

## **2018 Provincial Budget Submission**

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### **EXECUTIVE SUMMARY**

The City of Calgary is provided the opportunity to provide input and inform the Government of Alberta as it develops its 2018-2019 budget. Administration recommends that this year's submission emphasize that the province maintain its existing schedule of financial commitments to The City, conclude the Fiscal Framework between The City of Calgary and Government of Alberta with respect to revenue sharing for capital investments, and continue to work together on mutual priorities that address current economic challenges, including transportation infrastructure, economic diversification, and also ensure quality programs and service for all Albertans.

#### **ADMINISTRATION RECOMMENDATION:**

That the Intergovernmental Affairs Committee approve the approach to The City of Calgary's advocacy efforts around the 2018 provincial budget, as outlined in this Report.

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

The Intergovernmental Affairs Committee approved the approach to The City of Calgary's pre-budget consultation and submission to the Finance Minister for the Government of Alberta 2017-2018 Budget on 2016 December 01 (IGA2016-0911).

### **BACKGROUND**

Each year the Government of Alberta invites key stakeholders including The City of Calgary to identify economic, social, and municipal priorities that will inform the development of the provincial budget. The City's prior submissions for budgets 2015-2016 through to 2017-2018 can be organized around four broad themes requesting that the Government of Alberta provide funding for: transportation infrastructure projects; enhance infrastructure resilience and mitigate risks associated with climate change including green infrastructure; support for low and middle income Calgarians struggling in the current economic environment by expanding social programs and affordable housing; and finally, develop and fund policies that promote job creation and economic diversification to reduce reliance on the oil and gas industry to drive Calgary's local economy.

Unfortunately, the ability of the Government of Alberta to respond to the current economic challenges is severely hampered by its reliance on declining revenues from the petroleum resources sector. On 2017 March 16 the Government of Alberta tabled its 2017-2018 Budget. The Fiscal Statement accompanying the annual budget forecasts this year's deficit at \$10.33 billion, and, without adding any new spending programs, projects future budget shortfalls for 2018-2019 of \$9.7 billion and 2019-2020 of \$7.2 billion for a three-year aggregate total of \$27.2 billion in new debt by year-end 2020.

With respect to budget specific details, many items in the Government of Alberta's 2017 Budget lacked details with respect to funding commitments for municipal initiatives, particularly with respect to capital investments for Affordable Housing and other social infrastructure programs.

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

#### Economic Outlook

On 2017 October 17 the Conference Board of Canada published its *Metropolitan Outlook Autumn 2017* stating that as global oil prices stabilized during 2017 the “*worst appears to be over for Calgary and Edmonton. Alberta’s economy has been getting stronger thanks to a rebound in drilling and increases in oil production, which has helped to fuel renewed economic growth in the province’s largest cities.*” Indeed, Calgary is currently experiencing 4.6% growth in its local economy, the highest rate of increase in gross domestic product for any large municipality in Canada. However, this pace of economic growth is not expected continue. The City of Calgary’s *Fall 2017 Calgary and Region Economic Outlook* forecasts “modest and stable growth until 2022”. Predictions by economists from both The City and Conference Board suggest Calgary’s 2018 economic growth will range between 1.0 and 2.2 per cent. Although Calgary’s economy is improving, the city’s unemployment rate continues to trend above the rest of Canada at approximately 8 per cent compared to a national average of 6.1 per cent. Additionally, many of the new jobs added to Calgary’s labour market over the past year are positions that pay at a lower hourly rate compared to pre-recession positions. As a result, many Calgarians continue to struggle with problems relating to income, food and housing insecurity.

#### City Strategy for Economic Stimulus

Earlier this year Council directed Administration to focus on linking infrastructure projects to job creation, community improvement, and supporting the diversification of the local economy. On 2017 March 6 Council reviewed a list of capital projects in the form of themed investments that included transit and transportation, housing, education, main streets, education and infrastructure resilience. Council unanimously approved fourteen projects that focused on diversifying the local economy by positioning Calgary as a major inland port and transportation hub. This would be achieved by making improvements to roads, bridges and other transportation infrastructure. In addition, Council further directed Administration to increase the spend rate on existing capital programs and focus on community investments in multi-service facilities, parks and public spaces. Finally, Council provided specific direction to make local improvements to the culture and entertainment district in the downtown core, as well as support the development of an innovation/education/wellness area around Foothills Hospital and the University of Calgary.

#### Government of Alberta’s Budget

On 2017 March 16 the Government of Alberta released its 2017-2018 Budget. This budget proposed the ninth budget deficit in ten years. The key drivers for these provincial budget deficits are population growth, a decline in oil and gas royalties, and a series of expensive natural disasters. In his Fiscal Statement accompanying the 2017-2018 annual budget, Finance Minister Ceci forecast the 2017 deficit at \$10.33 billion. The Fiscal Statement also projected future budget shortfalls for 2018-2019 of \$9.7 billion and 2019-2020 of \$7.2 billion for a three-year aggregate total of \$27.2 billion in new debt, for a total debt of \$33.7 billion by year-end 2020. However, accounting for all provincial obligations including Crown agencies, pension liabilities, and obligations under private partnerships, the province’s total gross liability is projected to reach \$71.1 billion by 2020. It should be emphasized that these projections are predicated on the assumption that there will be no new provincial spending programs.

