

Calgary



The City of Calgary

2021-2032

Long Range Financial Plan

Overview

ISC: Unrestricted



The City of Calgary is in a strong financial situation with prudent fiscal management, strong budgetary performance, low property tax rates compared to other major Canadian cities, solid reserves, manageable debt

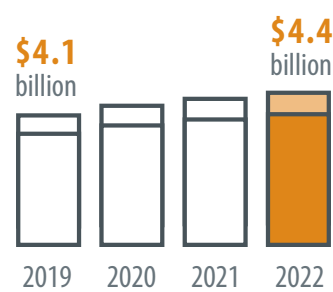
level, robust liquidity, and AA+ and AA (high) credit ratings with Standard and Poor's (S&P) Global Ratings¹ and DBRS Morningstar² respectively. The City's principal financial characteristics are summed up as follows:

Budget



Operating

\$17 billion
for the budget
cycle of
2019-2022



Capital



Staff



Calgary

15,635 FTEs
end of 2020

FTEs = full-time equivalents



12.1 FTEs (2020)
per

1,000
citizens

1.9 FTEs
(2010)

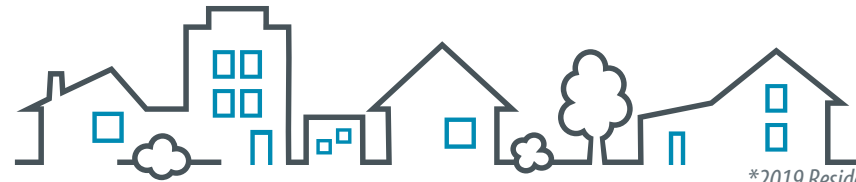
due to increased efficiency and effectiveness in service provision. The numbers are below the level of several major Canadian municipalities and have been for the last decade.

Property Tax



Median municipal residential property tax

(2021) **\$2,147** based on the single residential median assessment of \$445,000 for a residential property



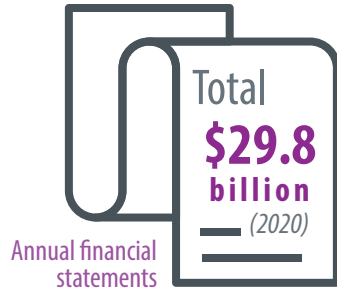
Calgary's municipal annual residential property taxes are relatively lower than other major Canadian cities*.

*2019 Residential Property Taxes and Utility Charges Survey

1 Standard and Poor's (S&P) Global Ratings' credit rating results for The City of Calgary in 2021 can be found at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceld/12041040>.

2 DBRS Morningstar's credit rating results for The City of Calgary in 2021 can be found at <https://www.dbrsmorningstar.com/research/381938/dbrs-morningstar-confirms-the-city-of-calgary-at-aa-high-with-a-stable-trend>.

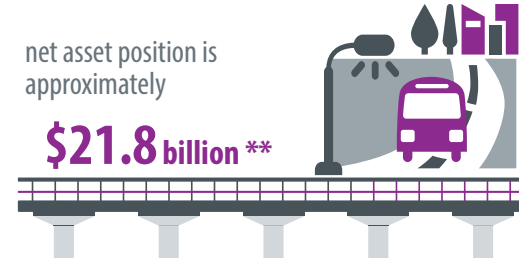
Assets



net value of **ENMAX**
The City's wholly owned electrical utility

+

net asset position is approximately **\$21.8 billion****

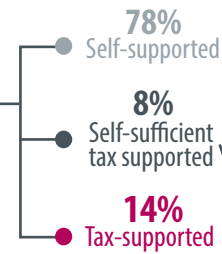


** reflects the new reporting requirements of the Public Sector Accounting Board

Debt



approximately **\$2.8 billion** Total debt (excluding ENMAX)



The ratio of debt servicing charges to tax-supported gross expenditure (net of recoveries)

2.5% (including self-sufficient tax supported)



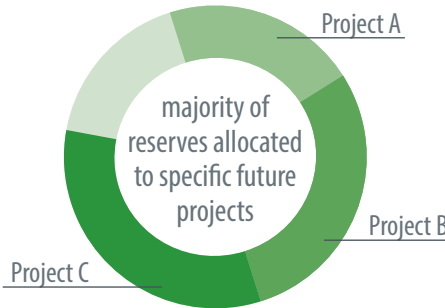
1.5% (excluding self-sufficient tax supported)



