#6.3

C2017-1123

ATTACHMENT 1

2018 Adjustments

to Action Plan: 2015-2018

2018 Adjustments

Background

Action Plan 2015-2018 ("Action Plan") was prepared during a time of economic prosperity and population growth. At that time, citizens' priorities, as indicated in the Citizen Satisfaction Survey in 2014 were focused on the services they received, with the majority of citizens who responded indicating a preference for maintaining service levels rather than a preference to keep tax increases low. At that time, Calgary was experiencing low unemployment rates, which lead to upward pressure on wage rates. The majority of The City's unions signed four year contracts in the spring of 2014, reflecting this pressure on wage rates. The pressures that this level of elevated growth and inflation were expected to have on City services and infrastructure led to approved property tax increases of 4.5% in 2015 and 4.7% annually for 2016-2018.

What is Action Plan?

- The City prepares business plans and budgets on a 4-year cycle.
- Action Plan 2015-2018 is the 4-year plan and budgets for the 2015-2018 period.
- Plans and budgets within the cycle are adjusted annually.
- The 2018 budget is the last year of Action Plan.

By the time that Action Plan was approved in November 2014, the Calgary economy was already showing signs of a significant downturn. Although population growth was still strong, rapidly falling oil prices, that were not anticipated during the preparation of Action Plan were beginning to result in job losses. This began two years of economic decline, increasing unemployment and declining economic activity that was much deeper than the oil price cycles that had been experienced in the past. In turn, this has resulted in negative effects on the well-being of individual citizens and the financial health of local businesses and community organizations. Table 1 below compares the actual and revised major economic indicators with the same indicators used when Action Plan was developed. While the Calgary economy is recovering, as evidenced by the growth in GDP in 2017 that is expected to continue in 2018, total growth over the four-year period is significantly below expectations at the start of the budget cycle.

The downsizing of business, particularly oil companies, resulting from the downturn has resulted in, among other impacts, a significant release of previously leased downtown commercial space. Combined with the completion of new office buildings, the downtown commercial vacancy rate has increased from 7% in 2014 to 21% in 2017. With additional space scheduled to come online in the next two years, the vacancy rate is expected to remain elevated until at least 2025.

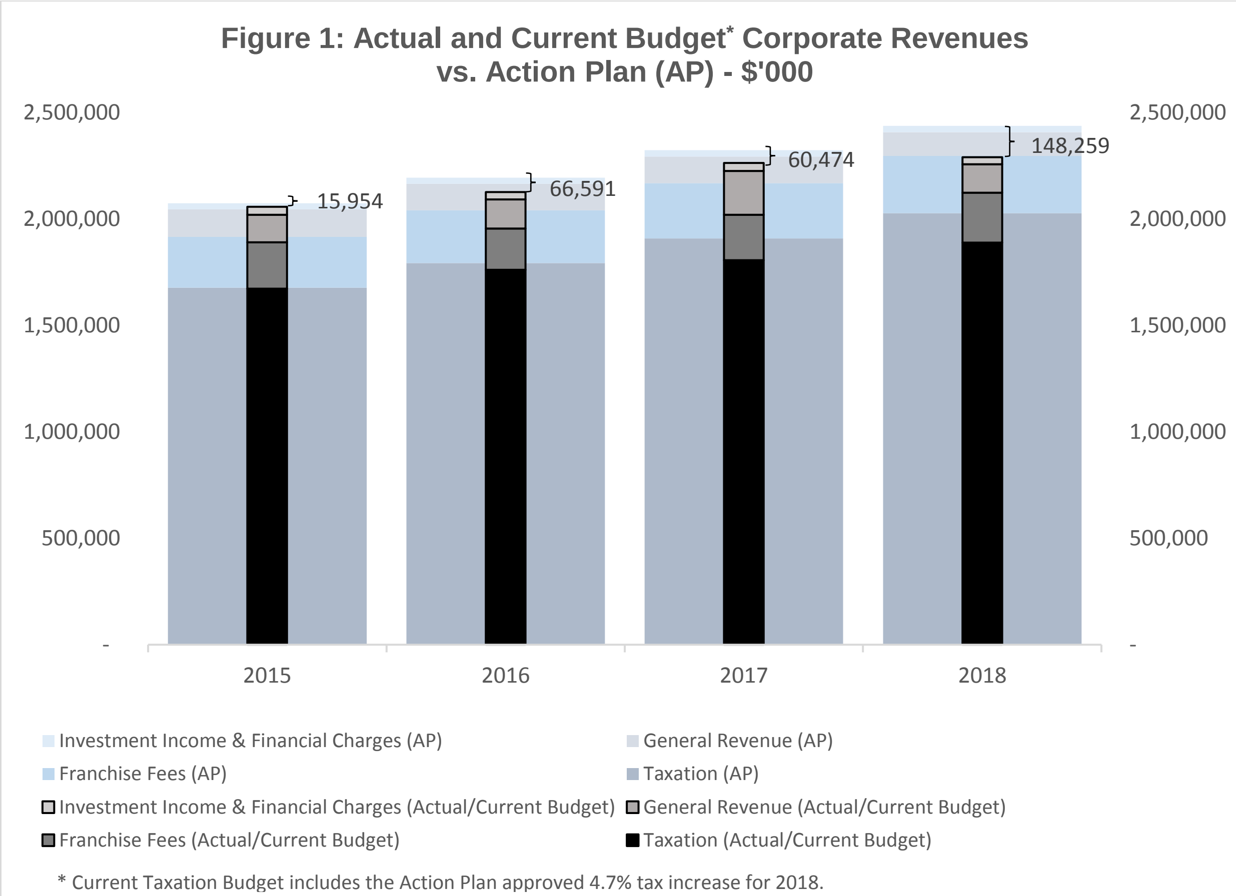
The significant increase in the downtown commercial vacancy rate has reduced the assessed value of downtown non-residential property. As a result, this has shifted a significant portion of the non-residential tax burden to non-residential property outside of the downtown core.

Table 1: Calgary Economic Indicators: Change since Action Plan

	2015		2016		2017		2018	
	Action Plan	Actual	Action Plan	Actual	Action Plan	Current Forecast	Action Plan	Current Forecast
GDP Growth	3.2%	-3.7%	2.7%	-1.2%	2.6%	3.0%	2.6%	2.4%
Unemployment rate (Calgary Economic Region)	4.4%	6.1%	4.3%	9.0%	4.5%	8.7%	4.5%	6.7%
Consumer Price Index (CPI) – inflation rate	2.1%	1.2%	2.1%	1.0%	2.1%	1.6%	2.1%	2.3%
Housing Starts (000s units)	9.4	10.6	10	7.7	10.8	6.3	12	4.4
Total building permits - midpoint ($ billions)	6.1	6.3	5.6	4.7	4.8	4.5	4.5	3.6
Crude oil price - WTI (US$/bbl)	90.00	49.00	92.70	43.00	95.00	49.80	95.70	50.80
Alberta natural gas price - AECO/NIT (Can$/GJ)	4.91	2.56	4.98	1.96	5.18	2.47	5.53	2.78
Total population (000s)	1,196	1,231	1,223	1,235	1,251	1,246	1,274	1,259

The change in the local economy has had a significant impact on The City's operations. Although still rising annually, City revenues have dropped below the levels expected in Action Plan. Figure 1 indicates that 2018 budgeted corporate revenues are over $100 million lower than the original Action Plan budget. The primary difference is a result of lower taxes and franchise fees.