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### Impact on Calgary

From a municipal perspective, the Government of Alberta's current finances and significant debt severely limits its ability to provide support for existing or new municipal programs. Indeed, to help resolve its emerging budget crisis, the Government of Alberta may continue to reprofile and restructure capital payment schedules for prior commitments to The City by delaying transfers over an extended period, as it has done in the past with the Municipal Sustainability Initiative. Administration accordingly **recommends** that The City urge the Government of Alberta to maintain its current capital commitments and payment schedules as to avoid The City incurring unnecessary debt finance charges.

### Charter Benefits: Fiscal Framework

The ongoing tri-partite City Charter negotiations, between the Government of Alberta, and The City of Calgary and The City of Edmonton, continued through 2017. New collaboration tables were developed that will support and sustain dialogue necessary to build a strong, positive long-term relationship with the Government of Alberta. This will enable the parties to focus on more efficient and effective service delivery. Administration recommends that collaboration with the Government of Alberta be continued to ensure that Calgary's needs are represented at the federal level with the Government of Canada as the federal order of government continues to develop and implement infrastructure programs and plans.

Another component of the City Charter process is the Fiscal Framework. The Cities of Calgary and Edmonton agreed to pursue a revenue-sharing model to help fund municipal capital programs. Tri-partite negotiations began recently to identify how this model will operate in practice. Administration **recommends** that the Government of Alberta reiterate its commitment to a capital revenue-sharing model be in its budget submission.

On 2017 October 17 Premier Notley stated that a "key pillar of the (Government of Alberta's) economic focus will be "Putting Albertans to work today while building the infrastructure our economy will need for tomorrow" and she accordingly appointed an "experienced and well-know champion for Calgary as minister of infrastructure". Administration **recommends** that The City lever this focus through specific requests for capital investments from the Government of Alberta.

### City Strategy – Economic Development Investment Fund

The economic downturn since 2014 resulted in significant economic stresses to Calgary's downtown core, which resulted in high office vacancy rates and business failures. The City responded to this crisis on 2017 June 19 when Council approved the creation of an Economic Development Investment Fund (C2017-0370) with the objective of creating conditions for economic growth, diversifying the economy, leveraging funds for private and public-sector investments, stimulating employment, enhancing Calgarians' quality of life, and supporting a vibrant downtown. To address these issues, Administration further **recommends** the Government of Alberta implement tax relief for downtown businesses, particularly reducing or redirecting the Government of Alberta's share of property taxes collected on downtown properties. It is recommended that the Government of Alberta redirect these funds to augment the Economic Development Investment Fund.

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In addition, Administration **recommends** that the Government of Alberta work with The City to develop strategies to re-vitalize Calgary's downtown core. For example, the Government of Alberta create a fund that will support re-purposing out of date office buildings either to include office to residential conversions and / or to bring buildings up to energy efficiency standards. Other initiatives to support Calgary's downtown core include incentives, either through capital or other funding arrangements, to attract or encourage post-secondary institutions to locate in the downtown; small business grants, and or provide low-interest loans or tax incentives for start-ups and entrepreneurs to locate business in the downtown.

### Affordable Housing

The economic down turn also poses challenges for Calgarians. A significant number of Calgarians continue to be challenged with issues relating to income, food, and housing insecurity. Administration recommends that The City continue to press the Government of Alberta to address issues related to affordable housing and continue its current commitment with respect to its affordable housing plans and priorities. Specific priorities for The City regarding affordable housing include housing lifecycle maintenance and urban sustainable housing. A priority for The City is housing lifecycle maintenance. The average housing unit in The City owned portfolio is forty-four years old and showing significant deterioration due to deferred maintenance resulting from insufficient funding for operating subsidies and underfunded capital investment. Also, The City is in a partnership with the Government of Alberta to redevelopment two existing affordable housing sites that are nearing the end of their useful life. This partnership for Urban Sustainable Housing Renewal requires that the Government of Alberta allocate funding for capital maintenance. Administration accordingly **recommends** that Council request the Government of Alberta to address the existing capital and operating shortfall for The City's social and affordable housing infrastructure.

### Public Safety

Also, recent citizen surveys indicate that Calgarians continue to be concerned with public safety. Police crime statistics indicate that although violent crime has increased slightly and that the overall crime rate has stabilized in Calgary, citizens continue to worry about crime and do not feel safe. Community policing is a significant deterrent to crime and a visible means of allaying Calgarian concerns. In addition, upcoming cannabis legalization may stretch police resources which have been recently described as "spread thin". Administration therefore **recommends** that The City request support and funding for Calgary Police Services to provide more community policing and address both cannabis legalization and the enforcement issues arising from the current opioid crisis.