Reserves



\$2.7 billion total reserves end of 2020



a balance of approx. **\$474 million** end of 2020 (with a committed amount of \$294 million)

However, The City is also facing existing issues and emerging challenges that could potentially threaten its financial sustainability and resilience. Systemic issues include insufficient or inflexible revenue-raising tools to fund expenditures, growing demand for future infrastructure, pressure to keep municipal taxes low and over-contribution³ of taxes to other orders

of government. In a dynamic world with rapidly changing conditions, The City also faces emerging challenges from multiple sources including economic changes, demographic shifts, technological advancements, global events and market trends, climate change, and funding uncertainty from other orders of government. It is important that The City is aware of the challenges and proactive in evaluating their financial impacts and exploring solutions.

³ More detailed analysis on The City of Calgary's over-contribution problem can be found in the studies conducted by the Corporate Economics team of The City on [A Case of Fiscal Imbalance: The Calgary Experience](#) and [A Case of Vertical Fiscal Imbalance - The Calgary Experience \(An Update\)](#).



Purpose and Audience of LRFP

The purpose of the Long Range Financial Plan (LRFP) is to support the achievement of The City’s overarching goals of financial sustainability and resilience; to manage changes by identifying emerging risks and providing corresponding financial strategies; and to enhance the alignment of The City’s internal policies and external requirements. A financially sound City of Calgary is critical to the local economy and the well-being of Calgarians.

This LRFP will provide Council and Administration with an on-going longer-term perspective on The City’s financial prospects. The value of the LRFP is to show relative magnitude of financial challenges and to stimulate discussion on how best to deal with the general trends they reveal.

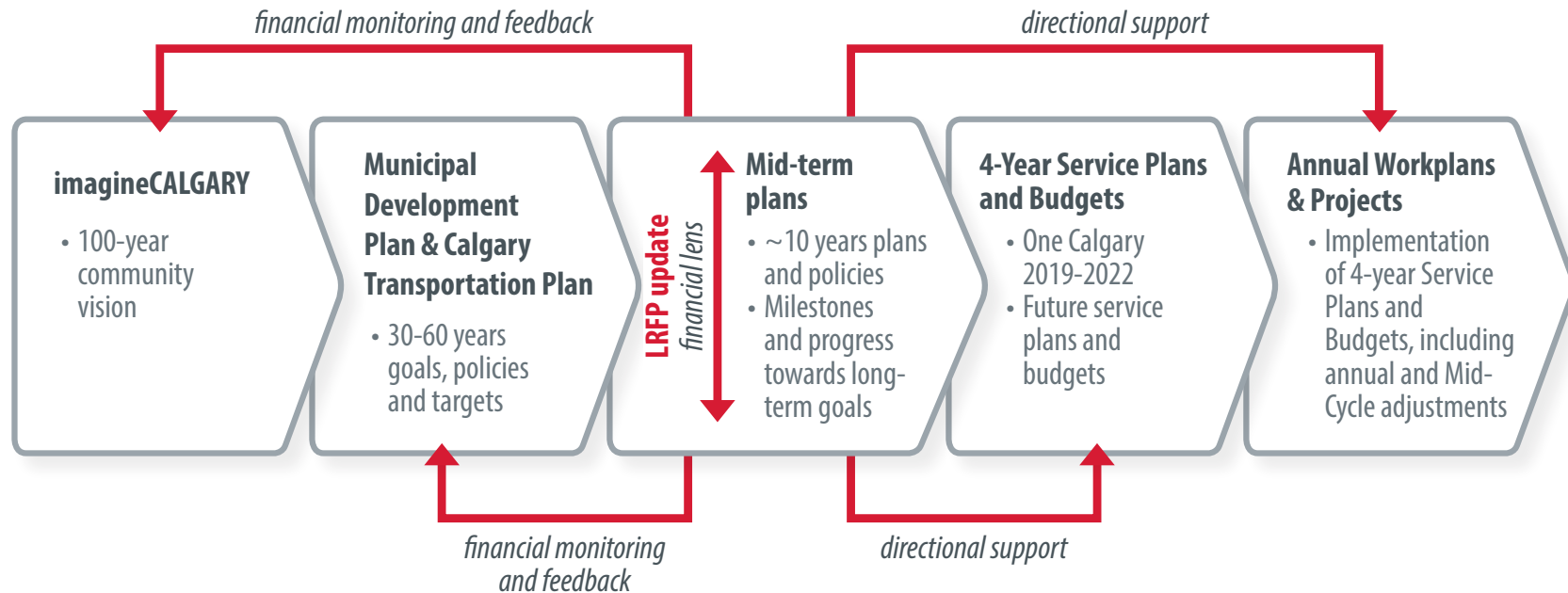
The LRFP is designed primarily for use by the following groups:

