

Chief Financial Officer's Report to
Priorities and Finance Committee
2019 June 04

ISC: UNRESTRICTED
PFC2019-0707

Financial Task Force Terms of Reference

EXECUTIVE SUMMARY

Calgary's cyclical economy affects property values and the property taxes paid by various property classes. The abrupt decline in property values of downtown office buildings of approximately \$14 billion has led to a decline in non-residential property taxes paid by these property owners. The result is a shift of those taxes to other non-residential properties and Council has approved a transfer of a portion of the tax responsibility to residential properties starting in 2019. The current economic situation may take an extensive amount of time to recover – and therefore mid and long-term solutions are needed to address the allocation of property tax responsibility and other financial strategies to improve Calgary's financial resilience. This report sets out a Terms of Reference for a Financial Task Force that will address both short term and long-term options that speak to the underlying cause of the downtown tax shift issue which is largely economic in nature and will also identify potential new revenues options that should be considered by The City.

ADMINISTRATION RECOMMENDATION:

That the Priorities and Finance Committee recommends Council:

1. Approve the Terms of Reference of the Financial Task Force, and
2. Direct Administration to commence the setup of the Financial Task Force and report back no later than November 2019 with a status update.

RECOMMENDATION OF THE PRIORITIES AND FINANCE COMMITTEE, 2019 JUNE 4:

That Council:

1. Approve the Terms of Reference of the Financial Task Force, **as amended in Attachment 1**, as follows:
Page 1, under Scope, by:
 - Deleting the word 'Addressing' in the second bullet, and replacing with the word 'Changing'; and
 - Deleting the third bullet entirely.
2. Direct Administration to commence the setup of the Financial Task Force and report back no later than November 2019 with a status update.

PREVIOUS COUNCIL DIRECTION / POLICY

On May 27, 2019 Council approved that with respect to Report PFC2019-0451, the following be adopted:

In accordance with the Procedure Bylaw 35M2017, as amended, Appendix B, B.9. (a), (c), (e) and (l):

1. Council direct Priorities and Finance Committee (PFC) to form a tax shift response working group by June 30, 2019, with a mandate to assess the best options for greater

Approval(s): **Carla Male** concurs with this report. Author: **Sheryl McMullen**
City Clerk's: **L. Gibb**

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Financial Task Force Terms of Reference

tax parity between assessment classes, based on an analysis of root problems that include but are not limited to disparity in proportional share of operating budget and absence of zero-based budgeting on an annual basis.

2. Council direct that PFC add an agenda item to its June 4, 2019 meeting that allows committee to:
 - a) appoint a PFC member to lead the working group,
 - b) determine which other members of Council will be part of the working group,
 - c) determine which members of Administration will be part of the working group, and
 - d) enable the lead of the working group to reach out to external stakeholder groups and bring back a list of names for the working group to finalize by June 30, 2019.
3. The tax shift response working group shall provide updates to PFC at each meeting until November 2019, at which time final recommendations will be presented to inform Council's budget deliberations so that an informed tax shift decision can be made as part of the budget process, providing certainty and predictability for property owners by November 29, 2019.

On 2019 May 27 Council approved that with respect to Report PFC2019-0590, the following be adopted:

That Council:

1. Immediately terminate the investigation and/or implementation of this Small Business Resilience Grant program as described in this report, based on the findings in the attached consultant's report, clear feedback from the community of stakeholders and information provided in Attachment 7.
2. Direct that Attachment 7 remain confidential pursuant to section 27(1)(a) of the *Freedom of Information and Protection of Privacy Act*, indefinitely. And further direct Administration to provide a public Memo to Council highlighting the key principles contained in Attachment 7.

And the following motion arising be adopted:

That Council direct Administration to commit \$70.9 million of one time funding (\$44M from the Fiscal Stability Reserve and \$26.9M within the Budget Savings Account) for strategies related to short term mitigation measures or potential long term solutions for business in Calgary, to be determined through the work of the Financial Task Force (to be formed once the Terms of Reference as approved) and/or the working group, with options to be recommended to Council through Priorities and Finance Committee no later than November 2019.

On 2019 April 1, C2019-0352 Downtown Tax Shift Response – Updated, Council directed Administration to “further refine and update the proposed roles and responsibilities of the Financial Task Force and bring an updated Terms of Reference for the Financial Task Force for discussion and consideration of the Priorities and Finance Committee no later than June 2019.

