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Briefing note

2017 Corporate Annual Report

2018 April 23

Description

The City of Calgary's 2017 Corporate Annual Report, featuring the audited consolidated financial statements along with highlights of significant accomplishments, will be presented to Council for approval on April 23. The City expects to receive an unmodified opinion from the external auditor, meaning that the consolidated 2017 financial statements are presented fairly, in all material respects, and in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements have been prepared in accordance with principles and standards established by the Public Sector Accounting Board of Chartered Professional Accountants Canada.

This briefing note explains the differences between the consolidated financials presented in the 2017 Annual Report compared to figures in the Accountability Report and other publicly released reports.

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Current Status / Next Steps

- The external auditor, Deloitte LLP is expected to be in a position to render their unmodified audit opinion following approval of the financial statements by City Council and completion of the final audit procedures.
- A summary Report to Citizens will be placed in the Calgary Herald on 2018 April 26.
- The full annual report will also be available for stakeholders to access by entering 'annual report' in the search bar at www.calgary.ca.

City Administration Key Messages

- The report's title – Delivering value for citizens – underscores our common purpose in serving more than 1.2 million Calgarians we take pride in serving. The report shows that although this downturn has been difficult, The City continues to be financially stable and fiscally responsible.
- It acknowledges that although 2017 was a year of recovery, Calgary's most recent economic downturn has had a significant impact on the community. The report also shows how The City delivered value for citizens by quickly switching its focus from accommodating rapid growth to supporting the economy, keeping Calgarians working, and reducing the cost of local government:
 - Managing our costs and making our organization as efficient as possible
 - Strategically managing our infrastructure projects and investments
 - Ensuring we provide services that are of value to citizens and collectively strive to make life better every day for Calgarians.
- The Annual Report is part of The City's commitment to provide effective governance, increased accountability, transparency, and a well-run City. It provides a comprehensive view of the 2017 consolidated financial statements consistent with Canadian best practices applicable to municipalities.
- The Canadian Public Sector Accounting Standards reporting model prescribes five indicators of performance. Together, these indicators help the reader understand how well The City has managed its finances in the year and where it stands in terms of resources held and debts owed at the end of the year.
- Despite the changing economic environment, The City's 2017 consolidated financial statements continued to reflect a strong financial picture of a municipality investing in infrastructure to facilitate economic growth, stimulate job creation, prepare for growth and build a more resilient city.

- Strong fiscal management is confirmed by The City's current credit ratings - identified among the best for Canadian Municipalities by Standard & Poor's and the Dominion Bond Rating Service.
- In 2017, The City was able to implement its business plans and budgets essentially as expected. The City is entering 2018 as the fourth and final year of a four-year plan and budget cycle that reflects its long-term goals, and continues to monitor its financial performance so that it can address local effects resulting from the recent economic downturn.

City / Stakeholder Roles

- The role of Council is to govern The City of Calgary, Calgary's municipal corporation, to ensure it provides the civic services Calgarians need and want.
- The Audit Committee plays an integral role in financial and governance matters at The City and oversees risk management, internal controls and the integrity of the annual financial statements. It is comprised of seven independent members appointed by City Council, with the Mayor serving as an ex-officio member. The Committee meets regularly with the independent external auditors and the City Auditor to review financial controls and reporting matters.
- Deloitte LLP, are the independent external auditors appointed by Council to audit the financial statements and provide assurance The City's annual financial statements and reporting processes are carried in accordance with Canadian Generally Accepted Auditing Standards.
- The City Auditor's office reports directly to Council through Audit Committee and executes the audit program to ensure internal controls and their application are reviewed and financial information is tested and independently verified.
- Administration is responsible for preparing the consolidated financial statements in accordance with generally accepted accounting principles established by the Public Sector Accounting Board of Chartered Professional Accountants Canada. Management is responsible to maintain accounting, budget and other controls to provide reasonable assurance that transactions are appropriately authorized, assets are accounted for and financial records are reliable.

Questions & Answers

1. What is the difference between the information provided in the Annual report and the other publicly released reports such as the Accountability report?

The figures in the Annual report versus the Accountability report and other Budget reports are due to the following:

- The Annual report is based on the results of the City of Calgary business units and the consolidated results of the City's controlled entities (approved by board of directors of the City's controlled entities).
- The Accountability report reflects the results of the City of Calgary business units excluding the consolidated results of the City's controlled entities.

Although the two reports have a similar purpose as far as providing transparent communication to Citizens around the City's financial results, the inclusion of controlled entities within the Annual report makes the figures being presented different than the Accountability report. However, the results City Administration included in the Accountability report and referenced in other publicly release reports are accounted for in The City's portion of the Annual report. For example, in the 2017 Annual report, the consolidated 2017 actual salary, wage and benefits amount is \$2.013 billion (2016 – 1.976 billion) of which \$1.936 billion (2016 -1.886) is The City Administration portion within that number.

