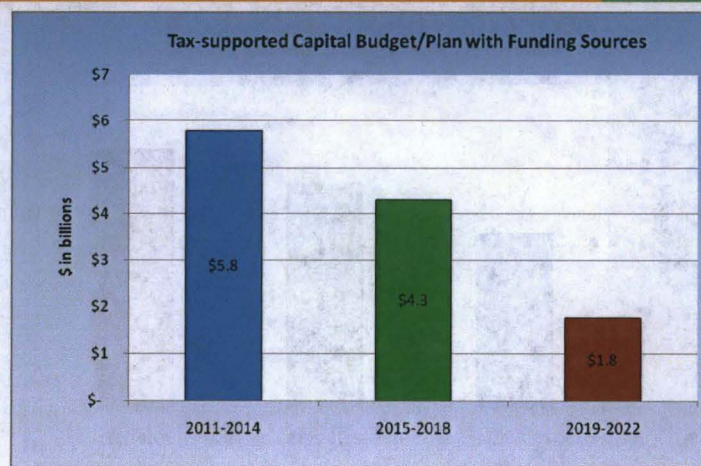
INDICATIVE CAPITAL PLANS - PROCESS

- Capital plan ensures appropriate planning for required projects and related funding
- Capital requirements are driven by many factors:
 - Growth
 - Maintenance of current aging infrastructure
 - Meet industry standards, and legislated and regulatory requirements
- Capital plan is prepared with extensive consultation between business units and aligned with City's growth management framework

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THE CITY OF CALGARY
Action Plan
2015 - 2018

INDICATIVE CAPITAL PLAN - FUNDED

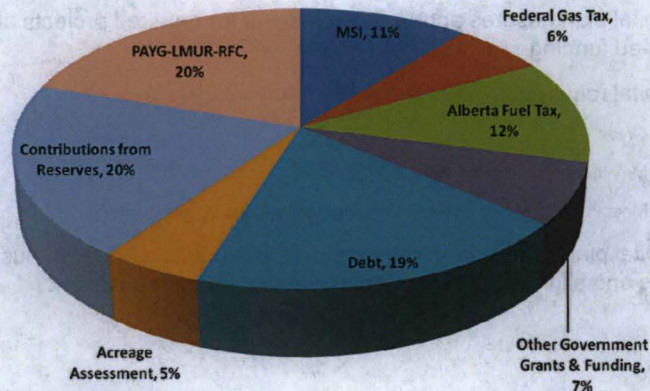


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2015 - 2018

FUNDING THE 2015 - 2018 CAPITAL PLAN

Funding the 2015 – 2018 Tax-Supported Capital Budget



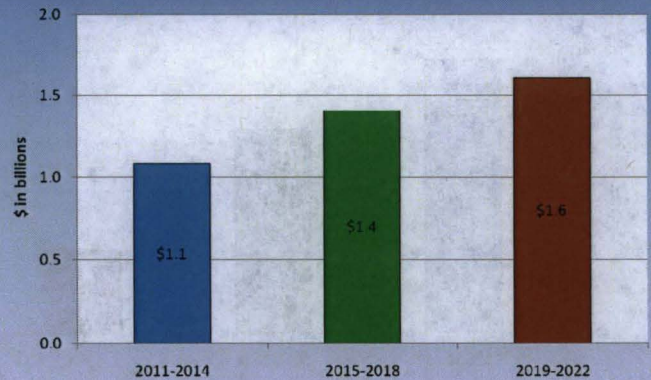
Total 2015-2018 Tax-supported Capital Budget = \$4.312 billion

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THE CITY OF CALGARY
Action Plan
2015 - 2018

