

## PROPOSED ADJUSTMENTS TO THE 2014 BUSINESS PLANS AND BUDGETS

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### EXECUTIVE SUMMARY

This report requests Council approval of the adjustments to the 2014 business plans and budgets. Included are both non-flood and flood-related adjustments to operating and capital budgets, and other related matters. The proposed adjustments maintain the previous Council-approved municipal property tax increase of 6.1% in 2014 (C2011-73).

### ADMINISTRATION RECOMMENDATION(S)

That Council:

1. Approve Administration's proposed adjustments to the 2014 Business Plans and Budgets and adopt the 2014 operating budgets and the 2014-2018 capital budgets as adjusted, as shown in Attachment 1 (pages 17 to 95);
2. Approve the recommendations from the Interim and Permanent Financing and Funding Strategy (Attachment 1, pages 97 - 102), as follows:
  - a. Approve the Administration utilizing working capital investments to bridge finance capital expenditures, until the sources of permanent funding amounts are determined (Attachment 1, page 99).
  - b. Approve the Administration utilizing utility reserves and self-supported debt to fund the residual capital funding shortfalls for flood-related utility capital projects (Attachment 1, page 100).
  - c. Approve the Administration utilizing, as required, the Fiscal Stability Reserve to fund the residual tax supported flood-related capital projects funding shortfalls to a maximum of \$100 million (Attachment 1, page 100).
  - d. Approve utilizing the \$52 million tax room, in 2014 only, to finance tax-supported resiliency projects and that the amount be transferred to the Lifecycle Maintenance and Upgrade Reserve – Resiliency- for future use as approved by Council (Attachment 1, page 101).
3. Approve the proposed User Fee and Utility Rate Adjustments for 2014, as shown in Attachment 2;
4. Give three readings to proposed Bylaw 45M2013 to amend Bylaw 40M2003, the Fire Fees Bylaw (Attachment 3);
5. Give three readings to proposed Bylaw 44M2013 to amend Bylaw 14M2012, the Wastewater Bylaw (Attachment 4);
6. Receive for information the Omnibus Report on Referred Items (Attachment 5);
7. Approve the proposed carry-forward of operating budgets from 2013 to 2014 as shown in Attachment 6.

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### **PREVIOUS COUNCIL DIRECTION / POLICY**

On 2011 November 29, Council approved the 2012-2014 Business Plans and Budgets, as amended (C2011-73), resulting in municipal property tax rate increases of 6.0% in 2012, 5.7% in 2013 and 6.1% in 2014. This included \$45 million in productivity savings over the three years identified by Administration through reduced administrative costs, consolidation of operations, increased use of technology in service delivery and automation of certain services.

Following deliberations at the Adjustments to the 2013-2014 Business Plans and Budgets (C2012-0717) in November 2012, the approved municipal property tax rate increase was reduced to 5.5% for 2013, down from the previously-approved 5.7%. The 2014 tax rate increase remained unchanged at 6.1%.

On 2013 June 20, there was a major flood in Calgary. On 2013 July 29, during Council's debate on Administration's report on the Tax Room Engagement Results (C2013-0614) as well as an Urgent Business Report Green Sheet re Flood Relief and Recovery, Council directed Administration to:

- Allocate \$52 million in 2013, funded through provincial tax room, to flood relief and recovery expenses for City and civic partner infrastructure not covered by insurance or by the federal and provincial governments;
- Authorize the additional use of these funds for bridge financing purposes for flood relief and recovery expenses, if needed;
- Utilize surplus funds from this \$52 million, if any, on betterment of disaster mitigation and prevention infrastructure (e.g. "hardening" city assets against natural disaster, moving critical infrastructure to higher ground, strengthening the capacity of the Emergency Operations Centre);
- Bring a report to Council through the Priorities and Finance Committee on the proposal and disposition of these funds;
- Direct Administration to bring a report to the Budget Adjustments in November 2013 with proposals, if needed, for the \$52 million in the 2014 tax room to be used for flood recovery, mitigation and prevention.

In 2013 September, through report PFC2013-0634, Administration informed Council that a total of \$86.8 million in flood-related expenditures had been approved by Administration for emergency, repair and recovery work, and received Council approval for an additional \$95.6 million increase to the 2013 Capital Budget for further 2013 flood-related expenditures. At that time, Council was asked to approve only the 2013 portion of funding for these projects, and Administration committed that requests for funding for the 2014 portion of the projects would be brought forward in the November Adjustments. It was also indicated that new projects starting in 2014 would be brought forward for Council approval during the 2014 Adjustments process.

### **BACKGROUND**

The City's annual business plan and budget Adjustments process allows the organization to adjust its multi-year business plans and budgets in response to changes in the external environment. This flexibility has been particularly useful this year as, along with non-flood

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adjustments, Administration has also identified flood-related adjustments for projects that will begin in 2014, as well as those that have started in 2013 and will continue into 2014.

