

**One Calgary Report to
Strategic Meeting of Council
2018 April 25**

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C2018-0489
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One Calgary: Setting Indicative Rates for 2019-2022

EXECUTIVE SUMMARY

Making life better every day for Calgarians is our common purpose. The City of Calgary delivers on this purpose by being a service and results-driven, accountable and resilient municipal government, placing citizens, customers and communities at the forefront of our plans, decisions and actions. Three Conversations, One Calgary: The City's Strategic Plan for 2019-2022 will deliver on Council's direction through service plans and budgets that will be presented to Council in November. Ultimately, the work ahead is about better service delivery, demonstrating value for tax dollars, building resilience and contributing to quality of life today and for generations to come. This report and the discussion with Council on April 25 is an important milestone in the process to develop service plans and budgets as it sets the investment parameters within which Administration will plan and budget.

ADMINISTRATION RECOMMENDATION:

That Council:

1. Approve indicative tax rates as presented to Council through the presentation delivered on April 25, 2018 as part of this report;
2. Approve 2019-2022 indicative rates for Water, Wastewater and Stormwater services as outlined in Attachment 1, page 3, table 1; and
3. Approve 2019-2022 indicative rates for Waste & Recycling services as outlined in Attachment 2, page 3, table 1.

PREVIOUS COUNCIL DIRECTION / POLICY

On 2005 January 31, Council approved the Multi-Year Business Planning and Budgeting Policy (CFO004). This policy was amended on 2008 January 14 and on 2012 April 9.

On 2011 April 5, Council approved principles for setting indicative tax rates (C2011-31). These were updated on 2018 March 21 (C2018-0304).

On 2014 September 15, Council approved the City Manager's Leadership Strategic Plan: Contract with Council (C2014-0703), which identified service plans and budgets as a key component of The City of Calgary's performance management system intended to support better delivery of services to communities, customers and Calgarians.

On 2015 November 25, the Capital Infrastructure Investment Strategy was approved by Council (C2015-0855) and on 2017 March 6, Council directed that Infrastructure Calgary update this strategy as part of the capital planning for the 2018 budget process (C2017-0214).

On 2017 December 4 (C2017-1213), Council received "Setting your Council Directives for 2019-2022 (One Calgary)". The materials gathered in that document utilized data from multiple citizen engagements and surveys and was an input into setting Council's Directives for 2019-2022.

On 2018 January 31 (C2018-0115), Council adopted the "Council Directives to Administration for 2019-2022 One Calgary Service Plans and Budgets". Further, Council adopted a motion arising to direct Administration to bring forward amendments to the Council Priorities.

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On 2018 February 28, Council:

- Adopted the additional amendments to the “2019-2022 Council Directives for One Calgary” (C2018-0201).
- Approved “Three Conversations, One Calgary” as the framework that will guide the development of The City’s Strategic Plan for 2019-2022 (C2018-0224).

On 2018 March 19 (PFC2018-0200), Council directed Administration to report back to Council, through the Priorities and Finance Committee, in Q2 2018 with strategic growth recommendations that increase the level of City commitment and investment in new communities. Beginning with the 2019 – 2022 budget cycle (One Calgary service lines and budgets) Administration was further directed to prioritize future growth areas, including financial implications for the 2019-2022 budget cycle, future budget cycles, and how any funding gaps for operating and capital would be funded using the property tax.

On 2018 March 19 (UCS2018-0223), Council approved Financial Plan 2019-2022 for Water and Wastewater Lines of Service.

Also on 2018 March 19, Council approved Financial Plan 2019-2022 for Stormwater Management Line of Service (UCS2018-0230), and Waste & Recycling Services Financial Plan 2019-2022 (UCS2018-0150)

On 2018 March 21 (C2018-0304), Council approved the updated principles for setting indicative tax rates and the updated Capital Infrastructure Investment Strategy. With respect to report C2018-0304 Council adopted the Motion Arising to direct Administration to return to the April 10 Priorities and Finance Committee with updated principles reflecting the incorporation of elements of value to citizens.

On 2018 April 10 (PFC2018-0445), Priorities and Finance Committee approved The City’s Strategic Plan Principles, which introduce a set of five overarching principles and associated value dimensions for One Calgary which will guide the development of the 2019-2022 service plans and budgets. These principles will be presented to Council on 2018 April 23 for approval.