INDICATIVE CAPITAL PLAN - FUNDED

Utilities Capital Budget/Plan with Funding Sources

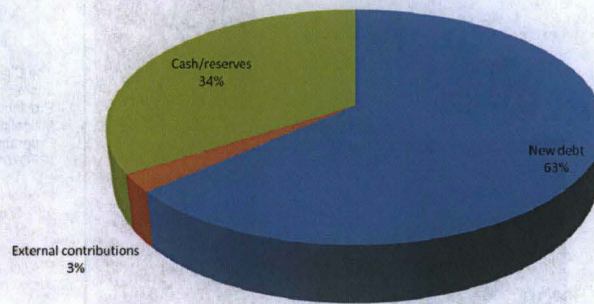


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Action Plan
2015 - 2018

FUNDING THE 2015 – 2018 CAPITAL PLAN

Funding the 2015-2018 Utilities Capital Budget

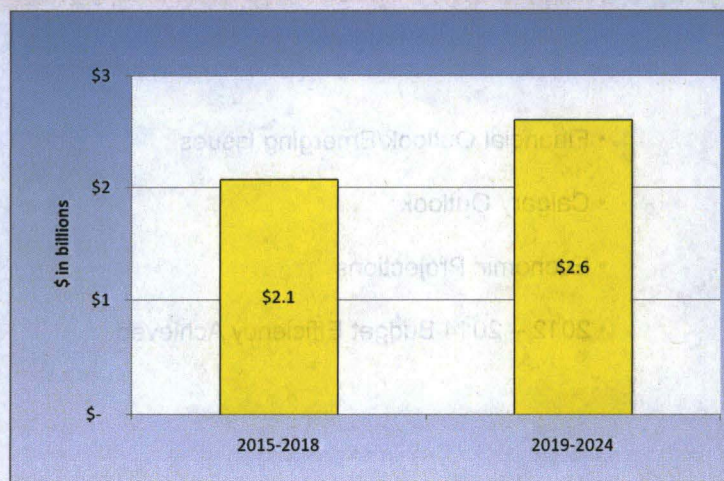


Total 2015 – 2018 Utilities Capital Budget = \$1.4 billion

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Action Plan
2015 – 2018

INDICATIVE CAPITAL PLAN - UNFUNDED

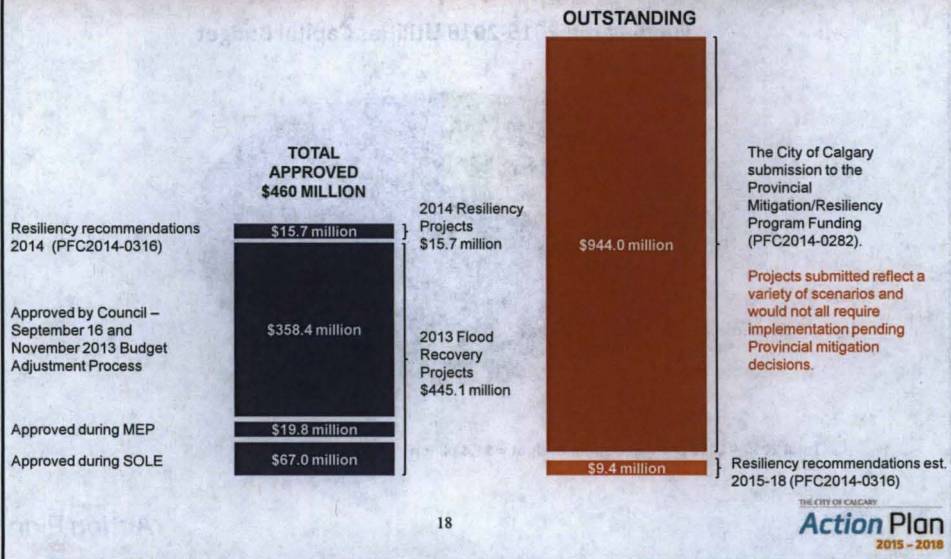


These numbers exclude RouteAhead and flood capital

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THE CITY OF CALGARY
Action Plan
2015 – 2018

FLOOD RELATED CAPITAL PROJECTS



- Financial Outlook/Emerging Issues
- Calgary Outlook
- Economic Projections
- 2012 – 2014 Budget Efficiency Achieved

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THE CITY OF CALGARY
Action Plan
2015 – 2018

FINANCIAL OUTLOOK - EMERGING ISSUES

- Growing operating shortfall projected
 - Structure of revenues and expenditures a challenge
 - Increasing challenge to achieve efficiencies
- Growing demand for infrastructure investment
- Short term debt constraints
- Cost of dispersed growth
 - Mitigated in long-term with different growth pattern
- Pressure to keep tax increases low
- Unreliable and unpredictable long-term capital funding sources
- Fiscal imbalance
 - Other levels of government receiving more than contributing to The City

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THE CITY OF CALGARY
Action Plan
2015 - 2018