In 2013 September, Administration had estimated, for Council information, future flood-related capital expenditures for 2014 and beyond to be an additional \$241.6 million (PFC2013-0634). Current estimates for future expenditures for 2014 and beyond, as covered in this report, sit slightly higher at \$262.7 million due to new projects and increases in project estimates since September 2013. This includes a total of \$134.2 million recommended for Council approval in this 2014 proposed adjustments report, and \$128.5 million estimated for 2015 and beyond (for Council information).

### **INVESTIGATION: ALTERNATIVES AND ANALYSIS**

This report contains six attachments that, collectively, contain all of the information and approvals related to Administration's proposed adjustments to the 2014 business plans and budgets:

- Attachment 1, the 2014 Proposed Adjustments binder, which is the primary document outlining all proposed adjustments, and which also includes a proposed funding strategy for flood-related capital adjustments;
- Attachment 2, proposed changes to user fees and utility rates; these are associated with some of the proposed budget adjustments in Attachment 1;
- Attachments 3 and 4, proposed bylaws to amend previously-approved bylaws related to user fee and utility rate changes, which require Council approval for the rate and fee changes to take effect; and
- Attachment 5, an "Omnibus" report, for information, which provides a consolidated Administrative response on a number of issues where Council directed Administration to report back during the 2014 Adjustments process;
- Attachment 6, which recommends a carry-forward of certain operating budget amounts from 2013 to 2014.

### **Attachment 1: 2014 Proposed Adjustments to Business Plans and Budgets**

Attachment 1 contains both non-flood and flood-related operating and capital budget adjustments, as well as adjustments to the business plan.

#### Non-Flood Adjustments:

With recent economic forecasts remaining fairly stable and close to previous estimates, there is a limited number of proposed non-flood operating budget Adjustments for 2014. These non-flood adjustments primarily address Council initiatives, emerging business needs and service improvements. They include a number of net \$0 operating budget adjustments where increased costs are offset by revenue growth (e.g. increased transit service hours) or recoveries (e.g. the consolidation of bylaw services activities to improve customer service). The net amount of proposed base operating budget adjustments amounts to \$2.0 million in base operating expenditures and 71.5 FTEs (Full-Time Equivalents). These proposed adjustments can be

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accommodated within the previously-approved 2014 tax rate increase of 6.1%. Also included within this amount is \$1.2 million of unallocated funds resulting from higher corporate revenues.

An additional \$1.7 million in one-time operating expenditures for initiatives that only require short-term funding are proposed to be funded from the Fiscal Stability Reserve (FSR).

The proposed non-flood capital adjustments for 2014 to 2018 come to a total of \$292.6 million, including \$173.5 million for tax-supported services, and \$119.1 million from the Utilities. All proposed non-flood capital adjustments can be funded through existing sources, such as acreage assessments, fuel tax revenues and self-supported debt.

Adjustments are proposed to a total of 20 performance measures and targets, to improve the way performance is measured, ensuring that meaningful data is measured for greater accountability, and ensuring that overall service objectives continue to be met despite shifts in the external environment. Calgary Police Service has also brought forward adjustments to one business plan objective and four actions for Council information.

### Flood-Related Adjustments:

Administration has proposed both operating and capital budget adjustments related to the flood, with the bulk of the funding request for flood-related capital projects. These projects have been categorized into four types to better classify the desired outcome of each project:

- Category #1: Immediate need for public safety.
- Category #2: Protects key vulnerable areas or populations.
- Category #3: Restores critical infrastructure or key operations.
- Category #4: Builds resiliency or redundancy.

The flood-related operating adjustments proposed for 2014 amount to \$2.8 million of one-time expenditures. These are primarily to cover the anticipated increase in insurance premium costs starting in 2014. Administration has proposed that this increase be covered through the Fiscal Stability Reserve (FSR) for 2014, until more definitive cost estimates and funding strategies are being developed for future years. Other flood-related operating adjustments include covering lost revenues during repairs to Shouldice Athletic Park, repairs to guardrails, landscaping and fences in flood-damaged boulevard areas, as well as the Bow River debris clean-up.

The flood-related capital budget adjustments proposed for 2014 total \$134.2 million. For tax-supported services, the flood-related capital requests include projects belonging to Categories 1, 2 and 3, i.e. projects that focus primarily on repair and recovery of assets impacted by the flood. Examples of such projects include restoring recreation infrastructure at Shouldice Athletic Park, and Mapleridge and Shaganappi Golf Courses; pavement and sidewalk reconstruction, as well as structure and bridge repair in flood-impacted areas; and repairs to the Zoo, the Calgary Public Library and the Talisman Centre.

