

**Corporate Planning & Financial Services Report to
Executive Committee
2025 May 13**

**ISC: UNRESTRICTED
EC2025-0415**

Year-over-year annual operating variance review

PURPOSE

This report provides a year-over-year comparison of The City's positive year-end operating variances as directed in the 2025 Mid-Cycle Adjustments. The information will be used to guide the ongoing budget discussions leading up to the 2025 November Adjustments to the 2023 – 2026 Service Plans and Budgets.

PREVIOUS COUNCIL DIRECTION

On 2024 November 21, during the 2025 Mid-Cycle Adjustments deliberations, Council amended C2024-1097 requesting Administration to prepare a summary document. This document should detail the year-over-year comparison of positive year-end variances and the acceptable level of volatility, given that municipalities are required to avoid operating with a deficit.

RECOMMENDATION:

That the Executive Committee recommends that Council:

Receive this report for information and use it to guide the ongoing budget discussions leading up to the 2025 November Adjustments to the 2023 – 2026 Service Plans and Budgets.

CHIEF ADMINISTRATIVE OFFICER/GENERAL MANAGER COMMENTS

Les Tochor, Chief Financial Officer and General Manager of Corporate Planning & Financial Services, concurs with this report.

HIGHLIGHTS

- The City's 10-year average year-end operating variance is \$158 million, driven primarily by higher-than-expected investment income (\$35 million) and lower corporate contingencies (\$77 million). Positive variance attributable to individual business units has arisen mainly due to the impacts of the COVID pandemic and cannot be considered ongoing in nature.
- Recognizing the impact of positive variances in previous years, Council approved additional on-going funding of \$108 million as of 2025 during the 2025 Mid-Cycle Adjustments, which will decrease the likelihood of high positive variances in the future.
- The City's acceptable level of volatility is supported by the Fiscal Stability Reserve as The City's contingency plan for covering budget shortfalls, which must maintain a minimum balance of five per cent of The City's tax-supported gross expenditures (net of recoveries) and a target balance of 15 per cent.

DISCUSSION

The City's year-over-year operating variance has grown significantly over the past 10 years, averaging \$158 million annually, and exceeding \$140 million annually since 2019. A detailed analysis of these variances is included in the report below.

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Investment Income

Higher than budgeted investment income contributed to \$35 million of The City's 10-year average operating variance. The variance originated from strategic asset allocation adjustments reflecting The City's updated risk profile. These modifications maintained acceptable risk exposure parameters while capitalizing on growing capital deposits and reserve balances.

Administration conducted a similar review of historical investment income favourability prior to the 2025 Mid-Cycle Adjustments, in which \$26 million in additional ongoing budgeted revenues was approved by Council for 2025.

Corporate Contingencies

Lower than budgeted corporate contingencies contributed to \$77 million of The City's 10-year average operating variance. Corporate contingencies are discretionary and are funds that are managed centrally in Corporate Programs and are structured and budgeted to mitigate exposure to unanticipated operational needs and risks from unforeseen circumstances. A substantial part of the \$77 million 10-year operating variance is attributable to the coverage held in corporate provisions.

During the 2025 Mid-Cycle Adjustments, Council approved a \$36 million budgeted reduction to corporate contingencies beginning in 2025 to reflect a higher risk tolerance. Further analysis and 2025 year-to-date variances (EC2025-0414) have identified another \$10 million in base budget available for redistribution.

Franchise Fees

Franchise fees, also known as municipal consent access fees or local access fees, are collected primarily from ATCO and ENMAX, and have exceeded budget on average \$38 million annually over the past 10 years. This variance has been driven by higher demand and historically higher electricity and natural gas prices.

Per the existing Franchise Fee policy (CFO003), any franchise fees received exceeding budget is to be contributed to the Reserve for Future Capital at year end. As a result, Council approved \$20 million in ongoing budgeted revenues for franchise fees beginning in 2025 during the 2025 Mid-Cycle Adjustments.

Business Unit Variance Attribution

The remaining \$38 million of The City's 10-year average operating variance is due to one-time savings varying across multiple Business Units, and in large part is impacted by savings seen during the pandemic due to reduced service levels and cannot be expected to reoccur consistently or the same level as in the future.

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Salary and Wage Budgeting

Lower salary and wage costs across various Business Units have also contributed to The City's year-over-year operating variance. The City follows a position-based budgeting model which will result in one-time savings when actuals are less than budgeted. Full year budgeting for vacant positions that are filled partway through the year and/or delays in hiring also results in further one-time savings.

During the 2025 Mid-Cycle Adjustments, Council approved a \$10 million budgeted reduction to salary and wages beginning in 2025 for efficiencies found through corporate management of vacancies. Administration will continue to monitor salary and wage variances regularly and strive to improve accuracy in our budgeting and reallocate one-time funds, if available, to The City's prioritized unfunded projects.

Other Considerations

In 2024, Council approved a transfer of up to \$134 million (or 75% of The City's year-end favourable operating variance) for Green Line. The City has committed the full \$134 million in the Fiscal Stability Reserve, from the uncommitted portion of The City's 2024 year-end operating variance.

Future Funding Capacity

Available ongoing funding for 2026 or for prioritizing unfunded projects will be driven by the combination of identifying longer term efficiencies within The City's existing base operating budgets and utilizing the projected year-end favourable operating variance for 2025. Further information can be found in the Financial and Economic Update Year-End 2024 and First Quarter 2025 (EC2025-0414).

EXTERNAL ENGAGEMENT AND COMMUNICATION

- | | |
|--|---|
| <input type="checkbox"/> Public engagement was undertaken | <input checked="" type="checkbox"/> Dialogue with interested parties was undertaken |
| <input type="checkbox"/> Public/interested parties were informed | <input checked="" type="checkbox"/> Public communication or engagement was not required |

Affected parties within Finance (Corporate Budget Office, Treasury) were engaged to contribute content and validate accuracy of the presented information.

IMPLICATIONS

Social

Council has several priorities that focus on the advancement of socially important areas, such as housing or public transit that support equitable outcomes for all Calgarians. Improved understanding of the availability of potential funding may help fulfill the stated priorities and enhance quality of life for Calgarians.

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Environmental

No immediate environmental implications.

Economic

No immediate economics implications.

Service and Financial Implications

Other:

There are direct financial and service-related implications resulting from this report. This is discussed as part of EC2025-0414 Financial and Economic Update Year-End 2024 and First Quarter 2025.

RISK

There are minor but acceptable implications on The City's ability to take on risk resulting from permanent budget adjustments for corporate contingencies and investment income. There is also a risk that the 2025 year-end operating variance is less than projected, and one-time projects committed will require funding from The City's corporate reserves.

ATTACHMENTS

1. Background and Previous Council Direction
2. Presentation – Year over year annual operating variance review

Department Circulation

General Manager/Director	Department	Approve/Consult/Inform
Les Tochor, Chief Financial Officer and General Manager	Corporate Planning & Financial Services	Approve

Author: Corporate Budget Office