2015-2018 CALGARY OUTLOOK

- | | |
|--|--|
| <ul style="list-style-type: none"> • Population <ul style="list-style-type: none"> ➢ 1.196 million in 2015 ➢ 1.274 million in 2018 | <ul style="list-style-type: none"> • Demographics <ul style="list-style-type: none"> ➢ Growing diversity |
| <ul style="list-style-type: none"> • Economic Outlook <ul style="list-style-type: none"> ➢ Continued growth | <ul style="list-style-type: none"> • The City's Operating and Capital Budget <ul style="list-style-type: none"> ➢ \$20 billion over 2015-2018 |

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THE CITY OF CALGARY
Action Plan
2015 - 2018

ECONOMIC PROJECTIONS

Socio-Economic Indicator	2014	2015	2016	2017	2018
Population (000s)	1,175	1,196	1,223	1,251	1,274
Unemployment Rate (%)*	4.6	4.4	4.3	4.5	4.5
Calgary Consumer Price Index (CPI)*	2.0	2.1	2.1	2.1	2.1
Municipal Price Index (MPI) (%)	3.5	3.3	3.3	3.3	3.3
Municipal Price Index (MPI) + Population Growth (%)	5.7	5.5	5.5	5.5	5.4
Natural Gas Price (\$Cdn/Gigajoule)	3.8	4.0	4.1	4.2	4.3
Oil Prices (\$US/barrel)	93.8	90.0	92.7	95.0	95.7
Housing Starts (000s)*	12.5	13.5	15.0	15.4	13.5
Gross Domestic Product (growth %)*	3.5	3.2	2.7	2.6	2.6

* Data for Calgary Economic Region

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THE CITY OF CALGARY
Action Plan
2015 - 2018

OPERATING BUDGET – 2012 – 2014 EFFICIENCY AND COST SAVINGS ACHIEVED

2012 - 2014 Efficiency and Cost Savings Achieved (\$ millions)

	2012	2013	2014	Total
Efficiency Target	21.1	13.0	12.9	46.9
Additional Council Reduction	0.0	0.0	9.3	9.3
Total	21.1	13.0	22.2	56.2

- Council's original target: \$45 million productivity gains over three years
- Actual productivity gains: \$46.9 million over three years + additional \$9.3 million directed for 2014
- Total = \$56.2 million

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THE CITY OF CALGARY
Action Plan
2015 - 2018

CITY FINANCIAL AND TAXATION STRUCTURE RECAP

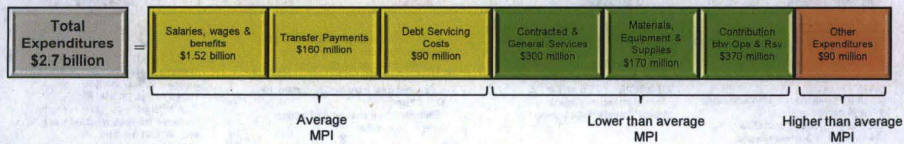


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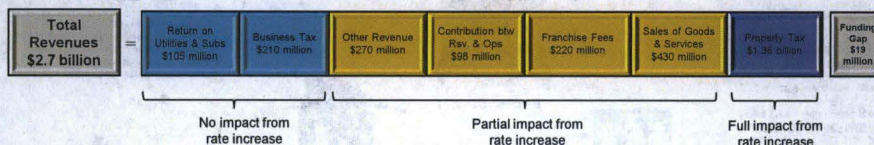
THE CITY OF CALGARY
Action Plan
2015 - 2018

FINANCIAL AND TAXATION STRUCTURE MUNICIPAL PRICE INDEX IMPACTS

2014 TAX-SUPPORTED EXPENDITURES – average MPI = approximately 3.3% (previously 3.0%)



2014 TAX-SUPPORTED REVENUES – average MPI = approximately 3.3% (previously 3.0%)



Difference in inflation and financial structural impacts requires \$19 million to close

