Action Plan 2018 Adjustments, Bylaws 45M2017 and 46M2017

EXECUTIVE SUMMARY

Action Plan 2015-2018 (“Action Plan”) was prepared and approved during a time of economic prosperity and population growth. At the time of approval, the Calgary economy was beginning to show signs of a significant downturn stemming from rapidly declining oil prices. Although the economy has begun to recover, citizens and The City are still feeling the effects of the downturn. This has made the approved 4.7% tax rate increase approved for 2018 no longer acceptable.

The projected 2018 operating budget gap of $170 million has been reduced to $146 million. Administration has found solutions totalling $154 million while reducing the 2018 tax rate increase to zero per cent. This does not include funding for potential additional investments for Police.

This report also:

- provides capital adjustments, including a recast of the 2018 capital budget;
- recommends reductions to the approved 2018 landfill tipping fees, and Planning & Development fees; and
- provides information and recommendations on reserves and long-term liabilities.

ADMINISTRATION RECOMMENDATION:

Administration recommends that Council:

1. Direct that the 2017 tax room ($23.7 million) be retained in 2018 and future years and used to fund the financing costs for Green Line.
2. Approve the operating adjustments contained in Appendix 1 and 2 of Attachment 1 and adopt the 2018 operating budget as adjusted.
3. Approve the capital recast in Attachment 2 and the capital adjustments contained in Attachment 3 and adopt the 2018 capital budget as adjusted in Attachment 4.
4. Approve the proposed carry-forward of unspent operating budget to 2018 in Attachment 5;
5. Approve the revised performance measures in Attachment 6;
6. Approve the amendments to the Waste and Recycling Bylaw (20M2001) in Attachment 7 and give three readings to Bylaw 45M2017;
7. Approve the Planning and Development fee schedules in Attachment 8
8. Approve the amendments to the bylaws 64M94, 63M94, 46M2014 and 33M2005 in Attachment 9 and give three readings to Bylaw 46M2017, and
9. Receive for information the net zero operating budget Adjustments in Attachment 10.
10. Approve the recommendations for the 2017 Triennial Reserve Review Report and 2016 Report on Reserves and Long-Term Liabilities contained on page 1 of Attachment 11

PREVIOUS COUNCIL DIRECTION / POLICY

The Multi-Year Business Planning and Budgeting Policy (CFO004) was approved by Council on 2005 January 31, and then amended in 2008 January 14. This policy stipulates the approach that The City uses for multi-year budgeting and business planning.

On 2013 April 22, Council approved a modified four-year approach to business planning and budgeting (PFC2013-0338). The approval aligns The City's business plan and budget process to the four-year election terms. It included a provision for annual adjustments.

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On 2014 December 1, Council approved Action Plan 2015-2018 (C2014-0863) with a tax rate increase of 4.7% for 2018.

On 2016 June 27, Council approved a tax rate of 1.5% for 2017 with a one-time rebate of 1.5% for an effective tax rate increase of 0% for 2017.

On 2017 April 10, Council approved a 1.5% combined tax rate increase for 2017 (C2017-0288) which included $23.7 million additional annual property tax room. In a motion arising with respect to this report, Council rebated the additional annual property tax room as a one-time return to taxpayers. A second notice of motion with respect to this report directed Administration to bring back a recommendation the use, or rebate, of the tax room for 2018 and future tax years.

On 2017 May 15, Council directed Administration to prepare adjustments to the 2018 business plans and budgets based on a property tax rate increase of 0% to 2%, with a maximum of 2% (C2017-0465).

BACKGROUND

By the time that Action Plan was approved in November 2014, the Calgary economy was already showing signs of a significant downturn, driven by rapidly falling oil prices. The unemployment rate doubled and population growth began to slow. Although the economy is beginning to recover, The City is experiencing the lagging effects of the downturn.

In response, The City has been finding savings since 2015, in addition to the efficiencies that were included in Action Plan. The Budget Savings Account (BSA) was also established that has increased the focus on finding savings. In total, Administration found a total of $325 million in operating base and one-time savings between 2015 and the beginning of 2017.