This dramatic shift in the economy also brought with it a shift in citizens' needs and priorities. With unemployment increasing and average personal income levels falling, citizens have shown a willingness to accept some reduction in service levels in order to maintain low tax rates. For example, demand for fee supported services such as transit began to decline, while demand for citizen support services (e.g. financial assistance programs) increased. This changed The City's focus from a growth perspective to an emphasis on cost savings and lower tax increases to ensure value to citizens. As well, the focus on resiliency that began with the 2013 flood recovery expanded to include economic resiliency.



Fee Supported Services

Table 2 shows some of the operational impacts of the economic downturn on The City, including the impact to some fee supported services. Transit ridership is down 7% from its peak in 2014, which has led to a corresponding decrease in transit revenues. Transit has responded by implementing several efficiencies and adjustments to reduce costs, including contracting out Outside Maintenance job functions, operational changes to Calgary Transit Access dispatching and scheduling, position reductions and reorganization of divisions. These measures have resulted in expenditures reduction of $4.56 million to offset the revenue shortfall.

The number of applications for Fair Entry has more than doubled, covering almost 30,000 more Calgarians than in 2015. These numbers are expected to continue to grow next year, despite the recovery. The number of applicants for property tax assistance has also increased dramatically, more than tripling the expectations in Action Plan. These indicators show two main impacts:

- The number of citizens impacted by the economic downturn is significant; and
- The demands on City services and employees supporting citizens on these issues are increasing.

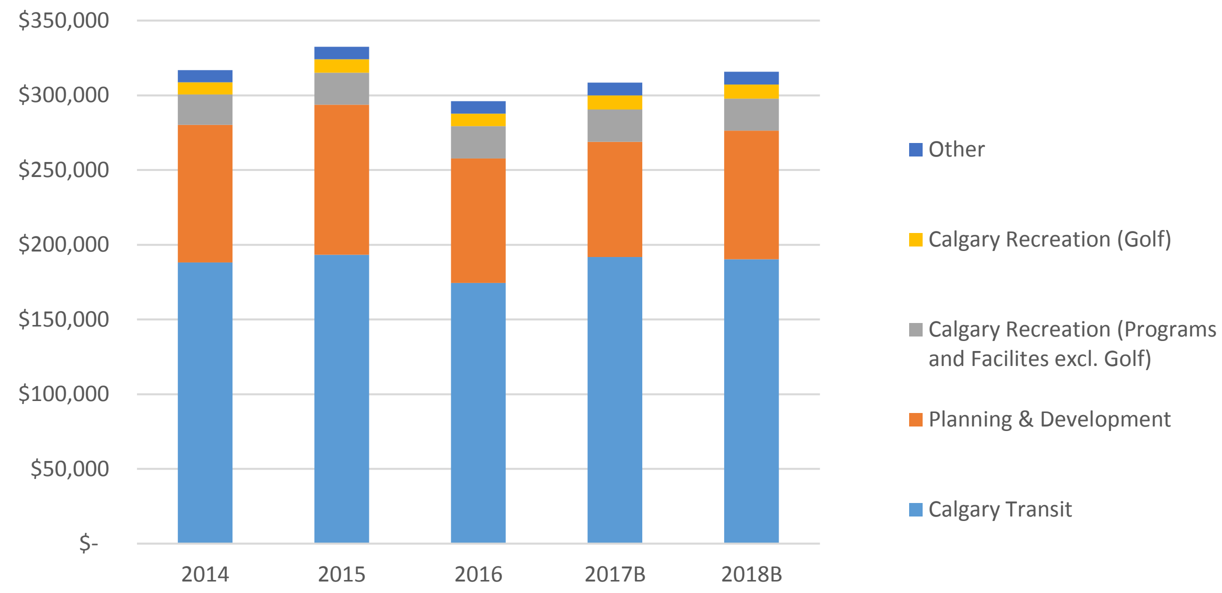
Table 2: City of Calgary Operational Indicators

	2015		2016		2017		2018	
	Action Plan	Actual	Action Plan	Actual	Action Plan	Current Forecast	Action Plan	Current Forecast
Transit Ridership (millions)	113.2	110.0	116.0	102.3	118.6	101.9	120.5	100.0
Corporate Contact Centre call volumes (000s)	1,161	1,059	1,161	980	1,056	1,053	n/a	n/a
Fire call volumes (000s)	58.0	57.5	60.0	57.0	57.0	57.0	59.0	59.0
Landfill tonnes - waste (thousand tones)	698	637	663	533	635	459	522	406
Total number of Fair Entry applications processed	n/a	22,775	n/a	44,495	n/a	58,000	n/a	65,000
Total number of Calgarians who have applied to Fair Entry	n/a	51,038	n/a	80,087	n/a	96,000	n/a	120,000
Total number Fair Entry Approved Calgarians	n/a	47,114	n/a	71,982	n/a	77,000	n/a	94,000
Total number Property Tax Assistance Program applications	1,350	2,653	1,350	3,714	1,350	4,700	1,350	6,400

Recreation is also showing signs of being impacted by the downturn. Although overall attendance rose in both 2015 and 2016, year-to-date figures through May are showing a 2% drop in attendance. Total revenue, which was virtually flat in 2016 despite the increase in attendance, is also showing a decrease through May 2017. The downturn is also reflected in the increased usage of the Fee Assistance program, with approved applications anticipated to be close to 60,000 in 2017, up from just over 28,000 in 2014. Figure 2 shows the decline in revenues for the major fee supported service in revenues. Budgeted revenues are expected to increase, but only reach 2014 levels next year.

Additional evidence of the increased demand for citizen support services, is found when looking at the uptake in purchasing of the Transit Low Income Monthly Pass offered under the sliding scale fee structure. Under the sliding scale fare structure, Low Income Monthly passes are better aligned with a customer's ability to pay with reduced rates ranging from a 95-50% discount off the regular cost of a monthly transit pass. In the first three months after introducing the sliding scale fee structure, there were almost 70,000 monthly passes sold versus approximately 50,000 sold during the same period in 2016. Administration has responded to this increase in demand by identifying an additional investment of $4 million to address the funding gap for this program.

Figure 2: Fee Revenues for Tax Supported Services



In addition to tax-supported operations, certain self-supported operations have also been impacted by the decline in the local economy. For a number of reasons including diversion programs and market competition, Waste & Recycling Services (WRS) revenue from landfill tipping fees has dropped significantly. This was a trend that was anticipated by WRS but the downturn in the economy has accelerated the impact.

> A *tipping fee* is the fee charged to leave material at the landfill.

Since 2015, WRS has been experiencing a decline in revenue at a rate that was faster than anticipated and operational changes have been required to mitigate shortfalls and adapt to changes for the future. Operational changes have included service reductions in landfill operations, implemented over the winter of 2016/2017. Table 3 shows the impact on WRS revenues.