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Category #4 or resilience-type projects for the tax-supported services have not been included in the proposed Adjustments as they are not eligible for third party funding (i.e. insurance or the province's Disaster Recovery Program) and currently no other funding source for these projects has been approved.

The flood-related capital requests from the Utilities include all four category types of projects, including resilience (Category #4) projects. Funding for these projects is expected from the province's Disaster Recovery Program (DRP) as well as self-supported debt. An increase in the 2014 Drainage Service charge by approximately 4% is proposed to pay debt servicing costs for the portion of flood-related utility capital expenditures that cannot be recovered from third parties. These projects include remediation for stormwater outfalls, stormwater ponds, lift stations and river crossings; and erosion protection on the Elbow and Bow Rivers.

### Proposed Financing and Funding Strategy:

The current estimated flood-related capital cost for all years, including the 2013 previously-approved expenditures of \$182.4 million (PFC2013-0634), is \$445 million. This includes \$270 million of flood-related capital requests from the tax-supported services, and \$175 million from the Utilities. Typically, Council approves expenditures and the associated funding source by program and the project for all years of a capital project, prior to undertaking the respective expenditure. This is not possible for flood-related capital projects, as emergency and urgent expenditures were required. Identifying the exact funding sources for these expenditures is difficult, as a significant portion of the funding will come from third parties and the recovery of funds from these sources may take years to finalize. As a result, Administration is proposing the following financing and funding strategy to cover previously-approved 2013 flood costs, the proposed 2014 flood-related adjustments, and a provision for future years:

- Using third-party funding (insurance, provincial DRP) to fund all eligible operating and capital expenditures in both tax-supported areas and Utilities. A total of \$212 million of the flood-related capital adjustments for tax-supported services, and \$107 million for the Utilities, is expected to be funded from third party-funding.
- Funding the balance of 2013 and proposed 2014 tax-supported capital expenditures using the 2013 tax room (consistent with previous Council direction) and the Fiscal Stability Reserve (FSR). For the tax-supported services, this amounts to \$52 million being funded by the 2013 tax room and the remaining \$6 million by the Fiscal Stability Reserve.
- Funding capital expenditures for Utilities from their respective reserves and debt. This amounts to \$68 million to be funded by self-supported debt by the Utilities.

As well, Administration is seeking Council approval to set aside the tax room, in 2014 only, to fund resilience projects for tax-supported services.

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The companion report, "C2013-0742: Flood Recovery Task Force: 2014 Business Plan and Budget Adjustments Companion Report" provides some examples of Category #4 or resilience-type projects that may be identified for the tax-supported services that were not recommended for funding in the 2014 Adjustments. It is also anticipated that future recommendations for continued recovery, mitigation and resilience will be brought forward to Council pending Council direction and decisions by the Government of Alberta and the Expert Management Panel on River Flood Mitigation, among other stakeholders. Such recommendations are expected to be brought forward as part of the 2015-2018 business plan and budget cycle.

### **Attachment 2: Proposed User Fee and Utility Rate Adjustments for 2014**

The user fee and utility rate adjustments proposed for 2014 is provided in Attachment 2 for Council approval. These adjustments include Fire's training fees, permits and business license inspection fees and the Utilities' drainage service charge. Roads' new excavation permit degradation fee is provided for Council information. Street Bylaw 20M88 was previously amended and approved by Council on 2013 July 19, which allows the setting and charging of fees in connection with excavation permits (TT2013-0517).

### **Attachment 3: Proposed Bylaw 45M2013 to amend Bylaw 40M2003, the Fire Fees Bylaw; Attachment 4: Proposed Bylaw 44M2013 to amend Bylaw 14M2012, the Wastewater Bylaw**

Attachments 3 and 4 are proposed bylaws to amend previously-approved bylaws associated with adjustments to user fees and rates provided in Attachment 2. Council approval through three readings of the proposed bylaws is requested. The adjustments are consistent with previous Council direction to bring forward new or changes in user fees through the Adjustments process (C2011-77).

### **Attachment 5: Omnibus Report on Referred Items**

Throughout 2013, Council or its Committees have, on a number of occasions, referred matters for discussion to the 2014 Budget Adjustments meeting where business plan and budget adjustments will be debated. A complete "omnibus" list of all referred reports and notices of motion is provided in Attachment 5. Thirteen items have been referred to the 2014 Adjustments process. Six of them are recommended for funding, and are already included in the 2014 proposed Adjustments in Attachment 1. The remaining seven either do not have funding implications, or are not recommended for funding at this time. These have not been included in the proposed Adjustments.