The approved tax rate in Action Plan is currently 4.7%. Given the state of the economy and the challenges that taxpayers are facing, this is not an acceptable increase. This, along with other revenues challenges led Administration to identify a tax supported operating budget gap of $170 million for 2018 comprising:

- $75 million for the previously approved 4.7% property tax increase
- $33 million related to one-time funding sources used to reduce the 2017 tax rate increase
- $38 million related to lower revenues (dividends and franchise fees)
- $24 million for a portion of the anticipated annual debt servicing related to Green Line

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Attachment 1 provides a summary of the current situation and Administration's recommended response.

<u>2017 Tax room</u>

The initial estimate for Green Line financing requirements was $56 million per year, which led to including $24 million in the 2018 gap to fund part of the requirements. The 2017 tax room of $23.7 million was also identified as potentially contributing to the requirements, with no source identified for the balance.

As Green Line planning and capital grant commitments from other levels of government provided more clarity over time, Administration has re-estimated the financing requirements for Green Line and determined that is currently estimated at $25 million per year (down by more than half from the initial estimate of $56 million per year). Administration recommends that the $23.7 million 2017 tax room be dedicated to Green Line financing costs. This will leave a minor portion of funding still left unidentified, however, there is still significant uncertainty surrounding the final costs.

As a result of the lower estimate, the additional $24 million included in the 2018 $170 million tax supported operating budget gap may not be required at this time or Green Line financing, reducing the 2018 tax supported operating budget gap to $146 million.

Operating Savings

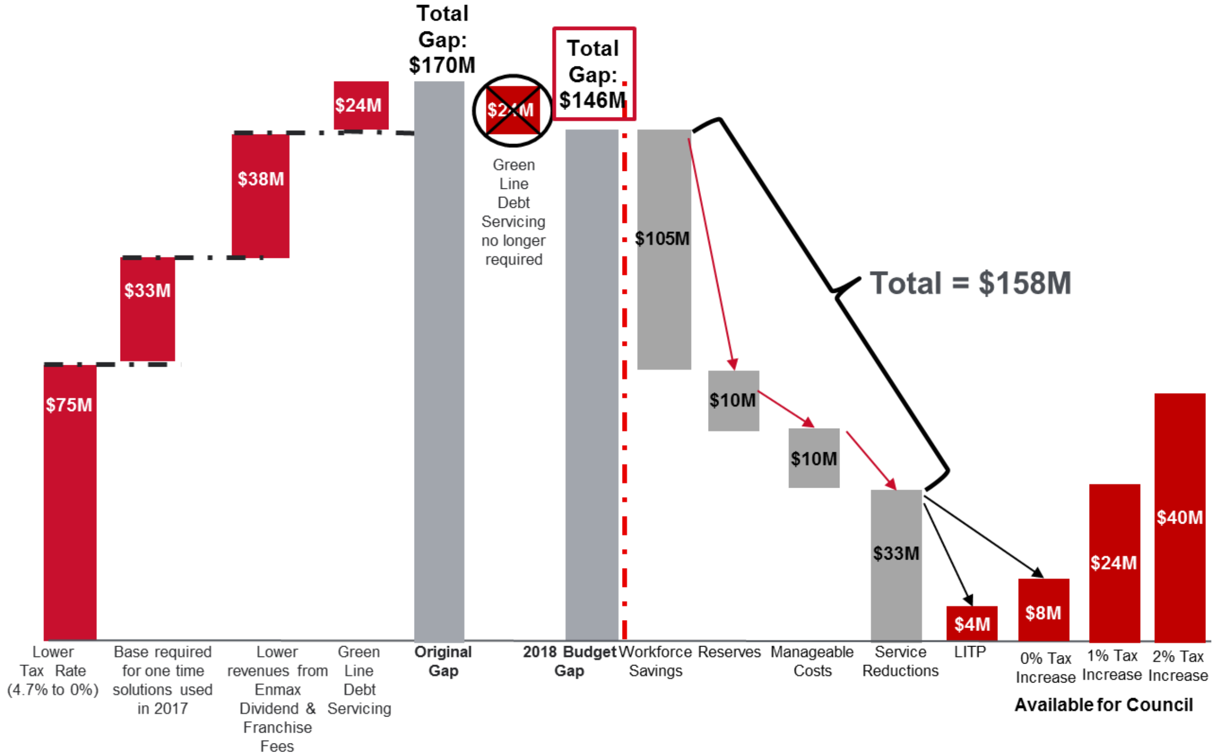
In balancing the 2018 tax supported operating budget, Administration has conducted a thorough and rigorous process. This process was based on the following guiding principles:

