

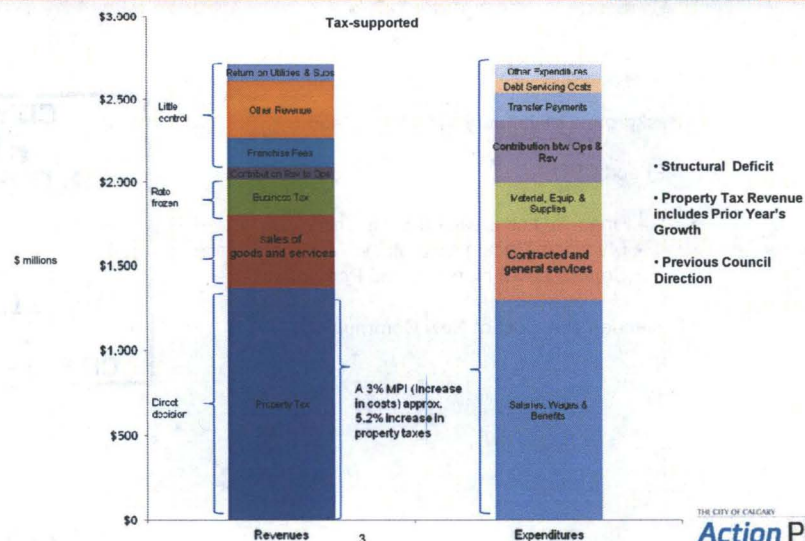
FINANCIAL OUTLOOK - EMERGING ISSUES

- 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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FINANCIAL AND TAXATION STRUCTURE



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MUNICIPAL PRICE INDEX and CONSUMER PRICE INDEX

MUNICIPAL PRICE INDEX

- Based on the costs of goods and services actually purchased by The City
- Projects future cost scenarios, as well as reflects past experience
- Key is to match individual expenses with appropriate inflators
- Necessary in order to improve accuracy of projecting municipal costs

CONSUMER PRICE INDEX

- Measures change in the price level of household goods and service
- Typical proxy for cost inflation because it is:
 - well known
 - produced by an independent source
 - available free of charge
- Municipalities actual experience with inflation can differ greatly from CPI

CONSUMED
BY THE CITY

CONTRACT & SERVICES
MATERIALS & EQUIPMENT
LABOUR

MPI IS A BETTER
REPRESENTATION
OF THE CITY'S
COSTS

TRANSPORTATION
FOOD
SHELTER

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EXPENDITURES – MUNICIPAL PRICE INDEX IMPACT

Average MPI = approximately 3%

MAJOR BUDGET COST COMPONENTS – TOTAL \$2.7 BILLION (TAX SUPP.)

Budget/ MPI	Salaries, Wages & Benefits \$1,520 million 56%	Transfer Payments \$160 million 6%	Debt Servicing Costs \$90 million 3%	Contracted & General Services \$300 million 11%	Materials, Equipment & Supplies \$170 million 6%	Contribution btw Ops & Rsv. \$370 million 14%	Other Expenditures* \$90 million 4%	Total Cost Impact
Average 3%	\$48M**	\$5M	\$3M					\$56M
Lower than Average				\$8M	\$2M	\$8M		\$18M
Higher than Average							\$7M	\$7M
Average 3% MPI increase on costs								\$81.0M

These increases are the result of inflation only and do not include population increases or service level enhancements

* Other expenditures includes utility costs

** 3% increases for Salaries, Wages & Benefits is for illustrative purposes only

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REVENUES – MUNICIPAL PRICE INDEX IMPACT

Based on 3% MPI

MAJOR BUDGET REVENUE COMPONENTS – TOTAL \$2.7 BILLION

Budget*	Return on Utilities & Subs \$105 million 4%	Business Tax \$210 million 8%	Other Revenue \$270 million 10%	Reserve Contribution \$98M 4%	Franchise Fees \$220 million 8%	Sales of Goods & Services \$430 million 16%	Property Tax \$1.360 billion 50%	Total Revenue Impact
No Impact	\$0	\$0						\$0
Partial Impact			\$4.5M	\$2.9M	\$5.0M	\$8.6M		\$21.0M
Full Impact							\$41.0M	\$41.0M

Total revenue of approximately = \$62.0M

Total costs approximately = \$81.0M

Funding gap = \$19.0M

Property tax to balance 1.4%

Previous Council decisions impacting revenue:

- ENMAX dividend
- Water dividend capped at \$42.5 million since 2003
- Zero percent business tax rate increase since 1993 (continues through Business Tax Consolidation)

* Revenue categories on this slide appear in a different order than those on slide 3 in order to emphasize the MPI impact differences between various revenue items

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REVENUE & EXPENDITURE IMPACTS OF:

- SERVICE LEVEL INCREASES
- POPULATION INCREASES

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SERVICE LEVEL INCREASE/POPULATION

- Increase in level of service (e.g.):
 - higher demand
 - service areas (expanded lines of service)
- Population

economy → migration → housing starts/household formation → service demand
- Some additional revenues and costs required, however costs appear sooner

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FINANCIAL PRESSURE OF INCREASING SERVICE DEMAND

Examples include:



2011 - 2014 Projected
Incremental Transit Hours
≈ 195,000
Target
Service hrs/capita = 2.39



2011 - 2014 Projected
New Lane Kilometres
≈ 1,980



2011 - 2014 Projected
New Park Hectares
≈ 400



*Aging Infrastructure
• Infrastructure
operating and
maintenance expenses



Expanded
service



1 New Fire Hall per 25,000 population
Operating impacts
Council approved:
First-in engine response time ≈ 7
minutes or less