BACKGROUND

As noted in the March 21 One Calgary report (C2018-0304), the following items are outlined in this report:

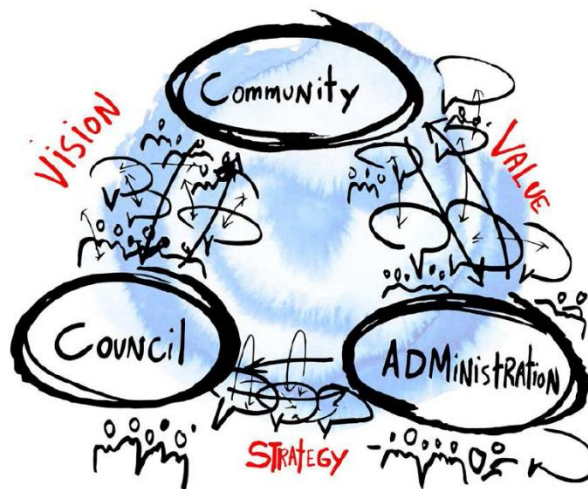
1. Indicative tax rates that provide a financial envelope within which Council will direct Administration to develop the 2019-2022 service plans and budgets. Direction from Council on 2018 March 21 provides the basis for the work that will return to Council on 2018 April 25.
2. Indicative rates for utility services (Waste & Recycling, Wastewater Collection & Treatment, Water Treatment & Supply, and Stormwater Management).

It will be noticeable that this report contains more detailed information on indicative rates for Water Utility and Waste & Recycling Services than on indicative tax rates. This is the result of a timing and sequencing issue. Council directed Administration only on 2019 March 19 to identify

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implications of commitment and investment in new communities for the 2019-2022 budget cycle, future budget cycles, and how any funding gaps for operating and capital would be funded using the property tax. Administration has been working on these implications and will present first results of this work to Council during the Strategic Meeting on April 25, 2018. At the time of this report the resulting indicative tax rate ranges were not yet available. They will be presented to Council on 2018 April 25 including implications of new community growth on the property tax. The number will, however, be preliminary and will be finalized as directed by Council for the 2018 June 20 meeting of the Priority and Finance Committee.

On 2018 February 28, City Manager, Jeff Fielding presented 'Three Conversations, One Calgary' as the framework to guide the development of The City's Strategic Plan for 2019-2022 including service plans and budgets. As shown in the conceptual drawing of that framework below, there are three sets of relationships, conversations and results.



The development of 2019-2022 service plans and budgets is guided by a set of five principles that correspond with the relationships and conversations as illustrated above. In essence, The City strives to address citizen needs and long-term quality of life aspirations by using a Council-directed and integrated strategic approach to maximise service value for citizens. The City will be accountable for delivering on these expectations by monitoring the value it generates through service delivery and using performance measures to report on any progress that is made. The City is also committed to continuously adjust and improve its services to respond to citizen needs and expectations.

Striking the right balance between delivering on Council Priorities and Directives, service needs and expectations relating to what Calgarians value, and affordability, budget realities and long-term financial sustainability and resilience will be the overarching goal for the development of 2019-2022 service lines and budgets. Finding this balance will create service value for citizens throughout the next four budget years.

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INVESTIGATION: ALTERNATIVES AND ANALYSIS

It is important to put the development of the next four-year budget cycle in context with past commitments, as well as significant challenges, shocks and opportunities the city of Calgary was impacted by in recent years. The City is faced with a world that is increasingly volatile and uncertain. Calgary is influenced by highly complex interdependencies and external influencing factors that reach far beyond the city limits, or the province of Alberta. Ambiguity results in multiple plausible scenarios for the immediate and longer-term future which makes practices of learning from the past and forecasting into the future less and less likely to meet the reality.

Calgary experienced several of these volatilities and uncertainties in the current plan and budget cycle – Action Plan 2015-2018. Our organization proved resilient by responding to highly fluctuating population growth, and a severe drop in oil prices, that led to an economic recession and an unemployment rate above the national average. The City had to find solutions to respond to a resulting revenue shortfall and an increasing budget gap.