- Limit the impact on 2018 service delivery
- No new debt without identified repayment source and consideration of debt limits
- No new tax increases for the operating costs of service delivery, except where warranted
- Backing out growth where we can
- Some growth projects still require operating budget (e.g. fire, library)
- No new tax increase for the operating costs of capital projects
- Manage the bow wave in 2018 and beyond
- All Business Units will contribute to the reduction (it may not be equal and may not be at the same time)
- Compassionate and thoughtful approach to staff impacts
- Engage City leadership in finding and advancing solutions
- Continued investment to ensure long-term business sustainability

Through this process, Administration has identified $154 million in 2018 tax supported operating solutions. This comprises:

- Work force savings of $105 million, through lower past wage settlements and expected 2018 wage settlements and reduction of positions through the Corporate Work Force Planning Committee;
- $10 million one-time from the ENMAX Dividend Stabilization Reserve to address the temporary decline in the ENMAX dividend;
- Reduction in Business Units' manageable costs of $10 million; and
- Net service reductions of $33 million offset by a $4 million budget increase for the Low Income Transit Pass (LITP).

These solutions allow for $8 million to be available for Council to allocate to additional needs if they choose. Administration recommends that the $8 million be returned to citizens after consideration of additional needs.



Although Administration focused on a least harm approach to reductions, the net service reductions have some service impacts, which are summarized in Appendix 1 of Attachment 1. As well, the above solutions do not include funding for the following potential additional investments:

- Police - $20.8 million ($6.5 million for the service reductions included above + $14.3 million for additional officers and body worn cameras)

<u>Capital</u>

In a continuing effort to be transparent and accountable for The City's capital investment, Administration has completed the 2018 capital budget recast to realign the capital budget to the years when the funds are expected to be spent. As shown in Attachment 2, the 2018 capital budget has been recast by approximately $477 million, shifting the budget into the 2019-2021 period with no change to total project budget.

Attachment 3 identifies the capital budget adjustments being proposed to reflect changes that have arisen relating to actual experience with project delivery. Total relinquishments of $233 million (2018 – 2021) reduce the 2018 capital budget by $200 million, of which $127 million relates to transfers from the Budget Savings Account as capacity has been reallocated through various Infrastructure Calgary implementation plans. This is offset by $39 million of new budget requests in 2018 for a net reduction of $161 million in 2018. The majority of new budget requests in 2018 relate to Transportation projects including:

- $6.1 million for the City Centre Parkade;
- $14.1 million for the Southwest & West Ring Road Connections; and
- $12.0 million for the Inglewood Bridge Replacement.

Attachment 4 provides a summary by business unit of the capital adjustments included in attachments 1 and 2 and the revised budget after these changes. As a result of the changes noted above, the 2018 capital budget has decreased from $2,352 million to $1,714 million.

Fee adjustments

Waste and Recycling Services is recommending reducing the 2018 basic sanitary tipping fee from the $119 per tonne, as approved in Action Plan, to $113 per tonne. This is the same rate as 2016 and 2017 and will continue to reduce the burden on businesses in Calgary (Attachment 7).

Administration is also recommending an amendment to the Waste and Recycling Bylaw 20M2001 to transfer approval from Council to the Director, Waste & Recycling Services for the following rates:

- specific services at Waste Management Facilities; and
- short-term special rates in the event of a natural disaster.

Council would continue to set the primary Landfill Rates accounting for over 80 per cent of WRS' revenue:

- Basic Sanitary Waste;
- Minimum charge for loads less than 250 kilograms; and
- rates for residential programs:
    - the Blue Cart Program Rate;
    - Waste Management Rate; and
    - Green Cart Management Rate.

In order to support and stimulate development and building, and the costs of starting and running businesses, events, and installing equipment, Planning & Development is proposing a one-time adjustment to eliminate the previously Council-approved fee increase (of 3.3%) for 2018. This proposal applies to land use, subdivision, planning documents and records, development permit, building permit, trade permits and maintain the 2017 rates (that were unchanged from 2016) through 2018. The reduced revenue will be offset by contributions from the Calgary Building Services (CBS) Sustainment Reserve to a net zero budget impact. Attachment 8 presents the revised schedule of fees. Attachment 9 presents the amendments to the fee bylaw.