In addition, Council approved budgets are prepared on a modified cash basis which differs from budget amounts reported in the annual report which are prepared using the accrual method in accordance with Public Sector Accounting Standards (PSAS). PSAS requires that originally planned budget information be presented in the annual report, however where the scope of financial activity reported in the fiscal plan is not the same as that reported in the financial statements, a reconciliation is required between the fiscal plan and the financial statements. This has been included as note 16 on page 57 of the annual report.

2. What has The City done to reduce the cost of local government and support the local economy?

Reducing the cost of local government has been a significant contributor in The City's efforts to support Calgary's economy. The City has intentionally managed costs and focused on making our organization as efficient as possible by finding ways to deliver high quality services at a lower cost, evaluating what services are truly needed by citizens and how to deliver services more efficiently. Since Council's approval of the 2015-2018 Budget in late 2014, The City has achieved approximately \$523 million in savings and efficiencies.

Strategically managing infrastructure projects and investments has also enabled The City's continued efforts to support the local economy. In 2016, Infrastructure Calgary (IC) was directed by Council to identify capacity for reinvestment of The City's continued efforts to support capital investment. This capacity was identified from capital reserves, off-site levy funds, unallocated and relinquished capital funds and grant funding. As a result, IC recommended 25 programs/projects that Council approved in principle in March 2017. This reinvestment of capital enabled The City to support needed infrastructure which provided short term economic stimulus, added resilience in the community including flood protection, maintained and preserved existing infrastructure and community assets through lifecycle funding, built a great community through legacy investments, and leveraged public and private investment.

3. What makes up the \$523 million in savings and efficiencies?

The \$523 million is a combination of base and one-time cost reductions achieved between 2015-2018 to date and it reflects the results of several corporate programs and initiatives, such as

- the Workforce Planning project,
- the Budget Savings Account,
- the ZBR program, and
- Other initiatives undertaken by individual business units or services to bring their costs down.

Of the \$523 million savings and efficiencies through operating cost efficiencies, labour cost containment, intentional savings (one-time) for tax relief, community services, low income transit pass, and utility rate reductions.

It also includes budget reductions that were possible because some of the expected growth in service volume did not materialize, and because inflation for some costs was less than originally expected.

Many of the cost reductions were achieved with no significant negative service level impacts – these can be considered true efficiency gains. However, these cost reductions did include some instances that reduced service levels – these were laid out for Council in the business plan and budget adjustments reports. Efficiency gains will continue to be part of our strategy going forward, although it's important to note that this will be increasingly difficult going forward, given the costs that have already been taken out of the organization over the past four years.

4. Where can I find the \$523 million in savings and efficiencies in the 2017 Annual Report?

The City is currently in the last year of the 2015-2018 business plan and budget. Throughout this cycle, there has been substantial effort by both Council and Administration to manage costs in response to the changing economic conditions of the Community. The \$523 million in efficiencies and savings reflects the results achieved from 2015 and up until the 2018 budget adjustment process. The 2017 Annual report reflects the actual audited consolidated financial results for the fiscal year end December 31, 2017 and reflects the savings specific to the 2017 year. The highlights of the 2017 efficiency and savings is specifically reflected in the 2017 Financial Statement Discussion and Analysis section of the Annual report.

5. What was the scope and objectives of the Corporate Workforce Planning project?

The scope of the Corporate Workforce Planning project was limited to City Administration only and it excluded Calgary Police Service, Legislative (City Auditor's Office, Mayor's Office, Office of the Councillors), Civic Partners, and Calgary Parking Authority. The objectives were to: 1) find savings in the base budget to reduce the 2018 tax rate increase; 2) align current workforce numbers and composition to service priorities and budget; 3) reconcile ongoing work with our workforce.

6. What did the Corporate Workforce Planning project accomplish?

City Administration achieved the following results from this initiative:

- Budget savings - Savings of \$20.2 million in the base operating budget were achieved by reducing previously approved permanent growth no longer required as our population did not increase at the rate anticipated when the Action Plan was adopted. As of December 2017, \$14.5 million had been transferred to the budget savings account as a result of reducing the summer student program, delaying or not filling vacancies, and one-time savings from reducing growth no longer required.
- City Administration Employee Headcount - one of the goals of the corporate workforce planning initiative was to reconcile the information contained in City systems to reflect the number of employees working at The City (in Administration) and their employee status (for example, permanent, temporary, seasonal and on-call). As a result of that work, between October 2016 and October 2017, City Administration reduced employee headcount by 420, from 15,476 to 15,056. During the same timeframe, there was a .5 per cent increase in permanent employees and a 29 per cent decrease in temporary employees as leaders made decisions on which work was permanent and temporary in nature.