Administration responded with an increased emphasis on service efficiency, and established a budget savings account to incentivize cost savings. The organization managed the costs of delivering services to citizens by, for instance, intentionally managing workforce and reducing Action Plan approved increases to selected rates and fees. Furthermore, The City reduced selected service levels, prioritizing the reductions using an approach that considered the least harm to citizens, and realized targeted investments to especially support those Calgarians that are most impacted by the economic downturn.

In total, these efforts led to \$523 million in cost reductions and enabled The City to maintain affordability of services for citizens. Despite some service reductions, citizens maintained a high level of satisfaction with the services provided as shown by the results of the most recent citizen satisfaction survey.

The development of the 2019-2022 service plans and budgets will continue with these efforts. Putting what matters to citizens at the core of the next four-year plan and budget cycle will allow for a strong citizen focus, and will make it more transparent for citizens to understand where and how their tax dollars are invested. Administration is currently engaging citizens through an in-depth online survey about 43 externally-facing service lines. Citizens are asked to provide input about what they value about City services and how they rank these values. Results of this engagement will be presented to Council at the 2018 May 16 Strategic Meeting.

While The City is committed to continuously improving service value, it needs to be highlighted that finding efficiencies will become increasingly difficult and complex as the more straightforward opportunities have already been implemented. Further cost reduction, therefore, may not be feasible without cutting service levels and/or service scope.

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The biggest challenge to maintain service delivery at the current levels throughout the 2019-2022 cycle is that The City's non-tax revenues are not keeping pace with the rate of inflation and growth of City expenditures. Specific revenue streams such as ENMAX dividends and franchise fees have fluctuated over time, but maintained a level over the last 10 years that sits at roughly 2008 revenues. They are projected to slowly recover; however per capita revenue will likely remain below historical levels. Additionally, the increasing costs of goods and services, influenced by factors such as inflation or the provincial carbon tax, make it costlier for The City to deliver the same services at the same levels.

The only stream of revenue that is entirely within the control of The City – property taxes – makes up less than 50% of the overall revenue available to The City. When non-property tax revenue does not grow at a rate consistent with expenditure growth, the pressure on property tax revenue becomes significant.

On 2018 February 22 (PFC2018-0200), the Priorities and Finance Committee recommended that Council direct Administration to report back with “recommendations that increase the level of City commitment and investment in new communities” in Q2 2018. Included in this recommendation is direction to include “financial implications for the 2019-2022 budget cycle, future budget cycles, and how any funding gaps for operating and capital would be funded using property tax.” Administration will deliver on these recommendations by prioritizing the new growth community business cases submitted by developers, and identifying the required financial commitment for new community growth in the next and future planning and budgeting cycles. As Council's decisions on this matter will need to be integrated into the 2019-2022 service plans and budgets, Administration is working together to ensure the capital and operating implications (including indicative rates) are aligned and integrated. It is expected that any infrastructure, including utility investment, that would be required in new communities will have to be funded using property tax.

Considering that The City is facing challenges regarding revenue sources for 2019-2022, Administration is actively developing a set of tools and strategies that will be suitable to address the resulting budget gap. These strategies will not necessarily focus on revenue sources, but will also include complementary measures such as efficiencies and service level choices across the organization. The identified solutions will be aligned with the Strategic Plan Principles as outlined above and follow the goal of “least harm” to services.

Setting indicative tax rates, and indicative rates for Water Utility and Waste & Recycling Services is one of these solution strategies and marks one of the most important milestones in the journey to develop 2019-2022 service plans and budgets. If approved on 2018 April 25, Administration will have indicative rates one month earlier than in the preparation of Action Plan (2015-2018). This extra time is important for several reasons. First, it provides additional time in May, June and July for Council to discuss key topics or issues that will inform deliberations in 2018 November including topics such as the new community growth strategy. Second, it provides additional time for Administration to build the service plans and budgets in a cohesive and integrated way such that they collectively will propose an affordable way to respond to and deliver on Council's Priorities and Directives for 2019-2022. Setting indicative rates will also

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determine the extent and depth of other solution strategies Administration will develop and present to Council between now and July 2018.

Indicative Tax Rates

On March 21, 2018, Council was provided the financial outlook with the most recent information available at that time with a commitment from Administration to provide an update based on the Spring outlook information that is available in early 2018 April. Based on the latest Spring Economic Outlook information there is still a projected revenue shortfall if the tax rate is maintained at 0% throughout the 2019-2022 business cycle.