Table 3: Waste & Recycling Services Fees Revenue ($ millions)

	2015		2016		2017		2018	
	Action Plan	Actual	Action Plan	Actual	Action Plan	Current Forecast	Action Plan	Current Forecast
Tipping Fee	$38.0	$34.5	$39.8	$25.1	$40.3	$17.5	$40.1	$17.5
Waste Management Charges	$18.9	$18.5	$19.2	$18.7	$19.6	$19.2	$19.9	$19.4
Residential Recycling Fee	$29.8	$29.4	$31.1	$30.7	$32.5	$32.0	$33.8	$33.2
Total	**$86.7**	**$82.4**	**$90.1**	**$74.5**	**$92.4**	**$68.7**	**$93.9**	**$70.1**

Revenue in the water utility (water, wastewater and stormwater management services) is in part from off-site levy rates charged, which recover costs associated with infrastructure to service new development. In 2016, land development was lower than anticipated resulting in a shortfall in off-site-levy revenue from developers. Off-site levy rates are set such that 100 per cent of growth related infrastructure costs are recovered through off site levies. However, the shortfall resulting from the pace of development in 2016 required the water utility to make reductions across the business. This means that some growth-related costs were absorbed by water utility rate-payers.

The Planning & Development department has seen a significant decline in the value of permit applications and related permitting revenues accompanied by an increase in the number of applications, as smaller building projects took over larger commercial and industrial ones. At the same time, Planning & Development has kept fees frozen at the 2016 level, which has further impacted revenues. This trend in decreased revenue is expected to continue through 2018, and Planning & Development will mitigate this revenue impact by taking the following actions:

- Reserve contributions: In the short term, the department has utilized its reserve fund to balance the budget. The department has been working collectively to reduce the total expenditures over the next two years while revenues are projected to be down.
- Review of operating expenditures: The need to realign total expenditures with current revenue projections will require a lower operating budget which will entail reductions in discretionary spending, creating efficiency savings and streamlining business activities.
- Capital budget: Capital budget will be directed mainly to the process improvement projects, including MyBusiness and MyHome, which will simplify the application intake for customers by accepting applications online. The simplified permit issuance process for businesses and homeowners is expected to trigger an increase in customer demand to apply for permits, while continuous process improvement will create additional efficiency savings.

Despite the slowdown, The City has moved forward with a number of major projects. In particular, approval of the Green Line Project will result in a major addition of infrastructure and will lay the framework for mobility, community development, and cultural amenities and resources. Funding from the federal and provincial governments will be leveraged together with City funds to total approximately $4.65 billion in capital construction spending, excluding financing of $630 million and operating costs of $40 million annually (in 2017 dollars). This investment value does not include transit oriented development along the Green Line. Work has also progressed on a new City Charter to provide greater capital funding certainty and sustainability.

Recovery vs. Growth

- Economic recovery refers to growing back to pre-recession levels.
- Once a recession ends, the economy begins to grow, but is not considered to have recovered until total GDP exceeds the pre-recession high.

Although the recovery has begun, Table 2 shows that changes in the economy impacts The City with a lag and The City is experiencing the low point of the recession now. It is expected that this recovery will take much longer than in past business cycles. As a result, the level of Gross Domestic Product (GDP) in the Calgary region is not expected to return to pre-recession levels until 2018, while the unemployment rate is expected to stay above the 2014 rate throughout the current five-year forecast period. The City will be continuing to deal with impacts into the next budget cycle.

The City’s response to date

Although Action Plan was developed as a growth budget, The City entered into Action Plan with a focus on continuous improvement. Service efficiency gains, and ongoing service improvements, were built into the original Action Plan, alongside strategies to respond to service growth.

In recognition of the impact that the economic downturn has had on citizens and local businesses, City Administration’s focus has changed. The growth focus that underscored Action Plan has been replaced by an increased focus on savings and value to citizens and local businesses.

In 2015, immediately after Action Plan was approved, Council approved the Budget Savings Account (BSA) program. This program focuses business units on intentional savings by directing these savings into the BSA and allowing business units, over the long term, to access half of these savings for one time initiatives. The remainder of the savings are to be used for corporate-wide initiatives. The change in the use of savings [previously any savings at yearend were transferred to the Fiscal Stability Reserve (FSR) for corporate use] created an incentive for business units to find savings throughout the year and has generated over $67 million in operating contributions from business units since 2015. Capital transfers to the BSA program have totaled over $200 million in the same period, which has been largely allocated by Infrastructure Calgary to deliver previously unfunded capital projects on the Capital Infrastructure Investment Strategy approved by Council.

Concurrently, work has continued to review and increase the value of City services on an ongoing basis. This work has included the Zero-Based Review (ZBR) program, which has, to date, identified more than $50 million in annual (i.e. ongoing) efficiency gains for City services. This has been supplemented by other cost-savings related to reduced inflation and growth costs.

The ZBR program:

1. Increases the value Calgarians get from their tax dollars by improving the efficiency, effectiveness and sustainability of services; and
2. Builds the organization’s capacity for continuous service improvement.

It complements The City’s other continuous improvement activities by adding a periodic, more thorough review of whether the right services are being provided in the right way.

All of these initiatives have allowed The City to find some cost savings that have helped to reduce tax rate increases over the past three years. As a result, the approved 2016 tax rate increase was reduced from 4.7% (approved in Action Plan) to 3.5% with no service impacts.

Through the Mid Cycle Adjustments, efficiencies and reductions helped to reduce the 2017 tax rate increase from 4.7% down to 1.5% with limited service impacts. Council then directed the use of planned savings in the FSR to rebate the 1.5% ($24 million) property tax rate increase one-time for 2017 only.

However, in balancing to the 1.5% tax rate increase, one-time solutions were used in the amount of $33 million ($15 million from the operating BSA and $18 million from planned and other corporate savings). As well, the impact of lower franchise fees resulting from lower energy prices was bridged with one-time funding from the FSR.

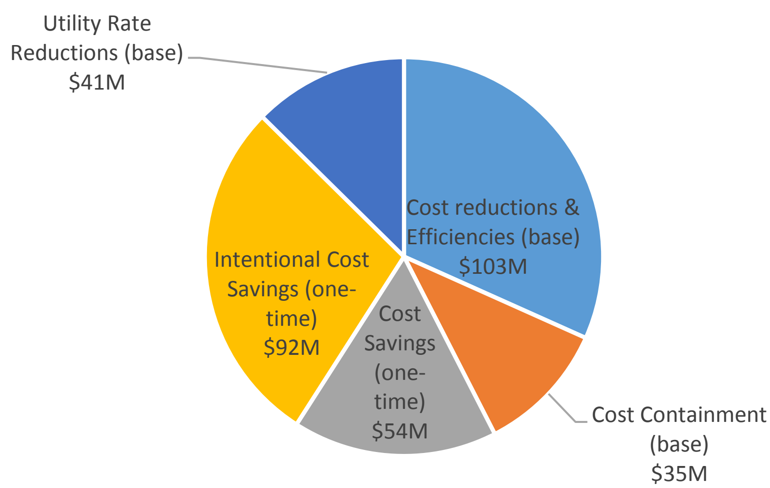
In addition to these decisions, during the approval of the Property Tax Bylaw in April 2017, Council directed that $23.7 million (1.4% tax increase) in 2017 tax room made available through the provincial budget be taken and rebated one-time in 2017 only. Council further directed that Administration bring back a recommendation during the 2018 budget deliberations in November for the use of the tax room in 2018 and beyond.