- Reconciling City Administration with budgets and service needs - another goal of the workforce planning initiative was to reconcile our workforce with current service needs and budgets. To do this, leaders examined each position and current service needs and determined whether funding was available to allow that work to continue. Vacancies that did not need to be filled were not filled or were used elsewhere for critical service delivery and a hiring freeze with limited exceptions was instituted. The result is that 427 FTEs have been contributed to a corporate pool and allocated on an as needed basis. Many were allocated to employees who have been in limited term positions that have been extended over and over because the work they are doing is ongoing in nature and capable of being funded within existing budgets.

7. Why are the FTEs shown in the annual report different than other figures referenced by City Administration?

Sometimes when referring to The City's workforce, the number of people employed by the City or headcount is referred to, as it better represents the workforce data. A Full Time Equivalent (FTE) represents a budgeted full time permanent position and those that are seasonal employees and/or limited term employees would not have an associated FTE but would be considered as part of the headcount.

References to headcount normally includes The City of Calgary business units and excludes headcount from controlled entities, whereas the annual report reflects the consolidated FTEs for The City of Calgary, including City business units and controlled entities (related authorities note 1 and 21 of the annual report). These entities are required to be consolidated into The City's financial statements under Public Sector Accounting Standards (PSAS) issued by the Chartered Professional Accountants of Canada.

Total City Administration headcount includes employees in City Administration who are permanent, permanent/trial, on probation and temporary, seasonal, on-call and student.

8. Why did salaries and wages increase from 2016 to 2017?

The 2017 increase in City Administration salaries and wages compared to 2016, correlate to the changes in FTE's from 2016 to 2017 and to increases realized in December 2016 for civic employees who are members of the unions bound by the collective bargaining agreements. Also, during 2017 additional security measures were required to ensure continued safety of City employees working in the municipal building as a result of the truss structural issue which increased salaries and wages. In 2017, Calgary Police Service hired to fill new growth positions, Fire hired to fill new growth positions and incurred salary settlements, Calgary Housing Company hired to fill new growth positions to execute strategic projects, Parks and Recreation incurred wage settlement costs, all of these resulted in increases to salaries and wages. These were partially offset by workforce planning and review by City Administration to ensure that costs were reduced while maintaining service levels to citizens.

9. Why were City revenues lower than budgeted in 2017?

Total City revenues (before external transfers for infrastructure) were approximately 1 per cent lower than budgeted for 2017, mainly as a result of lower than anticipated net municipal taxes, sales of goods and services, and lower equity in earnings of ENMAX partially offset by higher than budgeted investment income, licenses, permits and fees, provincial government transfers, and miscellaneous revenue.

10. What does the five year revenue trend show?

Average population growth + the City's inflation has been about 5.6 per cent over the past five years (growth +CPI = 4.5 per cent). Overall revenues have not quite kept pace with The City's growth and inflation. Some significant revenue sources (Franchise fees & returns) have averaged an annual decrease over this period. For example, the five-year annual average change in franchise fees is -1.6 per cent, revenue in lieu of property tax is -1.9 per cent, return on utilities and subs is - 2.2 per cent.

11. How does the City fund its operations other than property taxes?

The City's non-tax revenue sources include:

- Sales of goods & services
- Licenses, Permits & Fees
- Franchise fees
- Return on Utilities & ENMAX
- Investment income
- Government grants

12. Why does the report show a tax-supported operating surplus for 2017?

The \$81 million tax-supported operating surplus reflects the actual costs which are largely reflective of lower than expected employee benefits costs, higher investment income, full reimbursement of the 2016 Fort McMurray fire costs from the Province, and lower corporate contingency expenses net of transfers to the Community Economic Resilience Fund to provide tax relief under the Phased Tax Program to assist non-residential property owners, Economic Development Investment Funds, and the Municipal Complex Structural Upgrade - Truss Recovery, partially offset by lower franchise fees.

13. What is The City's debt position at the end of 2017?

The City's long-term debt component of liabilities (including self-supported and excluding ENMAX) decreased by \$150 million in 2017 to \$3.066 billion, from \$3.217 billion at end of 2016. The Municipal Government Act (MGA) requires The City comply with two separate debt related limits which are expressed as a percentage of revenue:

- The MGA Debt Limit - stipulates the maximum amount of debt principal that The City can have outstanding, including loan guarantees, and is calculated at two times revenue. At December 31, 2017 The City had used 40 per cent of its MGA debt limit.
- The MGA Debt Service Limit - sets out the maximum amount of annual debt servicing (principal and interest) that The City can incur and is calculated at 35 per cent of revenue. At the end of 2017, 26 per cent of the MGA debt service limit has been used.

Decisions made about capital investments could significantly impact The City's debt position in the future.