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Action Plan
2015 - 2018

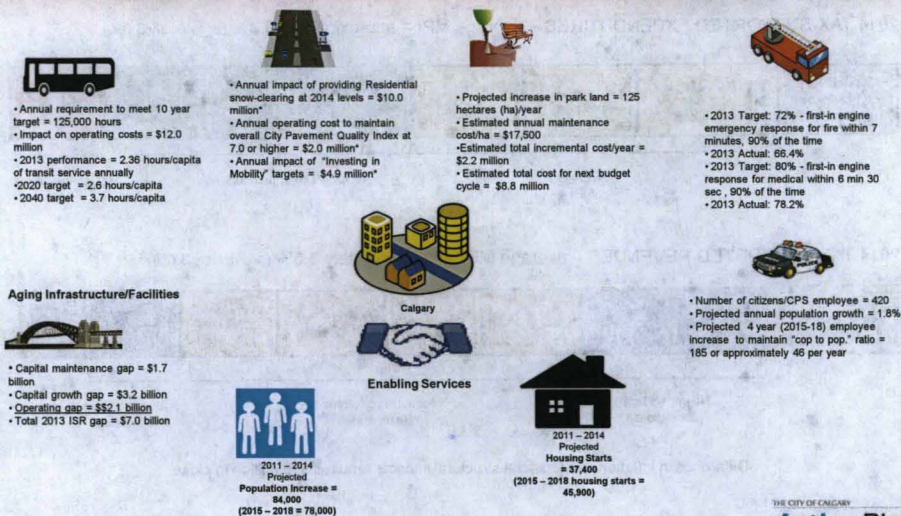
FINANCIAL AND TAXATION STRUCTURE

- Different cost and revenue components react differently to average MPI factor
- MPI impact on cost = \$81 million
- MPI impact on revenue = \$62 million
- Approximately \$19 million required to bridge the funding gap

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THE CITY OF CALGARY
Action Plan
2015 - 2018

FINANCIAL PRESSURE OF INCREASING SERVICE DEMAND



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Action Plan
2015 - 2018

FINANCIAL AND TAXATION STRUCTURE

- Increases in levels of service and growth:
 - Some additional revenues and costs, however costs appear sooner
- Approximately \$10 million required to bridge the funding gap

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THE CITY OF CALGARY
Action Plan
2015 - 2018

FINANCIAL AND TAXATION STRUCTURE RE-CAP OF APRIL 7th PRESENTATION – UPDATED FOR MPI

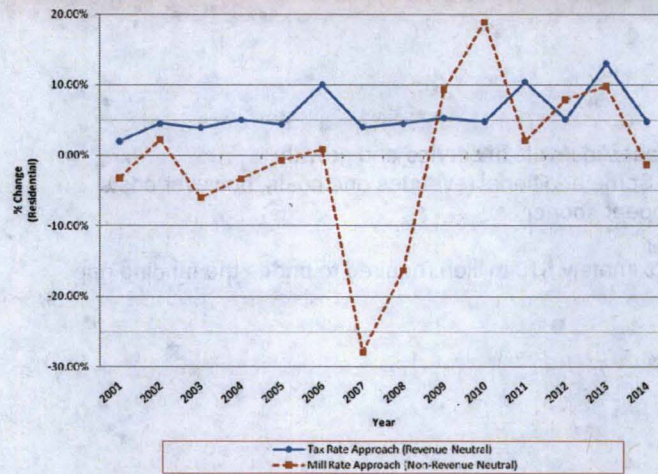
	Cost	Revenue	Funding Gap	Impact on Tax Rate
2014 Base Budget	\$81.0M	\$62.0M	\$19.0M	1.4%*
Service Level Increase/Growth	\$49.0M	\$39.0M	\$10.0M	0.8%
Total	\$130.0M	\$101.0M	\$29.0M	2.2%
			MPI	3.3%
			Indicative Tax Rate Increase (Revenue Neutral)	5.5%
			Indicative Mill Rate Increase (Non-Revenue Neutral)	2.5%

• Projected increase required in addition to assumed 3.3% MPI increase
• April 7th presentation assumed an MPI of 3.0%

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THE CITY OF CALGARY
Action Plan
2015 - 2018