Base vs. One-time

- The operating budget separates expenditures into base and one-time
- Base expenditures are the expenditures that re-occur on an annual basis (e.g. wages for permanent employees)
- One-time expenditures do not re-occur annually (e.g. Phased Tax Program)

In total, between 2015 and the beginning of 2017, The City has found base and one-time savings of $325 million, as reported to Council in March 2017. This includes base cost reductions and efficiencies of $179 million and one-time savings of $146 million, as shown in Figure 3. This does not include any potential savings on wage settlements in 2018 and beyond.

Figure 3: Summary of saving 2015 through 2017
$325 million



Beyond these savings, Council also approved $45 million from the 2016 year end savings for the Municipal Non-Residential Phased Tax Program (PTP) on a one-time basis in 2017. This is in response to the shift in non-residential property assessments, and is designed to mitigate the tax shift to non-residential properties outside of the downtown core. Through the beginning of November, funds from PTP have been used to process credits to approximately 4,500 accounts totalling $15.6 million. Processing of further credits will occur as appeals to the Assessment

Review Board are resolved. It is anticipated that most of the $45 million will be distributed once appeals are resolved.

Through the creation of Infrastructure Calgary, Administration also focused on accelerating capital investment to support the economy. These efforts raised the total capital investment from a previous high of $1.2 billion in 2015 to $1.5 billion in 2016. Capital investment is trending to reach approximately $1.8 billion in 2017. Increases in capital investment supported an estimated 12,400 jobs in 2016 and 7,500 jobs to date in 2017.

Self-supported areas have responded to declines in revenues as well. In WRS, based on the combination of lower tonnages coming to the landfill and a freeze to landfill tipping fees, WRS has needed to mitigate revenue reductions of 35 to 55 per cent in 2016, 2017 and forecast for 2018, while at the same time planning for and implementing the new residential organics program. Operational savings in 2017 were realized through reducing the hours and days of opening at the landfills, which has been perceived negatively by Calgarians with respect to the level of service, and has resulted in an increase in illegal disposal. 2018 will be the first full year of the residential organics collection and processing program and additional changes to landfill schedules are proposed that will maintain the same amount of service hours per week but will be more predictable for customers.

At Mid Cycle Adjustments, the Water Utility reduced the Action Plan approved rate increases for the water and wastewater utilities from 8.3 per cent per year, to 2.5 per cent per year for 2017 and 2018, and for Drainage from 19.1 per cent per year to 7.4 per cent per year. Collectively, these changes reduced rate revenue by $41 million in 2017 and $87 million in 2018. This revenue was offset in two ways – through reductions in operating expenditures and deferring the target of a 10% of revenue sustainment reserve balance from 2018 to 2022. Further reductions were made in the Water Utility in 2017 to address the shortfall in off-site levy revenue, while maintaining the reduced rate increases approved during Mid Cycle Adjustments.

Table 4 indicates the impact that The City's response has had on budgeted expenditures. Although investment in services has increased annually, the rate of increase has slowed such that the current 2018 budget, prior to the adjustments recommended in this report, is about $175 million below the Action Plan budget for 2018. As a result, although population is lower than anticipated, per capita investment in 2018 is expected to be below the Action Plan level.

Table 4: Action Plan Budget vs. Actual/Current Budget

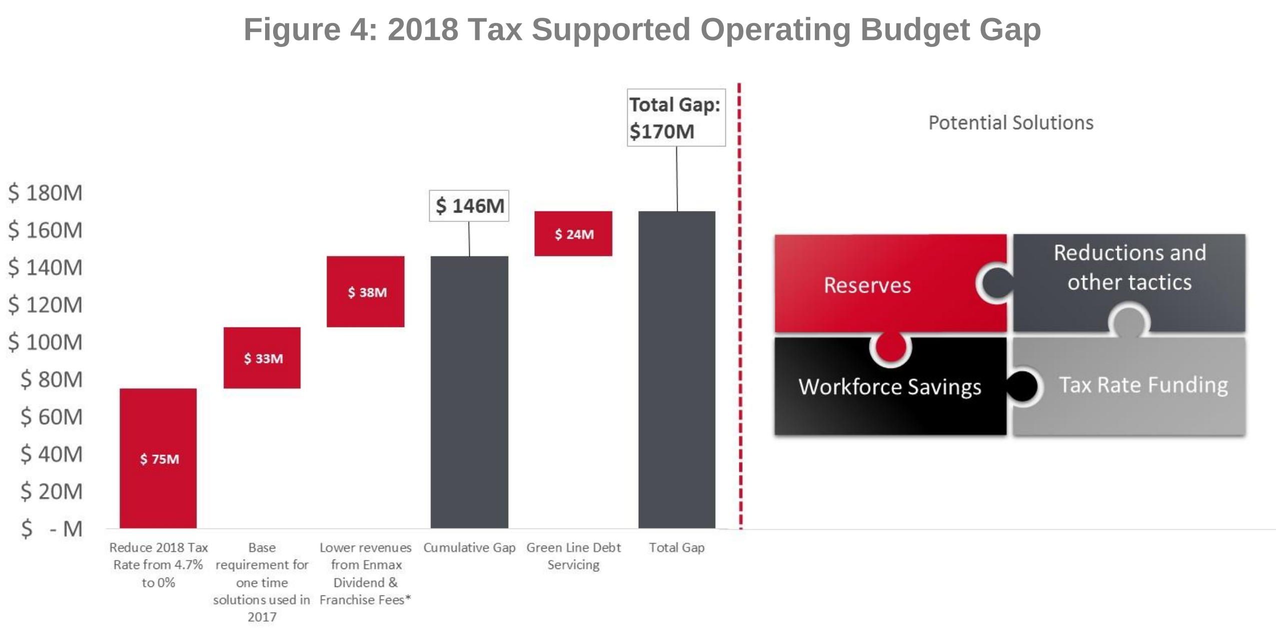
	2015		2016		2017		2018	
	Action Plan	Actual	Action Plan	Actual	Action Plan	Current	Action Plan	Current*
Budgeted base operating expenditures ($ millions)	3,537.5	3,720.4	3,710.0	3,816.5	3,952.9	3,836.6	4,165.8	3,990.7
Population - millions	1.196	1.231	1.223	1.235	1.251	1.246	1.274	1.259
Budgeted base operating expenditures per capita	2,958	3,022	3,034	3,090	3,160	3,079	3,270	3,170

*Current 2018 budget is based on the Action Plan approved tax increase of 4.7%

The 2018 Tax Supported Operating Budget Gap

The 2018 adjustments represent the changes to the final year of Action Plan. At the time that budget preparations began, Administration was anticipating a 2018 tax-supported operating budget gap of $170 million (as shown in Figure 4) that needed to be addressed through these adjustments. This gap comprises:

- $75 million for the approved 2018 property tax increase: With the decline in the economy, the 4.7% tax increase that was approved for 2018 through Action Plan was no longer acceptable. The 4.7% increase in 2018 equates to $75 million that has been included in the current approved 2018 budget. To bring the 2018 tax rate increase down to 0% would therefore require expenditures to be reduced by $75 million.
- $33 million for one time solutions used in 2017: As noted above, the reduction of the 2017 tax rate from 4.7% to 1.5% included $33 million that did not have on-going base solutions (one time funding of $15 million from the BSA, and $18 million from planned and other corporate savings).
- $38 million for lower corporate revenues: Electricity and natural gas prices have remained low. This is expected to keep franchise fee revenue low, requiring an additional $21 million base adjustment. As well, the dividend from ENMAX is expected to be $17 million below budget.
- $24 million for Green Line financing: Original estimates for the financing costs of Green Line were approximately $56 million was needed annually. Through successful negotiation of accelerated grant receipts from other orders of government during the summer of 2017, Administration identified a need for less than half of that amount to be funded.