The indicative tax rate proposal aligns to the Strategic Plan Principles approved at PFC on 2018 April 10 (PFC2018-0445). The proposed indicative tax rate for Council's approval ensures that Administration continues to identify and implement efficiency and effectiveness improvements, to generate cost savings while allowing some capacity for investment decisions by Council regarding service levels and growth direction. The proposed tax rate is given in a range to allow further refinements on the growth impacts that is going to Council in Q2 2018. Council's approval of the indicative tax rate range on April 25, 2018 will allow Administration time to build the 2019-2022 service plans and budgets in a cohesive and integrated way and to come back in May, June and July for Council to discuss key topics or issues that will inform the deliberations in 2018 November.

Indicative Rates for Water Utility

Provided in this report are Administration's recommendations for the 2019-2022 indicative rates for Calgary's Water Treatment and Supply (Water), Wastewater Collection and Treatment (Wastewater) and Stormwater Management (Stormwater) lines of service, collectively known as the Water Utility. In development of the 2019-2022 indicative rates, the Water Utility considered drivers and priorities related to operating and capital expenditures, expectations of customers around availability, quality, reliability and responsiveness of services, requirements to meet financial plan compliance to improve financial sustainability, and supporting the needs of a growing city.

The indicative rates as outlined in Attachment 2 are the annual percentage rate increases, proposed for the 2019-2022 timeframe. A range is indicated at this time in order to allow Administration time to refine the analysis and assumptions.

These increases will enable the delivery of capital investments identified in the Water Infrastructure Investment Plan (WIIP), and accommodate increases in operating expenditures that are necessary for the Water Utility to continue to deliver high quality services to Calgarians, while meeting regulatory requirements and providing infrastructure that supports the needs of a growing city. The proposed indicative rates will also guide the Water Utility in preparing for the 2019-2022 service plans and budgets which will be presented to Council as part of One Calgary. Additionally, the indicative rates will support compliance with the Council approved 2019-2022 financial plans for the Water, Wastewater and Stormwater lines of service (UCS2018-0223 and UCS2018-0230).

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Indicative Rates for Waste & Recycling Services

Council approval of the ranges for the five charges/rates in this report, combined with The Corporate indicative tax rate, determines the majority of WRS' sources of revenue for the next business cycle. The rates for Council approval include: Black Cart Program charge, Blue Cart Program charge, Green Cart Program charge, Basic Sanitary rate and Minimum Load charge for waste disposal at Waste Management Facilities and are detailed in Attachment 2.

WRS' financial model objective for 2019-2022 is to align revenue with customer classes and their services, while reducing WRS' dependency on tax support for specific residential services. Creating a cost structure for residential services that are more transparent to the customer; with better equity among customer classes; and facilitates variable levels of service which support customer choice in the future.

The indicative rates and charges were developed to ensure that: WRS is able to continue next steps towards the 70 by 2025 diversion goal; maintain services levels for existing customers; extend those services to new communities; maintain capacity and efficiency of its infrastructure; and respond to inflationary impacts. A range is indicated at this time in order to allow Administration time to refine the analysis and assumptions. WRS will monitor costs; customer activity; and economic recovery and may adjust rates and charges for 2021 and 2022 through the Mid-Cycle Adjustment process, if necessary.

It is important to note that the recommended rates for the Water Utility lines of service, as well as the proposed WRS rates and charges, do not include any new community commitment and investment.

Looking Ahead to the 2018 May 16 Strategic Meeting of Council

The previous Strategic Council Meeting on 2018 March 21 provided important information for the decision on indicative rates on April 25. Both meetings are important parts of the 'Three Conversations, One Calgary' framework as they are key discussions between Council and Administration.