- Council
- Citizens
- Executive Leadership Team (ELT)
- Administration, including all lines of service

Connections to Other City Planning Work

The range and scope of services and physical infrastructure provided by The City require that planning initiatives be undertaken in many areas and over multiple time frames. The LRFP is a critical centerpiece in connecting The City’s long-term vision and policies, medium-term financial investment plans, and short-term priorities and accountability.

Chart O1
LRFP’s Connections to Other City Planning Work





LRFP Modelling and Assumptions

The LRFP projection model is based on the One Calgary 2019-2022 Service Plans and Budgets and its following adjustments including the 2020 Mid-Cycle Adjustments (MCA). It projects 10 years beyond the end of the 2019-2022 period into the future. The projection uses both financial and non-financial assumptions to show what The City's financial situation could look like by 2032 if the environment unfolds as forecasted. Financial assumptions consider The City's existing policies and strategies, as well as financial policy changes that may have a significant impact on budgeting and reporting requirements. Non-financial assumptions include key indicators reflecting Calgary's economic conditions, demographic shifts, market trends and other variables that may impact the demand for City services and future municipal spending.

In addition to following the previously developed traditional LRFP methodology, this LRFP made improvements to the methodology to better align with the service-based plans and budgets approach adopted by the 2019-2022 business plan and budget cycle. This LRFP shifts from the traditional *top-down* approach of budgeting and planning at corporate and departmental levels to a *bottom-up* approach which identifies financial planning and projections at service level and aligns service projections with the long-term financial planning for the Corporation. During this LRFP development, services were extensively engaged in modelling structure construction, assumption validation, consistency check of projection results and the understanding of services' specific planning policies and strategies.

The results of long-range financial projections are totally dependent on the assumptions. A summary of the base parameters and driving factors for the base case projection includes:

- 2019-2022 One Calgary operating budget and its following adjustments including the Mid-Cycle Adjustments, approved by Council.
- Population growth and demographic changes which reflect local economic development and market trends, and impact both demand for services and municipal revenue growth.
- Inflation forecasts on goods and services gathered from respected sources that will be approximated by a combination of Consumer Price Index (CPI) and Municipal Price Index (MPI).
- Commodity prices that impact The City's operating expenses and franchise fees directly, and impact Calgary's economy due to the high dependence on global energy prices and demand.
- Labour market conditions that impact growth rate of wages and salaries of The City employees, and therefore The City's operating expenditures. It also reflects local economic performance and impacts the demand for both residential housing and non-residential spaces.
- Other macroeconomic and financial indicators that impact revenues such as investment income, transfers from other orders of government and multiple items of municipal expenditures.

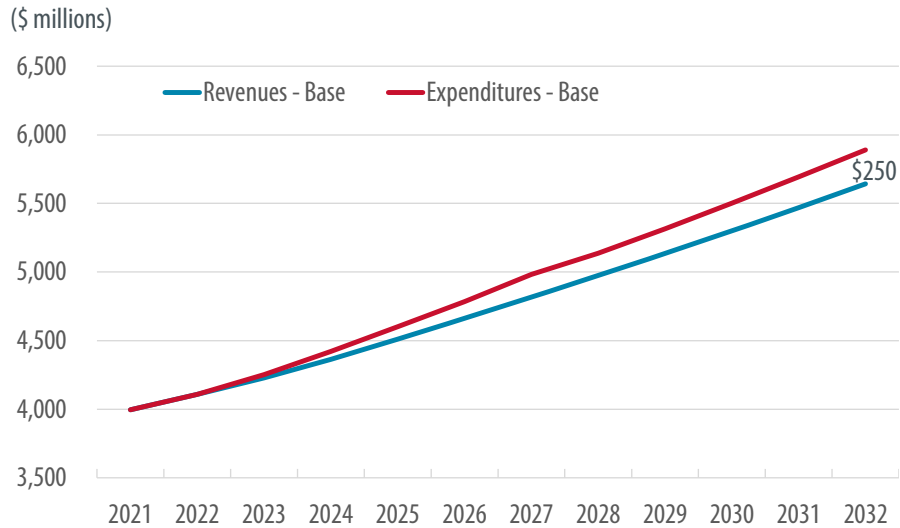
Operating Projections

Financial projections are conducted with the base parameters derived from One Calgary and its following adjustments including the MCA, as well as the financial and non-financial assumptions. The base case projection uses only information known at the present time. It does not include speculation as to future directions of City service levels, debt policies