2011 - 2014
Projected
Population Increase =
84,000
(2015 - 2018 = 78,000)



Calgary



Enabling
Services



2011 - 2014
Projected
Housing Starts
≈ 36,400
(2015 - 2018 housing
starts = 34,300)



• Increased
911/311 call
volumes

- City's mandate is to provide services and infrastructure expected and valued by citizens
- Service level increases and population place additional pressure on City's ability to meet expectations
- There are direct costs (e.g., firehalls and transit operators) and indirect costs (e.g., payroll, computers and legal services) that must be considered

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BUDGET IMPACTS OF SERVICE LEVEL INCREASES AND POPULATION

- Increased service demand and higher population ~ \$49M
- Average 5 year budget funding above MPI:

Average 5 year annual funding above MPI	\$38.2 million
Average 5 year population growth	16,600
Average service level increase/capita	\$2,360
2015 population increase forecast	21,100
Additional expenses – service level increases and population	~ \$49.0 million

- Projected additional revenue ~ \$39M
 - Property tax - average 5 year assessment growth ~ \$20M
 - Goods and services (e.g., transit, recreation) ~ \$8M
 - Business Tax ~ \$4M
 - Franchise Fees ~ \$4M
 - Other revenue ~ \$3M
- Funding gap ~ \$10M or 0.8%

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REVENUE GAP & INFLATION, SERVICE LEVEL INCREASES AND POPULATION

	Cost	Revenue	Funding Gap	Impact on Tax Rate
Base Budget MPI @3.0%	\$81.0M	\$62.0M	\$19.0M	1.4%*
Service Level Increase/Population	\$49.0M	\$39.0M	\$10.0M	0.8%
Total	\$130.0M	\$101.0M	\$29.0M	2.2%
			MPI	3.0%
			Indicative Tax Rate	5.2%

* Projected increased required in addition to assumed 3.0% MPI increase

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COST OF NEW COMMUNITIES

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BACKGROUND

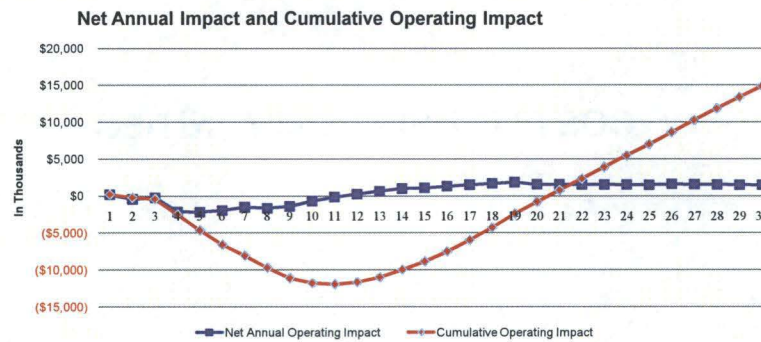
Model of the cost / revenues of a typical new community

- ☐ 5,000 homes (14,000 – 15,000 people)
 - ☐ 20 years to complete
 - ☐ minimal commercial space
- ☐ >80 variables - City of Calgary only
 - ☐ revenues (taxes, levies, user fees, etc)
 - ☐ expenses (capital & operating, leading & lagging, debt, lifecycle)
 - ☐ drivers for revenues and expenses (population, homes, hectares, road kms, etc.)
- ☐ Focus on direct revenues and cash expenses only, related to new greenfield residential construction
- ☐ No secondary impacts (e.g. add transit buses but not extra bus garages facilities, add new pipes but not new water treatment plant)

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NET AND CUMULATIVE OPERATING IMPACT OF A COMMUNITY



It takes up to 21 years before operating revenues are cumulatively greater than operating costs

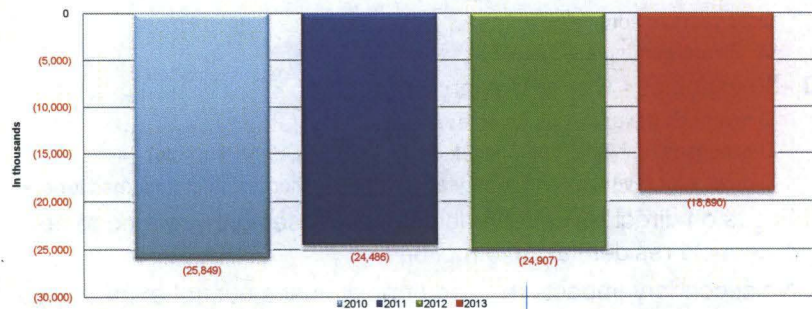
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MULTIPLE COMMUNITIES

- A total of 22 communities are currently under development

Impact of New Communities Operating Budgets



- In 2013, new community development adversely affected operating budget by as much as \$19M
- Add in capital requirements, and the deficit is doubled

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CONCLUSIONS

- 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 population impacts result in additional revenues and costs, however costs appear sooner
- MPI plus population growth - an over-simplification of the issues:
 - City's MPI ~ 3.0%
 - MPI funding gap = financial and taxation structural shortfalls ~ 1.4%
 - Service level increases and population impacts ~ 0.8%
 - Indicative tax rate to maintain current level of funding ~ 5.2%

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QUESTIONS?

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RECOMMENDATION

That Council:

- Receive this presentation for information