Financial Sustainability and Resilience

Attachment 11 presents the 2017 Triennial Reserve Review Report and 2016 Report on Reserves and Long-Term Liabilities. Administration is committed to continually improving financial sustainability and resilience. Reserves play a key role in this commitment. Reserves are part of good management that allows for funds to be either spent judiciously over time or to ensure service levels are maintained and not immediately impacted by potential downturns in the economy. Reserves provide a measure of financial flexibility to react to budget shortfalls or to financial impacts of significant unexpected issues in a timely manner. A properly balanced approach to the planning and use of reserves is considered good financial management and is a key component of The City of Calgary's strong credit rating. For the majority of reserves, expenditures from and contributions to reserve funds are included in the Budget and Budget Adjustments approved by Council.

Stakeholder Engagement, Research and Communication

Ongoing internal communications regarding the tax supported operating budget gap has been occurring since April 2017. The 2018 Adjustments build off the extensive engagement conducted in 2017 for the Mid-Cycle Adjustments.

Strategic Alignment

The delivery of most City services continues as previously approved in Action Plan. The proposed adjustments are intended to take a least harm approach to reducing the 2018 tax rate increase. The proposed initiatives support strategies within the Economic Resilience Program, in particular:

- Review the economic situation for financial impacts while mitigating and responding to impacts on Action Plan;
- Focus on value for money in service delivery;
- Continue to provide services to Calgarians;
- Proceed with strategic infrastructure investment; and
- Work with partners to identify and respond to what is required.

Social, Environmental, Economic (External)

The 2018 adjustments as proposed address the current economic circumstances by reducing the tax rate increase to 0% while maintaining most services. The required reductions to services focused on a least harm approach.

Financial Capacity

Current and Future Operating Budget:

Administration's recommendation responds to Council's direction by eliminating the 2018 operating gap within a 0% to 2% tax rate increase. Base solutions have been proposed for all but $10 million of the gap. Funding from the ENMAX Dividend Stabilization Reserve is recommended to be used for this $10 million as the decline in the ENMAX dividend is expected to be temporary.

Current and Future Capital Budget:

There are no net impacts to the capital budget from the 2018 budget recast as this simply redistributes the budget across budget years, however, additional capital adjustments result in a net reduction in the total capital budget. The proposed adjustments will decrease the 2018 capital budget by $638 million and increase the 2019-2021 capital budget by $445 million.

Risk Assessment

There is a risk that all or part of the additional $24 million for Green Line financing will be required due to considerable risk around factors such as construction costs, interest rates and exchange rates, as well as the impact of the procurement model selection.

The solutions in this report rely on wage settlements through union negotiations. Actual settlements may by higher than expected in this report.

Some citizens may disapprove of the impacts of the service reductions.

Some tax payers may disapprove of an increase in the tax bill due to the expiration of the 2017 tax rebates despite a 0 per cent tax increase.

REASON(S) FOR RECOMMENDATION(S):

Administration's recommendation responds to Council's direction by eliminating the 2018 tax supported operating gap within a 0% to 2% tax rate increase. The reductions identified have considered a least harm approach. The one-time use of the ENMAX Dividend Stabilization Reserve reflects the expectation that the reduction in the ENMAX dividend is temporary.

Approval(s): CFO (E. Sawyer) concurs with this report. Author (C. Jacyk)

ATTACHMENT(S)

1. Attachment 1 – 2018 Adjustments
2. Attachment 2 – 2018 Capital Budget Recast
3. Attachment 3 – 2018 Capital Budget Adjustments
4. Attachment 4 – Capital Budget Adjustment Summary
5. Attachment 5 – Carry Forward of Operating Budget from 2017 to 2018 for Council Approval
6. Attachment 6 – Revised Performance Measures for Council Approval
7. Attachment 7 – Bylaw Number 45M2017
8. Attachment 8 – 2018 Planning Applications Fee Schedule
9. Attachment 9 – Bylaw Number 46M2017
10. Attachment 10 – 2018 Net Zero Adjustments (For Information)
11. Attachment 11 – 2017 Triennial Reserve Review Report and 2016 Report on Reserves and Long-Term Liabilities