14. Why does The City have reserves and what was the reserve balance at the end of 2017?

The City allocates funds to reserves to meet specific future operating and capital expenditure requirements and to provide for emergencies. Maintaining financial reserves is considered good management, allowing funds to be collected as available and spent judiciously to ensure service levels to Calgarians are maintained.

The reserve balances totaled \$2.044 billion at the end of 2017 (2016 – 1.976 billion); of which there are commitments placed against the balance such as funding for flood projects, the newly established Economic Development Investment Fund, tax relief for non-residential property, Council approved one time funding, Community Economic Resiliency Fund, and funding for the low income transit pass. The net increase in the balance was primarily the result of increases in the Lifecycle Maintenance and Upgrades reserve, Budget Savings Account, and Utilities and Waste and Recycling Sustainment reserve, partially offset by reductions in reserves for Future Capital projects, Community Investment and Fiscal Stability.

15. How much did The City spend on capital projects in 2017?

During 2017, The City spent \$1.857 billion on capital projects (2016 – \$1.763 billion), which included \$1.548 billion for tax-supported projects (2016 – \$1.406 billion). Spending on capital projects was primarily on roads and water infrastructure projects, the composting facility, and the Green Line LRT project.

16. Do we know how many jobs were created from The City's 2017 spend on capital projects?

The number of jobs created on a capital spend of \$1.857 billion is estimated to be about 10,000 total temporary jobs, of which about 5,100 are expected to be indirect jobs. The numbers are calculated using the Calgary regional industry multiplier based on the latest data provided by Statistics Canada. The numbers are a rough average of the impact and the spinoff may be larger or smaller depending on the type of investment – as some investments may be more labour intensive than others.

17. What is the Fiscal Stability Reserve and why is it necessary?

The purpose of the Fiscal Stability Reserve is to provide a contingency for urgent situations with significant financial implications and a source of funding for one-time operating projects. The reserve must maintain a minimum balance of 5% (with the target balance set at 15%) of The City's annual tax-supported gross expenditures (net of recoveries), excluding the utilities. At 2017 year-end, The City's fiscal stability reserve balance was \$493 million (2016 - \$519 billion), which is 15.7% of total tax-supported gross expenditures (net of recoveries) before commitments. After outstanding commitments the balance is 10.8%.

18. What do the financial highlights for revenues and expenses indicate?

The City had consolidated revenues of \$3.756 billion in 2017 before external transfers for infrastructure (grants and revenue sharing from other governments plus funds and tangible capital assets from developers totaling \$1.055 billion) (2016 — \$3.766 billion, before external transfers of \$1.177 billion). City consolidated expenses were \$3.821 billion (2016 — \$3.673 billion) before net ENMAX adjustments in the amount of \$0.101 billion (2016 - \$0.065 billion). Included in expenses is depreciation in the amount of \$0.629 billion (2016 — \$0.596 billion) as the estimated annual cost of owning and using The City's capital assets. For 2017, net revenues including external contributions to infrastructure funds and tangible capital assets totaled \$0.990 billion (2016 - \$1.270 billion).

19. What needed to be restated in 2016 and why?

In 2017, as a result of continued usage and refinement of capital asset accounting and management systems, certain prior year asset balances were identified that required correction and the financial statements have been retrospectively adjusted. These tangible capital asset balances primarily consisted of land, land improvements, engineered structures, buildings, and machinery and equipment. As a result, approximately \$11.0 million in net adjustments was restated for 2016. The change represents less than 0.1 per cent of tangible capital assets.

In addition, The City identified an adjustment to their land inventory and miscellaneous revenue amounts due to an intercompany transaction that required correction. This correction has been reflected in these financial statements as

a prior period adjustment to 2016 figures, resulting in an increase to land inventory, miscellaneous revenue and accumulated surplus of \$12.4 million. These restated amounts had no effect on The City's cash balances, property tax revenues or any other balances influencing The City's grants received, property assessments, or any other related balances.

20. What is The City doing to address prior year restatements with regards to Tangible Capital Asset?

TCA reporting is being addressed by establishing a program to ensure consistent, compliant and simplified TCA processes across the organization and implementation of a costing system in 2017 to automate the processes where possible. This is intended to address current capitalization activities but is also identifying historical capital issues and making the necessary corrections.

21. Where can I find more detailed information about City operations pertaining to business plan and budget commitments and performance measures and targets?

The 2017 Year-End Accountability Report is a companion document to the Annual Report which provides more information on major elements of department business plans and budgets including: the status of all Council priorities, key challenges and accomplishments related to business plan commitments, updates on department budget performance (operating and capital budgets), and information on selected department performance measures.

Background

The City's 2017 consolidated financial statements are prepared by management in accordance with Canadian generally accepted accounting principles for local governments established by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants Canada.

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