or additional assistance from other orders of government. Property tax increase is assumed to be a combination of population growth and the Municipal Price Index. The base case projection of operating budget indicates a gap between revenues and expenses appearing in the first projected year at 2023, which widens to approximately \$250 million by 2032.

Chart O2
Projected Operating Revenues and Expenditures 2023-2032



The operating gap emerges largely because the property tax is the only revenue source that is fully controllable (within the constraint of public acceptability), but only makes up approximately half of the revenue to support operating expenditures. The remaining revenues cannot be increased simply through Council decisions, as they are impacted by external factors and typically do not grow at the same rate as The City's expenditures. None of these revenues grow proportionately to economic growth on a sustained basis. The structure of revenues and expenditures

necessitates that the property tax rate under direct City control must increase at a higher rate than municipal inflation and other cost increases to maintain service levels.

The modelling robustness has been tested through sensitivity tests. Examples of sensitivity tests include applying alternative population growth rates and inflation rates to the projection. The table below summarizes the results on operating gap of the sensitivity tests with different assumptions from the base case.

Table O1
Summary of Sensitivity Tests on Population Growth and Inflation Rates: Assumptions and Operating Gap Projections (\$ millions)

Assumptions		2023	2027	2032
Base case	Population growth projected by City of Calgary Corporate Economics team	\$20	\$170	\$250
Higher population case	Population growth rates higher than base case by 0.5% annually	\$30	\$180	\$270
Lower population case	Zero population growth annually over 2023-2032	\$20	\$150	\$210
Higher inflation case	Inflation rates annually higher than base case by 1%	\$30	\$190	\$290
Lower inflation case	Inflation rates annually lower than base case by 0.5%	\$20	\$160	\$230

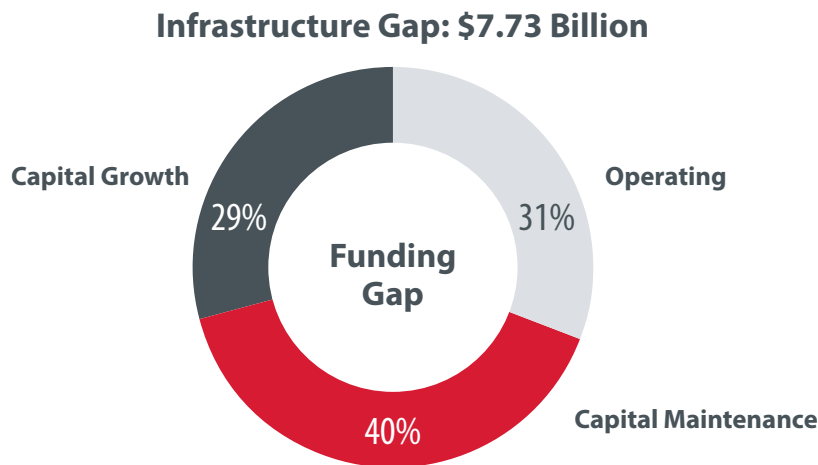
Capital Projections

The City's capital requirements include funded and unfunded capital. Funded capital includes projects for which a source of funding exists or has been identified, and unfunded capital includes projects for which no



source of funding or potential funding exists. The capital gap comprises unfunded capital projects, which reflects the gap between future capital requirement and funding capacity.

Chart O3
Capital Funding Gap of 2020-2030 Estimated by the 2020 Infrastructure Status Report



Data source: The City of Calgary 2020 Infrastructure Status Report.