### Cannabis Legalization

Furthermore, with respect to cannabis legalization, Administration is concerned about additional and unbudgeted new costs with respect to the regulation and enforcement of cannabis distribution and use. Multiple City services in addition to policing will be involved in this initiative. During hearings on the legalization of cannabis The Government of Canada proposed a revenue sharing formula based on an equal split of revenues with the provinces. Finance Minister Ceci's response on 2017 November 10 was unequivocal, arguing that "*As the majority of implementation work will be at the provincial and local levels so it is reasonable that all or the majority of tax revenues come to the provinces.*" The Finance Minister further acknowledged that municipalities will be looking for a share of the provincial revenues.

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Administration agrees with the Finance Minister. However, using the Finance Minister's logic, Administration recommends that The City emphasize that the majority of implementation and regulation costs for cannabis legalization will be borne by municipalities. The City will require additional resources to effectively meet municipal roles and responsibilities in the regulation of this new policy area. For example, The City will incur costs with respect to additional resources and tools to adequately measure, educate and enforce neighbourhood nuisances, business licensing, land use, public safety and impaired driving. Accordingly, Administration **recommends** that Council seek either full reimbursement from the Government of Alberta for these added costs or alternatively, receive a majority share of the new revenues sources accruing to the Government of Alberta from the legalization of cannabis.

### Calgary Ring Road

Finally, the 2017 Citizen Satisfaction Survey also continues to highlight citizen concerns with infrastructure, traffic and roads a priority area for all three orders of government. The 2016 Budget did not specifically identify Calgary's Ring Road, development being a provincial responsibility. However continued delays in completing the ring road adversely impacts the movement of people, goods and services in the city. Administration therefore **recommends** that Council urge the Government of Alberta continue the timely development of Calgary's Ring Road.

### Summary of Advocacy Recommendations to the Government of Alberta for the 2018 Budget

Administration recommends the following be communicated to the Government of Alberta. That the Government of Alberta:

1. Maintain its current capital commitments and payment schedules as to avoid The City incurring unnecessary debt finance charges;
2. Reiterate its commitment to a capital revenue-sharing model be in its budget submission;
3. Implement a program of tax relief for downtown Calgary businesses, particularly reducing or redirecting the Government of Alberta's share of property taxes collected on downtown properties; furthermore, that the Government of Alberta
4. Redirect these funds to augment the Economic Development Investment Fund;
5. Collaborate with The City to develop strategies that will re-vitalize Calgary's downtown core. Examples include creation of a fund that will support re-purposing out of date office buildings either to include office to residential conversions and / or to bring buildings up to energy efficiency standards; development of incentives through capital or other funding arrangements, to attract or encourage post-secondary institutions to locate in the downtown; small business grants; and finally, develop a program that provides low-interest loans or other tax incentives for start-ups and entrepreneurs to locate business in the downtown;
6. Address the existing capital and operating shortfall for The City's social and affordable housing infrastructure;
7. Support and funding for Calgary Police Services to provide more community policing and address both cannabis legalization and the enforcement issues arising from the current opioid crisis; and additionally, that the Government of Alberta
8. Fully reimburse The City with respect to added costs to effectively meet municipal roles and responsibilities with respect to educating Calgarians and enforcing neighbourhood

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nuisances, business licensing, land use, public safety and impaired driving associated with the use and distribution of cannabis, and finally,

9. That the Government of Alberta continue the timely development of Calgary's Ring Road.

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

Intergovernmental & Corporate Strategy coordinated a review of the provincial budget with subject matter experts from across the organization. This review, along with The City of Calgary's "Calgary and Region Economic Outlook", historical research of prior provincial budgets, The City's 2017 Citizen Satisfaction Survey, and ongoing City of Calgary advocacy and collaboration with the provincial government informed the recommendations in this report.

### **Strategic Alignment**

The proposed submission to the 2018-2019 provincial budget is in alignment with The City of Calgary's strategic direction and priorities.

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

The Government of Alberta's budget can provide targeted funding that will assist The City in improving social, environmental, and economic objectives.

### **Financial Capacity**

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

Provincial funds have a positive impact on current or future operating budgets.

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

Successful conclusion of the Fiscal Framework will enable The City of have a predictable source of capital funding for infrastructure development and will have a significant impact on future capital budgets.

### **Risk Assessment**

If the City does not submit recommendations to the Minister of Finance, it risks missing an opportunity to advance its issues of concern and advocate to the provincial government its priorities for funding.

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

The City of Calgary is provided an opportunity to highlight its financial priorities with the Government of Alberta to inform and help develop the 2018-2019 provincial budget. The recommendations in this report will enable Administration to prepare The City of Calgary's submission to the Minister of Finance and will identify the requirement for additional advocacy efforts during the development of the 2018-19 provincial budget.

### **ATTACHMENT(S)**

None