As Green Line planning and capital grant commitments from other levels of government provided more clarity over time, Administration re-estimated the bridge financing requirements for Green Line from the initial estimate of $56 million per year. It is currently estimated that $25 million per year will be required, although there is still considerable risk around factors such as construction cost inflation, interest rates and exchange rates. In addition, the procurement model selection (e.g. Public Private Partnership, etc.) may change these estimates. Administration recommends that the $23.7 million 2017 tax room be dedicated to Green Line financing costs. As a result, the additional $24 million previously included in the 2018 $170 million budget gap may not be required at this time for Green Line financing, reducing the gap to $146 million.

What is Tax Room?

- *Tax room* is created when the increase in the provincial property tax is lower than the increase in the municipal property tax.
- This allows a municipality to assume the tax room while keeping the combined tax increase at the approved municipal level.
- Tax room has provided a funding source for major capital projects such as recreation centres, the Central Library and the Green Line.

2018 Solutions

Administration has been working on solutions for 2018 throughout 2017 that balance the financial impact to citizens with the service demands from citizens. These solutions include both corporate and departmental savings and reductions. Administration has used the following principles to guide the determination of the solutions:

- Limit the impact on 2018 service delivery
- No new debt without identified repayment source and consideration of Debt Limits
- No new tax increase for the operating costs of service delivery, except where warranted
- Backing out growth where we can
- Some growth projects still require operating costs (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

Adhering as closely as possible to these principles, Administration has provided the solutions noted below.

Work Force Savings

Through the Corporate Work Force Planning committee, administration has been actively reviewing budgeted growth and vacant positions to reduce these positions where possible. In addition to this work, since 2015, savings from lower settlements for Exempt staff and some unions has produced base savings. Further savings are expected from 2018 wage settlements, as a result of the state of the local economy. In total, these work force savings are expected to reduce costs by $105 million in 2018. In September, Administration implemented a delay on new hiring with all exceptions to the delay for business continuity purposes requiring senior level approval.

Reserves

One key principle throughout the 2018 Adjustments process has been to manage the bow wave in 2018 and beyond. While Administration has followed the principle of closing the 2018 budget gap with permanent solutions, the reduction in the ENMAX dividend is expected, at this time, to be a temporary impact. As a result, Administration has identified the ENMAX Stabilization Reserve to be an appropriate one-time funding

What is a bow wave?

- A bow wave is the term used to describe the impact of using one-time solutions, such as reserves, to resolve on-going base budget gaps.
- This type of solution only solves the budget gap for one year and causes the gap to re-occur in the next year until a permanent solution can be found.
- It likens the impact to the wave generated by the bow of a ship, which just displaces the water.

mechanism. This reserve will contribute $10 million to resolve the gap. However, if the reduction in ENMAX dividends perpetuates, The City will need to identify a permanent base solution.

Manageable Costs

In addition to looking to the work force for savings, all departments have been conducting an in-depth line-by-line analysis of manageable costs. Manageable costs are defined as discretionary (i.e. The City is not committed to these costs) non-salary and wage costs. These include costs such as:

- Business expenses
- Contracted services
- Consultants
- Materials

These do not include costs that are not considered to be discretionary such as insurance and interest costs. Through this exercise, Administration has identified $10 million in base manageable cost savings, with no significant service impact. This exercise will continue throughout 2018.

Service Reductions and 2018 Tax Rate Increase

The above solutions total $125 million of the original $170 million tax supported operating gap with minimal anticipated service impacts. At the time that budget preparations began, this left a balance of $45 million to be found through a combination of service reductions and a tax increase. Council's direction was to return in November 2017 with a recommended 2018 tax rate increase between 0% and 2%. A 2% tax rate increase results in a minimum of $13 million in reductions that will have service impacts. Decreasing the tax rate increase to 1% requires $29 million in reductions, while a 0% tax rate increase will result in a total of $45 million in reductions that have service impacts.

In reaching a recommendation for Council, Administration has considered reduction packages from departments for three scenarios:

- Level 1 reductions: 2% tax increase/$13 million in service reductions
- Level 2 reductions: 1% tax increase/$29 million in service reductions
- Level 3 reductions: 0% tax increase/$45 million in service reductions

Administration first considered the departmental impacts of the Level 3 reductions. Some impacts were considered to involve a level of service reductions that would be unsustainable, including some of the incremental impacts from Level 2 reductions for:

- Police

- Transit
- Roads
- Fire
- Recreation
- Civic Partners
- Council

As a result, certain incremental reductions were added that would have resulted in a tax rate increase of 0.7% before the $24 million reduction in the gap. As well, Administration identified funding for additional needs for:

- Resourcing for the new Growth Management Board under the City Charter ($0.3 million)
- Additional resources for Corporate Security ($0.6 million)
- Additional resourcing for Zero Based Reviews, to ensure efficiencies are continued to be found ($0.3 million)
- Permanent planning application resources for affordable housing ($0.2 million)
- Low Income Transit Pass (LITP) ($4.0 million)

These additional resources were considered critical to ensure service expectations can be met. With these additions, Administration has found reductions totaling $154 million meaning that with the revised gap of $146 million, a 2018 tax rate increase of 0% is possible with an additional $8 million available for Council to distribute (shown in Figure 5). This is despite Administration's expectations for inflation, with the Municipal Price Index (MPI) for 2018 projected to increase by approximately 1.6%.

What is the MPI?

MPI (Municipal Price Index) is a composite number reflecting the prices of the goods and services that The City purchases. It is used to calculate the total inflationary impact of changes in prices paid by The City of Calgary for materials, labour and services.