The capital projection on funding shortfall is based on the 10-year infrastructure funding gap estimated by The City's 2020 Infrastructure Status Report which was presented to Council on 2021 May 26. It estimates a total capital funding gap of \$7.73 billion for 2020-2030. It is based on the information provided by the largest business units and service areas that steward over 99 per cent of The City's assets, coordinated and consolidated by Corporate Analytics and Innovation⁴. The capital funding gap

⁴ The name of the Business Unit may change due to the Organization Realignment. The name in the report reflects the organizational structure and names of Departments and Business Units as of July 2021.

reflects total unfunded investment requirement for The City to fund its infrastructure maintenance, growth and operation. Therefore, the funding gap is grouped into three categories. First, capital growth gap estimates unfunded investments required to support the city's expansion. Second, capital maintenance gap estimates unfunded investments required to maintain and upgrade existing infrastructure assets. And third, operating gap measures funding shortfall required to bring existing assets to a minimum acceptable level for operation over their service life. The composition of the three categories of capital funding gap is illustrated in Chart O3.

Financial Goals and Strategies

The essence of the LRF is to provide a plan to deal with the 10-year financial challenges facing The City beyond this Service Plan and Budget cycle, in order to progress toward long-term financial sustainability and resilience. Chart O4 presents the conceptual view of how this plan is structured, from the identification of the overall outcome and financial goals of the municipal government, to the financial strategies and specific tactics that will support the achievement of goals and guide the development of actions through the next rounds of business planning. The City's financial goals, strategies, and tactics establish a risk management mechanism to support the outcome of a well-run city. A connection with non-financial goals and strategies is indicated as well.

A brief description of each element of the conceptual view follows.

Outcome: The City of Calgary Corporate Vision (Calgary: a great place to make a living, a great place to make a life) and our Common Purpose (Making life better every day) are expressed through delivering excellent services and infrastructure at a fair price to the citizens of Calgary as a well-run city.



Chart O4
Conceptual View of the Long Range Financial Plan Structure





Financial Goals: The City's financial goals include sustainability and resilience. Financial sustainability is defined as the enduring ability of The City to ensure that it can deliver the level and types of services expected by the community, and the ability to balance revenue and expenditure constraints over the long term. And resilience is defined as the capacity of The City to recover from shocks and longer-term stressors and to adapt and grow from disruptive experiences, and the ability of not only surviving shocks, but also thriving even under conditions of adversity.

Risk Management Mechanism: The City's financial goals, strategies and tactics establish a mechanism of risk management to support the outcome of a well-run city by delivering excellent services and infrastructure for citizens. The importance of The City's proactive risk management culture is acknowledged by the LRFP process.

Financial Strategies: the goals are further supported by five main financial strategies including:

- Flexibility: being able to effectively respond to changing circumstances, which may relate to economic, demographic, technological, climate change, global trend and event, social, environmental, political or other conditions.
- Efficiency: using public funds in ways that provide the highest level of needed services possible within the amount of funding available.
- Sufficiency: having adequate resources to support the delivery of services for which The City of Calgary bears responsibility.
- Integration: ensuring that The City prioritizes investment on a Corporate basis, considering the interaction of services in meeting outcomes, and that the financial constraints under which The

City operates are fully considered when engaging in policymaking and decision-making.

- Credibility: achieving financial performance in a way that maintains and enhances public confidence in the municipal government.

Tactics: The five strategies are further supported through eight tactics. These tactics, which will spur actions to both change City approaches and maintain current beneficial practices for building of a more sustainable long-term financial future, include:

1. Ensuring adequate funding. It includes ensuring complete and sustainable estimates of future service and infrastructure requirements; maintaining and increasing funding from existing sources; and matching the volatility of revenues and expenditures.
2. Achieving diverse sources of funding. It includes leveraging untapped revenue potential and identifying revenue from the new economy.
3. Managing expenditures. It includes increasing efficiency in service delivery; setting spending priorities to ensure the most important areas are funded; and positioning Calgary as an efficient provider of similar services and infrastructure relative to other comparable municipalities.
4. Providing for contingencies. It includes monitoring economic and operational factors and forecasts to respond to changing circumstances, and ensuring The City has ready access to enough funds to meet unforeseen urgent needs and manage risk appropriately.
5. Using debt strategically. It includes managing the level of debt and using it strategically and examining a wider range of debt financing instruments.



6. Operating with prudent foresight. It includes linking City services to dedicated financial resources and building awareness of the projected future cost of City services and infrastructure.
7. Maintaining sufficient cash flow. It is to ensure that The City receives adequate cash flow spread over the year to meet obligations while minimizing debt requirements.
8. Strengthening resilience. It includes building the ability to respond and recover effectively from disasters and to provide certainty and stability of city service provision; and building the ability of not only surviving shocks, but also thriving under conditions of adversity.