Going forward, the decision for indicative rates will inform the depth and extent of other solution strategies Administration is currently developing. In order to provide an integrated picture of all those strategies the following items will be provided for Council during the 2018 May 16 Strategic Meeting:

1. A report on engagement results from citizen engagement during April 2-22, 2018 and information how these results will be used to inform the development of the 2019-2022 service plans and budgets;
2. Long-term user fee and tax support rates for services that are funded in part through user fees. The Council-approved User Fees & Subsidies Policy (CFO010) is a key component of service plans and budgets. User fees form part of the overall revenue picture for 2019-2022 but, as per the policy, user fees are also influenced by considerations of equity and market influences. Similar to past business planning and budgeting cycles, a two-step approach will be used where, long-term user fee / tax support ratio will be proposed in May, followed by detailed user fee schedules being

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provided in November as part of the deliberations on the 2019-2022 service plans and budgets

3. An update on Administration's strategy for the continuous improvement of service efficiency and effectiveness. Becoming an organization that continually identifies and delivers substantial service improvements requires the coordination of multiple levers for change, which together create an integrated system for managing the performance of the corporation. This includes setting targets, including savings targets, within the business plans and budgets. The strategy will describe how targets will be set, and the tools and approaches that will be used to achieve, report and implement the improvements driven by these targets.
4. An update on capital.

Developing the service plans and budgets is an iterative process, and City Council will be provided with a number of opportunities for input, both up until November 2018 and beyond, throughout 2019-2022. Strategies that will be part of this process include for instance:

- Providing Council with additional tools and strategies to address the revenue challenges as outlined above.
- A coordinated approach to the continuous improvement of service efficiency and effectiveness, including continuing to set savings targets as part of the planning and budgeting process, and maintaining the focus on managing costs.
- A One Calgary approach to prioritizing service investments and divestments (for both operating and capital).
- Explicitly linking Council's decisions around growth with the impact on costs in 2019-2022 and beyond to ensure the costs of growth are well understood and funded.
- Supporting the organization and service owners (one for each of The City's 62 services) to work across service lines and prioritize strategies for responding to Council Directives that maximize limited resources.

Stakeholder Engagement, Research and Communication

Citizen engagement for One Calgary took place from April 2 to 22, 2018. Citizens were asked to provide their input about what they value most about the services The City provides.

Additionally, research was launched through the Citizens' View Panel. The questions mirrored those used in the citizen online engagement, but had a more focused research and analysis approach to understand citizen expectations and priorities for service value. The online panel survey was open for one week (which is standard for these types of surveys), from April 12 to 19, 2018.

Administration is currently developing a strategy for another citizen engagement prior to September 2018 to allow for a "check-in" with citizens and businesses to validate service values and what matters most to citizens. This additional engagement would not only enhance the opportunities for citizens to get involved with the development of 2019-2022 service lines and budgets; it will also help to ensure that seasonal influencing factors regarding what citizens value about City services are minimized.

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Strategic Alignment

The development of Three Conversations, One Calgary: The City's Strategic Plan for 2019-2022, including service plans and budgets, is one of the most significant pieces of work that The City undertakes as it advances our common purpose and helps to deliver on Calgary's vision for the future. The work aligns with Council policy and long-term planning and demonstrates where The City will focus over the next four years.

Social, Environmental, Economic (External)

Service plans and budgets are a tool that allows consideration of the social, environmental and economic environment during the business planning and budgeting process. The plans and budgets will be developed using a results-based performance framework. This includes information on how each City service contributes to quality of life for Calgarians and their aspirations for the community.

Financial Capacity

Current and Future Operating Budget:

As mentioned above setting indicative tax rates and indicative rates for utility services is one the most important milestones in the journey to develop 2019-2022 service plans and budgets and will determine the financial envelope within which The City will develop its service plans and budgets.

Current and Future Capital Budget:

As noted earlier in this report, this is a key point in the process to develop 2019-2022 service plans and budgets. An update on the capital outlook will be provided to Council at the 2018 May 16 Strategic Meeting.

Risk Assessment

As with previous business planning and budgeting cycles, consideration of risks is a key factor informing the development of plans and budgets. Given the city's current economic context, risk will need to be considered in a different way, including re-thinking assumptions, and placing considerably more emphasis on weighing the costs as well as the benefits of risk mitigation strategies, to ensure that they provide good value. In other words, the organization may want to consider higher levels of tolerance for some types of risks, where the trade-offs between risk reduction and cost indicate that this is warranted. This resilience mindset builds on recent developments where decisions have been made to embrace or accept some risk to improve service value.

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REASON(S) FOR RECOMMENDATION(S):

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ATTACHMENT(S)

1. Attachment 1 – 2019-2022 Indicative Rates for Water, Wastewater and Stormwater Services
2. Attachment 2 – 2019-2022 Indicative Rates for Waste & Recycling Services