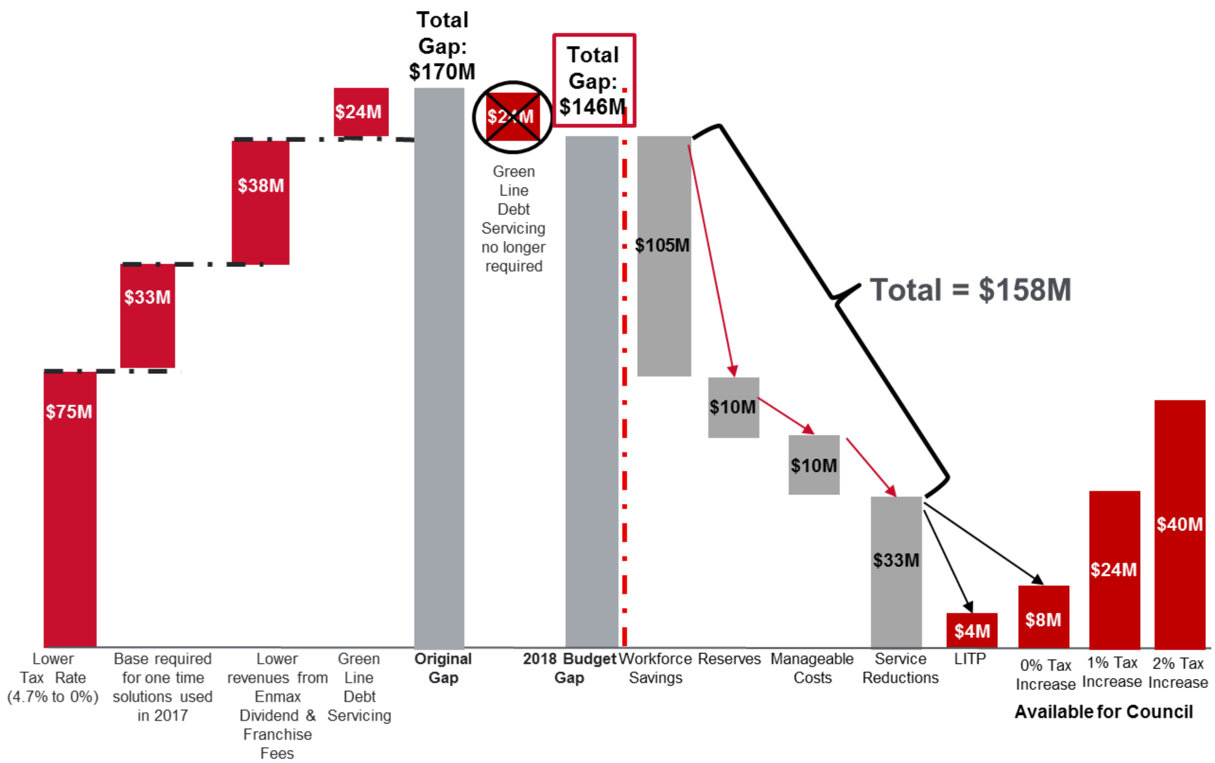
A summary of the required adjustments can be found in Appendix 1.

The recommended solution does not include potential additional investment in:

- Police - $20.8 million ($6.5 million for service reductions in Administration's recommendation + $14.3 million for additional officers and body worn cameras)

Based on the above factors, Administration recommends a 0% tax rate increase for 2018, and that Council return any excess funding to citizens after consideration of additional needs.

Figure 5: Recommended Solutions to 2018 Tax Supported Operating Budget Gap



Impact to Citizens

As noted above, Council approved one-time rebates for the 2017 tax rate increase of 1.5% and the municipal increase of 1.4% related to the provincial tax room. This effectively sheltered taxpayers from the increases in 2017 by deferring the impact by one year. Combined, this means that without any further decisions, the impact to taxpayers will be a 2.9% increase on their 2018 tax bills relative to what was paid in 2017, in addition to any increase to the 2018 tax rate increase. With Administration's recommended tax rate of 0%, taxpayers would therefore see an average 2.9% increase on the final tax bill. This impact is the bow wave from the one-time 2017 rebates hitting shore, and demonstrates the main reason to avoid one-time solutions to solve base budget issues. Table 5 below shows an illustrative example of the impact of the 2017 decisions.

An additional reduction scenario was examined by Administration that would have seen a reduction in the tax rate of 2.9%, effectively offsetting the 2017 bow wave. This scenario assumed that the $24 million noted above would be used to reduce the tax rate, along with $69 million in service reductions from the departmental budgets. The service reductions in this scenario were found to be unsustainable across departments and have not been presented in this report.

Table 5: 2018 Tax Impact – Illustrative Example

2017 Municipal Tax Bill Calculation		2018 Municipal Tax Bill Calculation	
2016 base tax bill	$1,000	**2017 base tax bill**	**$1,029**
2017 tax increase (1.5%)	$15	2018 recommended tax rate increase (0%)	$0
2017 tax room (1.4%)	$14		
2017 base tax bill	**$1,029**		
2017 rebates (one time)	-$29		
2017 tax bill due	$1,000	2018 tax bill due (0% tax increase)	$1,029

Calgary Parking Authority

Calgary Parking Authority (CPA) is also presenting adjustments for Council approval. These adjustments can be found in Appendix 2 and are proposed in order to better reflect anticipated spending for the period. This includes accounting for decreases in budgeted revenues from parking and ParkPlus marketing, offset by increases in enforcement and Impound Lot revenue. CPA has increased its anticipated spending on building maintenance and professional fees, while decreasing expenditures on salaries and taxes. Overall, the net impact on the CPA's budgeted net income is a decrease of $1.35 million.

Capital Investment Update

Infrastructure Calgary has focused on critically examining cash flows and maximizing capital investment to help support the economy. The capital budget recasts completed in 2016 and 2017 better aligned the capital budget with expected cash flows while continuing to enhance and accelerate capital investment. These efforts raised the total capital investment from a previous maximum of $1.2 billion in 2015 to over $1.5 billion in 2016. This investment supported an estimated 9,600 jobs in 2015 and 12,400 jobs in 2016. Capital investment is currently trending to increase to approximately $1.8 billion in 2017 and the 2017 investment to date has resulted in the support of approximately 7,500 jobs.

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. The 2018 capital budget has been recast from $2.4 billion to approximately $1.9 billion with no change to total project budgets. In addition, capital budget adjustments reducing the budget by net $161 million are being proposed to reflect changes that have arisen relating to actual experience with project delivery, resulting in an adjusted 2018 capital budget of $1.7 billion.

Capital Investment – Next Steps

Infrastructure Calgary continues to intentionally manage capital investment at The City across all departments and lead the integration of capital, transitioning the organization to an enterprise portfolio management approach. The Acceleration of Capital for Economic Resilience (ACER) Program continues to focus on ensuring The Corporation has the resources required to deliver capital projects and identify opportunities for process efficiencies and collaboration across the organization.

Infrastructure Calgary is also coordinating with business units to track progress on our capital investments and monitor the status of portfolio adjustments (19 additional investments approved by Council this year that used funding capacity identified by business units across The City). There is a dedicated effort to enhance capital reporting and investment analytics going forward.

In addition to identifying strategic investment opportunities and increasing capital investment, Infrastructure Calgary is focused on enhancing project management practices around estimation, stage gating and contingency management, and is currently working closely with the Capital Budget Office and Corporate Initiatives to improve the capital budget process for the next business planning and budget cycle (One Calgary) with a focus on alignment to services. Further updates on this capital work will be brought to the Priorities and Finance Committee in Q4 2017 or Q1 2018.