HISTORICAL TAX RATE AND MILL RATE CHANGE COMPARISON



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Action Plan
2015 - 2018

INDICATIVE TAX RATE INCREASE

PRINCIPLES

SPECTRUM OF TAX OPTIONS

INDICATIVE TAX RATE DECISION



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Action Plan
2015 - 2018

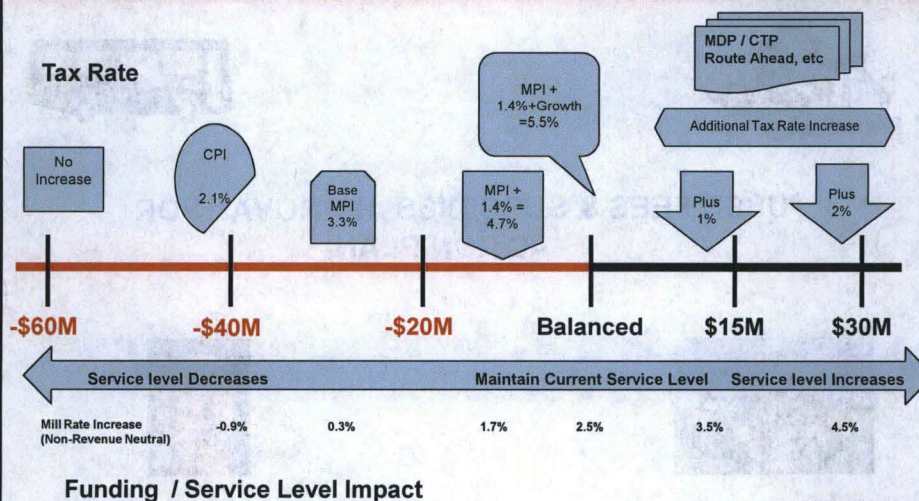
SETTING TAX RATES - PRINCIPLES

- Include consideration of citizens' needs and expectations for services, imagineCALTARY goals, and the financial impact of these on The City (including inflation, costs of growth, etc);
- Include consideration of financial situation of taxpayers (citizen affordability);
- Maintain approval of four years with opportunity to adjust annually;
- Rationale underlying the increase should be easy to understand and communicate;
- Base the rates upon most recent information available at the time of approval.
- Be as efficient and effective as possible, reducing costs and focusing on value-for-money.

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THE CITY OF CALGARY
Action Plan
2015 - 2018

2015 to 2018 TAX RATE DECISION



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THE CITY OF CALGARY
Action Plan
2015 - 2018

RESIDENTIAL PROPERTY TAX

Impact of indicative tax rate increases on a median residential property 2015 - 2018

	<u>Municipal property tax</u>	<u>Increase annually</u>	<u>Increase monthly</u>	<u>Indicative tax rate increase</u>	<u>Mill rate increase*</u>
2014	\$1,611	\$74	\$6.15	4.8%	-1.3%
2015	\$1,701	\$90	\$7.50	5.5%	2.5%
2016	\$1,797	\$96	\$8.00	5.6%	2.6%
2017	\$1,898	\$101	\$8.40	5.6%	2.5%
2018	\$2,002	\$104	\$8.70	5.5%	2.4%

* Assessed value increases at 3.0%

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THE CITY OF CHICAGO
Action Plan
2015 - 2018



USER FEES & SUBSIDIES APPROVAL FOR ACTION PLAN



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THE CITY OF CHICAGO
Action Plan
2015 - 2018

BACKGROUND

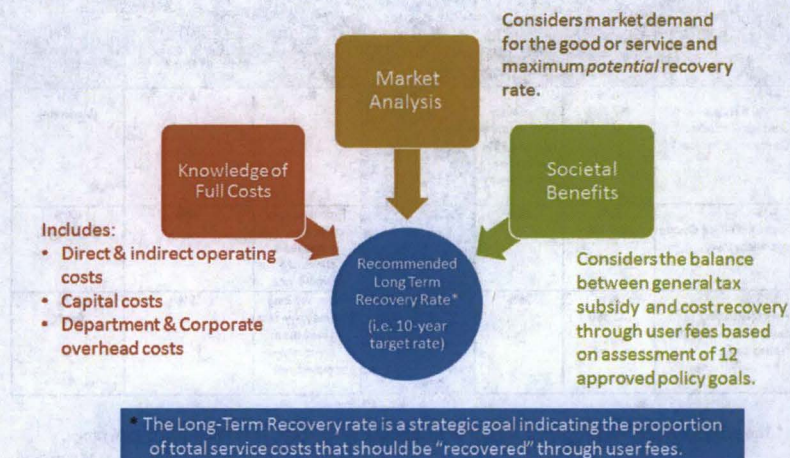
- In late 2005, Council made it a priority to review and update the previous User Fee policy.
- The revised User Fees and Subsidies Policy (CFO010) and implementation plan was approved by Council on 2008 April 28, and included:
 - Six guiding principles for a more consistent approach for business units to determine their user fees;
 - Consideration of both individual and "societal" benefits in determining how much service costs should be recovered through user fees (vs. through a general tax subsidy)
 - Guidance on how to assess the societal benefits of City goods and services; and
 - Direction to integrate the User Fee approval process with the business planning and budgeting cycle.