On 2018 November 19, PFC2018-1134 Council directed Administration to:

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Priorities and Finance Committee
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Financial Task Force Terms of Reference

3. Direct Administration to convene a Financial Task Force comprised of internal and external experts to develop a strategy on the following:
 - a. Short term mitigation
 - b. Long term solutions
 - c. Revenue options to improve financial resiliency.
4. Return to Council through Priorities and Finance Committee with the recommended membership, framework, and terms of reference no later than Q1 2019.

BACKGROUND

Calgary's cyclical economy has a direct impact on the local real estate market. The annual property assessment cycle reflects annual changes in the market value of properties due to economic fluctuations that affect the local real estate market.

The decline in oil prices, which started in early 2014, contributed to a 19-quarter decline in the demand for downtown office space. The business needs of companies have changed due to changes in the economy, lowering demand for downtown office space and creating a high downtown office vacancy rate. An excess of newly built inventory combined with high vacancy has resulted in a large decrease in associated property values.

Many of the economic cycles experienced by Calgary in the past have not had the same unusually prolonged impact on the valuations of the downtown office market. As a result, the tax base that these properties previously carried will need to be redistributed to other properties.

All aspects of this issue must be considered in a coordinated way to move us away from the "one off" approaches we have taken in the past. Short term mitigation along with long term solutions must be considered together in order to develop a long term plan to be approved and communicated to property owners, business owners and the community in advance of next year's property tax cycle. Expectations can be managed for all if decisions are made well in advance of next year's property tax finalization.

In addition to the specifics related to the tax shift issue, consideration must also been given to examining the potential for alternative revenue sources that can improve Calgary's financial resiliency in the long run.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Administration has considered the direction provided by Council to date with respect to the formation of a Financial Task Force and have developed the Draft Financial Task Force Terms of Reference (Attachment 1). This updated Terms of Reference (TOR) was prepared using best governance practices to strike a Task Force chaired by the Chief Financial Officer ("CFO") of The City of Calgary and comprised of external representatives who will be formal Task Force members. This group will be supplemented by additional senior level support from Administration as subject matter experts as required.

The selection of the Task Force membership will be based upon a solicitation for applications that will be reviewed and accepted considering a skills matrix outlined in Attachment 1 (Appendix A). A specific focus will be on ensuring that Task Force representation is comprised of members that can bring specific relevant professional expertise to the group in reaching its goals of developing the specific strategies requested in Council direction.

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Financial Task Force Terms of Reference

It is envisioned that the Task Force have a term defined as 2 years, in June 2021 the mandate and any potential term extension of the Task Force will be re-examined and approved if required by Council.

Stakeholder Engagement, Research and Communication

The Task Force will be responsible for undertaking its own stakeholder engagement and research to ensure that the strategies developed for recommendation to Council are reflective of the desires of the broad Calgary community and are implementable.

Strategic Alignment

The purpose of the Financial Task Force is in alignment with the desire of Council to provide support to Economic Recovery and Resiliency within the City of Calgary. The Financial Task Force will also work closely with the Downtown Strategy group to ensure alignment with the work being pursued by both groups. The strategies developed by the Task Force will be reviewed for alignment with existing City of Calgary policies and new strategies should they develop.

Social, Environmental, Economic (External)

This report does not have any specific social, environmental or economic impacts.

Financial Capacity

Current and Future Operating Budget:

Administration will undertake work to setup the Financial Task Force and assess the resourcing needs required to support the team. If additional resources are required to support the work of the Financial Task Force, a budget request will be brought to Priorities and Finance Committee in September 2019.

Current and Future Capital Budget:

AS a result of this report there are no requests for current or future capital budget.

Risk Assessment

In order to mitigate risk to the City and to citizens related to the economic downtown, The City is requesting that external professional experts to provide their expertise to the Financial Task Force and assist us in developing implementable strategies to address this issue in both the short and long term as we start to move towards economic recovery.

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REASON(S) FOR RECOMMENDATION(S):

After reviewing the direction of Council we have prepared the Draft Terms of Reference for approval so that we may start the process of advertising for members, forming the Task Force, and convening meetings so that work can start as soon as possible.

ATTACHMENT(S)

Attachment 1 – Draft Financial Task Force Terms of Reference