Appendix 1: 2018 Operating Budget Adjustments Summary ($000s)

Business Unit	2018 net budget (as at June 30, 2017)	Manageable costs	Service reductions	Adds	Other	Net Adjustment	For Council Approval Adjusted 2018 net budget for adoption	FTEs	Service reduction impacts (Summary)
Calgary Neighbourhoods	36,738	(50)	(1,100)	4,000	-	2,850	39,588		Reductions will result in decreased services for at-risk youth and seniors which may have an impact on community safety, and require services from an alternate provider in the community. Reduced marketing and promotion of free City programs and services, may mean citizens are unaware of supports and assistance. Additional funding flows to Low Income Transit Pass.
Calgary Parks	89,055	(523)	(2,313)	-	-	(2,836)	86,219		Parks will implement some maintenance cost recoveries from select higher level sportsfields user groups. There will be adjusted levels of service for pathway edge fire cuts and select 311 response targets for tree inquiries. Conservation pilot projects will be reduced as will the flower program. Parks will suspend ice skating on the lagoon at Prince's Island Park. The reductions in this level will have select citizen impacts.
Calgary Recreation	54,239	(432)	(949)	-	-	(1,381)	52,858		Reductions will impact Recreation's ability to deliver on Council, Corporate and business unit priorities including getting non-traditional customer groups more active. A reduction in grant funding and support to sport organizations may result in reduction of services from sport partners. The variety of locations of mobile skateparks will be reduced.
Calgary Housing	3,570	-	(140)	200	-	60	3,630		Capitalize one position (100%). No service level change
Calgary Community Standards	52,626	(167)	(1,224)	-	-	(1,391)	51,235		Reductions will impact employee workloads and morale resulting in challenges achieving business objectives, will reduce capacity to promote bylaw compliance and may result in challenges meeting customer expectations at the Animal Services Centre. Elimination of funding support to partner organizations will have a negative political and socio-economic impact resulting in reduction in The City's ability to leverage existing outreach resources.
Calgary Emergency Management Agency	5,401	(15)	(210)	-	-	(225)	5,176		Reductions will result in increased workload for existing staff. Reduction in business and hosting expenses. Reduction in Canada Task Force 2 operating budget which will be offset by pursuing alternative funding.
Calgary Fire Department	236,004	(230)	(4,555)	-	-	(4,785)	231,219		Reductions will result in reduced command capacity and safety oversight, particularly at simultaneous emergency incidents; reduced organizational leadership capacity; and reduced fire safety education capacity. Reduced fire investigation capacity. Renegotiate contract with YYC or have YYC staff airport firehall; increased response times to grounds during Calgary Stampede.
GM - Community Services	843	-	-	-	-	-	843		N/A
TOTAL COMMUNITY SERVICES	**478,477**	**(1,417)**	**(10,491)**	**4,200**	**-**	**(7,708)**	**470,769**		

Appendix 1: 2018 Operating Budget Adjustments Summary ($000s)

For Council Approval

Business Unit	2018 net budget (as at June 30, 2017)	Manageable costs	Service reductions	Adds	Other	Net Adjustment	Adjusted 2018 net budget for adoption	FTEs	Service reduction impacts (Summary)
Facility Management	41,732	(614)	(987)	-	-	(1,601)	40,131		Significant service reductions for Facility Management, along with a reduced ability to modify City facilities to address citizen and customer needs.
Resilience & Infrastructure Calgary	507	-	-	-	-	-	507		No Impact
Fleet Services	-	-	-	-	-	-	-		N/A
Corporate Analytics & Innovation	20,391	(52)	(563)	-	-	(615)	19,776		Reductions in consulting budgets will reduce our capacity to identify and implement efficiency improvements, conduct infrastructure condition inspections, and respond to unplanned work. Reductions also realign existing salaries to be funded from capital projects and projected new revenue from the Utility Bylaw. Existing staff positions will not be affected.
Real Estate & Development Services	3,837	(14)	(204)	-	-	(218)	3,619		Reduction of the management team from 5 to 4 managers, through retirement, results in significant savings, while adding to the workload of the remaining managers.
Supply Management	9,414	(92)	(289)	-	-	(381)	9,033		No service impacts anticipated. Budget reductions are formalizing existing efficiencies found within the business unit.
GM - Deputy City Manager's Office	2,877	-	-	300	-	300	3,377		No Impact
TOTAL DCMO	**78,757**	**(772)**	**(2,043)**	**300**	**-**	**(2,515)**	**76,242**		
Calgary Approvals Coordination	1,973	-	(294)	-	-	(294)	1,679		Calgary Approvals Coordination business unit is restructuring. Transitionary training needs and continued high workload levels will yield a modest decline in service levels in the short term. These can be mitigated. In the medium to long term, productivity, customer service and outcomes will improve.
Calgary Growth Strategies	2,365	-	-	-	-	-	2,365		No Impact
Calgary Building Services	-	-	-	-	-	-	-		N/A
Community Planning	12,622	(29)	-	-	-	(29)	12,593		N/A
GM - Planning & Development	780	-	-	-	-	-	780		N/A
TOTAL PLANNING & DEVELOPMENT	**17,741**	**(29)**	**(294)**	**-**	**-**	**(323)**	**17,418**		
Urban Strategy	**2,172**	**(33)**	**(56)**	**-**	**-**	**(89)**	**2,083**		N/A

Appendix 1: 2018 Operating Budget Adjustments Summary ($000s)

Business Unit	2018 net budget (as at June 30, 2017)	Manageable costs	Service reductions	Adds	Other	Net Adjustment	For Council Approval Adjusted 2018 net budget for adoption	FTEs	Service reduction impacts (Summary)
Calgary Transit	263,345	(2,070)	(4,761)	-	-	(6,831)	256,514		Transit service is reduced by 46,800 hours including deleting trips and reducing frequency on 27 routes. Various positions and contracts that support those hours are also reduced.
Roads	156,820	(1,602)	(2,658)	-	-	(4,260)	152,560		Various reductions including roadway repaving reduced by 26 lane km and grass cutting on boulevards reduced from 5 to 4 times annually.
Transportation Infrastructure	-	-	-	-	-	-	-		No impact
Transportation Planning	13,225	(100)	(330)	-	-	(430)	12,795		Tax support is reduced from transportation planning services.
GM - Transportation	1,171	-	-	-	-	-	1,171		N/A
TOTAL TRANSPORTATION	**434,562**	**(3,772)**	**(7,749)**	**-**	**-**	**(11,521)**	**423,041**		
Utilities (WS & WR)	-	-	-	-	-	-	-		N/A
Environmental & Safety Management	11,215	(63)	(290)	-	-	(353)	10,862		Requires modified approach to Occupational Health & Safety work, including greater role in coordinating field work to external consultants and transitioning industrial hygiene services to external consultants.
Waste & Recycling Services	41,352	-	-	-	-	-	41,352		N/A
GM - Utilities & Environmental Protection	433	(1)	(11)	-	-	(12)	421		Minimal Service Impacts.
TOTAL UEP	**53,000**	**(64)**	**(301)**	**-**	**-**	**(365)**	**52,635**		
City Manager's Office	**2,236**	**(10)**	**(58)**	**-**	**-**	**(68)**	**2,168**		The City Manager's Office was able to find efficiencies through the intentional management of its manageable costs, including business expenses and general contract services. There are no anticipated impacts to services, citizens and/or Council as a result of these reductions.
City Clerk's Office	13,372	(169)	(387)	-	-	(556)	12,816		Additional reduction to Assessment Review Board member expenses, plus various business expense reductions within the City Clerk's Office.
Corporate Security	8,597	(43)	(71)	618	-	504	9,101		Reductions in business expenses in Corporate Security resulting in minimal impacts to services.
Law	10,828	(20)	(424)	-	-	(444)	10,384		Reduction in the contracted external claims adjuster budget as costs arises from conflict of interest will be recovered directly from business units. Expropriation is required when land acquisitions for capital projects cannot be achieved through negotiation. The funding for these relating costs will be charged to the ACER program going forward instead of the contractual budget as there is a direct link to capital.
GC - Law & Legislative Services	1,731		(12)	-	-	(12)	1,719		N/A
TOTAL LAW & LEGISLATIVE SERVICES	**34,528**	**(232)**	**(894)**	**618**	-	**(508)**	**34,020**		