### **Attachment 6: Proposed Carry-forward of Operating Budgets from 2013 to 2014**

Council policy CFO004 (Multi-Year Business Planning and Budgeting Policy for The City of Calgary) permits the carrying forward of operating funds from one year to another within a budget cycle. Attachment 6 outlines Administration's proposed carry forwards of unspent 2013 operating budgets from 2013 to 2014, amounting to \$8.2 million.

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### **Stakeholder Engagement, Research and Communication**

Administration did not undertake any preliminary citizen engagement prior to developing this year's proposed Adjustments. This was primarily because it was known that the civic election process in the fall of 2013 would provide direct citizen feedback to Council members about citizens' concerns and priorities. The primary method of citizen engagement on the proposed adjustments was through online citizen feedback. The proposed adjustments were made available online on November 7<sup>th</sup>, and citizens were invited to provide comments up to the end of Council deliberations, which begin on 2013 November 25. Following Council deliberations in late November, the approved adjustments will be communicated to the public.

### **Strategic Alignment**

The Adjustments process is an important aspect of multi-year business planning and budgeting, and is designed to maintain the direction and priorities established in the approved 2012 – 2014 business plans and budgets. The flood, in particular, had a significant impact on Administration's operating and capital expenditures. The Adjustments process allowed Administration to adapt to changes in the external environment and propose both non-flood and flood-related adjustments that allow long term objectives to be met.

### **Social, Environmental, Economic (External)**

The approval and adoption of the proposed Adjustments in Attachment 1 will help The City to continue to respond to changes in the economy while maintaining a focus on long-term goals and priorities. The proposed Adjustments brought forward by Administration represent the continued achievement of social, environmental and economic goals (i.e. in line with The Triple Bottom Line Policy) as outlined in the 2012-2014 Business Plans and Budgets.

### **Financial Capacity**

#### **Current and Future Operating Budget:**

Administration has proposed non-flood adjustments amounting to \$2.0 million in base operating expenditures and 71.5 FTEs (Full-Time Equivalents). These proposed adjustments can be accommodated within the previously-approved 2014 tax rate increase of 6.1%. There remains \$1.2 million of unallocated funds in Corporate Programs, pending Council direction on the use of the funds.

An additional \$4.5 million in one-time operating expenditures is recommended, for initiatives with short-term funding requirements. These are proposed to be covered through a withdrawal from the Fiscal Stability Reserve (FSR).

#### **Current and Future Capital Budget:**

The proposed non-flood capital adjustments for 2014 to 2018 come to a total of \$292.6 million, (\$173.5 million from the tax-supported services, and \$119.1 million from the Utilities). All proposed non-flood capital adjustments can be funded through existing sources (e.g. acreage assessments, fuel tax revenues and self-supported debt).

An additional \$134.2 million is proposed for flood-related capital projects in 2014. All flood-related capital requests to date, including what was approved in 2013, the proposed 2014 funding request, and the amounts estimated for future years total \$445.1 million. The proposed

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funding source for the tax-supported capital requests of \$270 million is in the following sequence of funding: third party sources (i.e. insurance and DRP), the 2013 tax room as per previous Council direction from the debates on the tax room (C2013-0614), as well as The City's reserves. Funding for the Utilities' capital requests of \$175 million is through third party sources and self-supported debt.

### **Risk Assessment**

The proposed adjustments and related attachments respond to the most critical emerging issues facing The City. Administration's proposed adjustments are based on the assumptions that the majority of flood-related capital requests will be recoverable from third party sources (such as insurance and DRP). Apart from the amount estimated to be recovered from such third party funding sources, there is also the risk that third party funds will not be recovered within an anticipated time frame. As such, The City must continue to stay flexible and be able to adjust its plans and budgets to manage its resources.

### **REASON(S) FOR RECOMMENDATION(S):**

To ensure that The City continues to support the longer term direction and priorities as approved by Council in the 2012-2014 Business Plans and Budgets, the proposed adjustments to the 2014 plans and budgets allows The City to respond and adapt to emerging issues and changing circumstances, in particular, the 2013 June 20 flood. Approval and adoption of Administration's proposed non-flood Adjustments will maintain the previous Council-approved municipal property tax increase at 6.1% in 2014. Approval of Administration's proposed financing and funding strategy will allow The City to manage the flood-related operating and capital expenditures for 2013 and beyond.

### **ATTACHMENT(S)**

- Attachment 1 – 2014 Proposed Adjustments to Business Plans and Budgets
- Attachment 2 – Proposed User Fee and Utility Rate Adjustments for 2014
- Attachment 3 – Proposed Bylaw 45M2013 to amend Bylaw 40M2003, the Fire Fees Bylaw
- Attachment 4 – Proposed Bylaw 44M2013 to amend Bylaw 14M2012, the Wastewater Bylaw
- Attachment 5 – Omnibus Report on Referred Items
- Attachment 6 – Proposed Carry-Forward of Operating Budgets from 2013 to 2014