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THE CITY OF CALGARY
Action Plan
2015 - 2018

CONSIDERATIONS IN SETTING USER FEES

Considerations in Setting User Fees



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Action Plan
2015 - 2018

USER FEES APPROVAL PROCESS – INTEGRATED WITH ACTION PLAN

Step 1 (Today)

- Recommend for Council approval the **long-term target recovery rates** (i.e. 10-year target rates) for goods and services.

Long-term recovery rates give strategic direction to Business Units in setting specific fees.

Step 2 (November)

- Recommend for Council approval the **specific rates and fees** for 2015-2018.

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THE CITY OF CALGARY
Action Plan
2015 – 2018

SAMPLE – TABLE 1

(1) Department & Business Unit	PREVIOUSLY-APPROVED		FOR APPROVAL	SUPPORTING INFORMATION FOR PROPOSED RECOVERY RATE		
	(2) Current Recovery Rate (%) for 2014 (Full Cost)	(3) Previously-Approved Long Term Recovery Rate (%) (C2011-77)	(4) Proposed Long Term Recovery Rate (%)*	(5) Comparing (3) & (4) Long Term Recovery Rates (LTRR)	(6) Assessments	
					(6a) Max Potential Recovery Rate (MPRR)	(6b) Societal Benefits Assessment (SBAT)
CSPS Animal & Bylaw Services (excluding Compliance Services)	70% (\$7.9M)	NA (Previously ABS' recovery rate was 90% prior to re-organization)	75%	NA	75%	50% (Moderate)
CSPS Recreation (Golf Course operations)- only	83% (\$12.1M)	86%	80%	Proposed long term recovery rate is less than previously-approved rate.	80%	100% (Significant)
CSPS Parks (excluding cemeteries) – fees for renting parks	36% (\$3.1M)	39%	36%	Proposed long term recovery rate is less than previously-approved rate.	39%	75% (High)

* The proposed recovery rate, while shown as an absolute percentage, may fall within a $\pm 5\%$ range.

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THE CITY OF CALGARY
Action Plan
2015 – 2018

USER FEES

- Table 2 – Attachment 2B
 - Defer setting long-term recovery rates
- Table 3 – Attachment 2B
 - No changes to long-term recovery rates
- Business Unit User Fee Recovery Rates (BUUFRR) forms – Attachment 2C
 - Provided for information only
 - Provide information on the analysis that has been completed for each long-term recovery rate
 - Includes the recovery rates proposed for 2015-2018

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THE CITY OF CALGARY
Action Plan
2015 – 2018

CONCLUSIONS – FINANCIAL WRAP-UP

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THE CITY OF CALGARY
Action Plan
2015 – 2018

CONCLUSIONS – FINANCIAL WRAP UP

- The City must present a balanced budget
- The City is in a solid financial position but there are significant challenges ahead
- Expenditure growth is exerting significant pressure on tax increases
 - Revenues constrained with limited sources
 - Upward pressure from inflation, service level impacts and cost structure
- Service level increases and growth impacts result in additional revenues and costs, however costs appear sooner
- MPI plus population growth - an over-simplification of the issues:
 - City's MPI ~ 3.3%
 - MPI funding gap = financial and taxation structural shortfalls ~ 1.4% (\$19M)
 - Service level increases and growth impacts ~ 0.8% (\$10M)
 - Indicative tax rate to maintain current level of funding ~ 5.5%

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THE CITY OF CANARY
Action Plan
2015 - 2018

QUESTIONS?

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THE CITY OF CANARY
Action Plan
2015 - 2018

RECOMMENDATIONS

That Council:

1. Provide direction on indicative tax rate increases to Administration for Action Plan 2015-2018.
2. Approve the changes in the long term recovery rates proposed by business units for Action Plan 2015-2018 and the request of those business units that need to defer the setting of their recovery rate targets pending ongoing initiatives.