Appendix 1: 2018 Operating Budget Adjustments Summary ($000s)

For Council Approval

Business Unit	2018 net budget (as at June 30, 2017)	Manageable costs	Service reductions	Adds	Other	Net Adjustment	Adjusted 2018 net budget for adoption	FTEs	Service reduction impacts (Summary)
Assessment	22,306	(29)	(577)	-	-	(606)	21,700		Reductions in several areas including; internal communication services, as well as reductions in business expenses. Realignment of roles, responsibilities and position reductions will result in operating, process and training challenges. This will have an impact on service levels by increasing customer response timeframes.
Customer Service & Communications	25,264	(82)	(653)	-	-	(735)	24,529		CSC will use digital platforms instead of printed materials to keep field workers informed and find efficiencies to manage employee intranet content through reorganizing efforts. This will not impact City services, citizens or Council. CSC will reduce 2018 engagement funding growth while maintaining 2017 service levels. This could impact citizens' ability to provide input into City programs/services. CSC will remove the Citizen Satisfaction ward analysis potentially impacting Councillors' ability to identify ward-specific information.
Finance	35,751	(70)	(901)	320	-	(651)	35,100		Lower contingent & supplies budgets, some service reductions, and customer service delays if urgent issues arise, particularly around tax deadlines or for unplanned /emerging project requests.
Human Resources	32,326	(133)	(836)	-	-	(969)	31,357		There will be an adjustment of HR service delivery levels and a reduction in the overall number of positions resulting in increased response timeframes for processing HR transactions and providing related HR Services. The impact is significant for corporate clients, while minimal for service delivery for citizen.
Information Technology	68,302	(595)	(1,769)	-	-	(2,364)	65,938		Reduction and re-alignment of positions will increase load on internal management and increase reliance on contract support. Project timelines will be impacted. Reduced hardware support could result in delays to service restoration in the event of failed systems.
GM - CFOD	831	(1)	(21)	-	-	(22)	809		Intentionally managed cost reductions where capacity existed resulting in no impact to service.
TOTAL CFOD	**184,780**	**(910)**	**(4,757)**	**320**	-	**(5,347)**	**179,433**		
Calgary Police Service	**389,005**	**(2,235)**	**(6,481)**	**-**	-	**(8,716)**	**380,289**		The Calgary Police Service (CPS) will freeze recruit application, assessment, hiring and training which is currently a one year process to have members support calls for service. We will also be in a position where we will not be hiring ahead of attrition which doesn't afford the ability to replace resigning or retiring members in a proactive manner. This will create a gap to provide the same level of service to citizens with support to the front line, reduce capacity in prevention, intervention and investigative areas.
Civic Partners	**92,241**	**-**	**(2,079)**	**-**	-	**(2,079)**	**90,162**		Reduction strategies proposed by The City's 16 Civic Partners will affect the level of services available to Calgarians and visitors. Strategies include shorter operating hours, reduced or cancelled programs and services, reduced staff levels, and deferred or reduced maintenance of facilities. Many partners have also sought efficiencies including wage and hiring freezes, and adjustments to their operating models.

Appendix 1: 2018 Operating Budget Adjustments Summary ($000s)

For Council Approval

Business Unit	2018 net budget (as at June 30, 2017)	Manageable costs	Service reductions	Adds	Other	Net Adjustment	Adjusted 2018 net budget for adoption	FTEs	Service reduction impacts (Summary)
Office of the Councillors	9,311	-	(155)	-	-	(155)	9,156		N/A
Audit Committee	762	-	(13)	-	-	(13)	749		N/A
City Auditor's Office	2,963	-	(49)	-	-	(49)	2,914		N/A
Mayor's Office	1,974	-	(33)	-	-	(33)	1,941		N/A
TOTAL COUNCIL	**15,010**	**-**	**(250)**	**-**	-	**(250)**	**14,760**		
TOTAL BEFORE CORPORATE PROGRAMS	**1,782,509**	**(9,474)**	**(35,453)**	**5,438**	-	**(39,489)**	**1,743,020**	**(156.4)**	
Franchise Fees	(237,153)	-	-	-	440	440	(236,713)		N/A
General Revenue	(134,277)	-	-	-	21,000	21,000	(113,277)		N/A
Investment Income & Financial Charges	(30,500)	-	-	-	-	-	(30,500)		N/A
Taxation	(1,932,721)	-	-	-	76,409	76,409	(1,856,312)		N/A
Capital Financing Costs	336,250	-	-	-	(1,402)	(1,402)	334,848		N/A
Civic & Intergovernmental Affairs	387	-	-	-	-	-	387		N/A
Corporate Costs	221,382	-	-	-	(56,958)	(56,958)	164,424		N/A
Employee Benefits	(6,900)	-	-	-	-	-	(6,900)		N/A
Gas, Power and Telecom. Committee	950	-	-	-	-	-	950		N/A
Scholarships	73	-	-	-	-	-	73		N/A
TOTAL CORPORATE PROGRAMS	**(1,782,509)**	**-**	**-**	**-**	**39,489**	**39,489**	**(1,743,020)**		
TOTAL CITY	**-**	**(9,474)**	**(35,453)**	**5,438**	**39,489**	**-**	**-**	**(156.4)**	

Appendix 2: Calgary Parking Authority 2018 Operating Budget Adjustments ($ 000s)

For Council Approval

-	2018 Approved Budget	Adjustments	Adjusted 2018 Budget for adoption
REVENUES			
Enforcement	(9,598)	2,150	(7,448)
Enforcement Support	(7,445)	(5,055)	(12,500)
Impound Lot	(9,863)	(1,904)	(11,767)
On Street Revenue	(18,030)	1,300	(16,730)
Parkades	(31,579)	24,411	(7,168)
Surface Lots	(7,105)	(22,502)	(29,607)
Administration and General	(5,051)	3,071	(1,980)
Total Revenues	**(88,671)**	**1,471**	**(87,200)**

	2018 Approved Budget	Adjustments	Adjusted 2018 Budget for adoption
EXPENDITURES			
Administration	7,030	2,090	9,120
Enforcement	8,177	(514)	7,663
Enforcement Support	6,876	(281)	6,595
Impound Lot	10,162	(728)	9,434
On Street	1,615	69	1,684
Parkades	11,576	(242)	11,334
Surface Lots	4,012	(106)	3,906
Debt Principal Repayment	486	-	486
Debt Servicing costs	82	-	82
Depreciation	9,051	(410)	8,641
Total Expenditures	**59,067**	**(122)**	**58,945**

Net Income	**(29,604)**	**1,349**	**(28,255)**