Alternative Scenarios

The LRFP modelling enables the development of alternative scenarios by making variations to the assumptions of its base case projections. Five scenarios have been created to assist with the financial strategies development by identifying the impacts of multiple influencing factors on municipal finance and demonstrating the importance and benefits of proposed financial strategies. These scenarios are not intended to be definitive projections of the future. Instead, they are intended to provide insight into the magnitude of changes to projections associated with changes to given assumptions, and to consider the potential opportunities and challenges if they arose. For the results of scenarios 1-5, please refer to Section 5 of the main report.

Scenario 1: Transition to the new economy

The new economy is also known as the digital economy or the internet economy. It refers to an economy that is based on information and communication technology, with typical economic activities including digi-

tally enabled infrastructure, digitally ordered transactions and digitally delivered products and services. This scenario examines the potential impacts on municipal finance during the transition to the new economy in the projection period.

The key challenges that emerge from this scenario are summarized below:

- Issues with long-term sustainability of property tax revenues due to property tax base erosion.
- Changing demand from Calgarians for municipal services.
- Difficulty in adjusting the municipal tax regime to the new economy.

This scenario helps recommend the following tactic areas and actions for The City to navigate the challenges:

- Ensure adequate funding, including continuing to advocate for the reform of municipal finances and the revenue-generating tools available to The City.
- Achieving diverse sources of funding by continuing to explore and implement untapped revenue potential and additional new economy revenue options.
- Managing expenditures. The City needs to continue to improve its efficiencies in service delivery and set spending priorities to ensure the most important service areas are funded.
- Operating with prudent foresight. The City should prepare and support the transition to the new economy and create an environment where businesses can thrive during the transformation.



Scenario 2: Prolonged recovery from COVID-19 pandemic

In the base case, the COVID-19 pandemic is assumed to be contained in the short to medium term. However, The City needs to be proactive and prepared for the uncertainty of the pandemic evolution and potential serious setbacks that may happen during the projection period. The scenario of a prolonged recovery from the COVID-19 pandemic is developed to assist with The City's strategic financial planning under alternative circumstances with extended adversity. This scenario examines what will happen to The City and its services if the COVID-19 impact lasts for the entire LRF projection period.

The key challenges that emerge from this scenario are summarized below:

- Indeterminate impacts on municipal services and finances from the uncertainty of COVID-19.
- Difficulties in achieving the right balance of providing services to Calgarians during the prolonged pandemic and maintaining The City's financial sustainability.
- Rigorous cost control requirements to mitigate COVID-19 impacts on service revenues may affect service capacity and quality in the long term.

This scenario helps recommend the following tactic areas and actions for The City to navigate the challenges:

- Ensuring adequate funding. The City continues to work with the provincial and federal governments and seek their support on the recovery from COVID-19.
- Managing expenditures by continuing to increase efficiencies in

service delivery and adjusting spending priorities to meet the evolving service requirements of citizens.

- Providing for contingencies by monitoring changes and remaining able to respond fast and effectively to evolving circumstances.
- Using debt strategically. The prudent use of available debt capacity can aid financial flexibility as a source of contingency financing.
- Operating with prudent foresight by ensuring that City services are well defined to reflect the changing demand of citizens and linked to dedicated financial resources.
- Maintaining sufficient cash flow to ensure The City's cash flow is spread over the year to meet obligations while minimizing debt requirements.
- Strengthening The City's resilience by building the ability to respond to disasters, recover and find opportunities to thrive under adverse conditions.

Scenario 3: Regional services cost-sharing

This scenario examines the impact on The City's finances of potentially sharing cost with surrounding regions for their use of The City of Calgary's services and infrastructure facilities. Calgary is the largest municipality in the region and the center of job creation and economic activities. As a result, residents of surrounding municipalities come to Calgary for the purposes of working, studying, shopping, recreating, and many other reasons, and therefore use The City of Calgary's infrastructure facilities and services. Most of the infrastructure and services have been used uncompensated or at most partially compensated by non-residents.



The key challenges that emerge from this scenario are summarized below:

- Risks of administration cost exceeding benefits of sharing service costs with regional users for some services.
- Potential non-financial impacts including reputational and political impacts on The City, and provincial legislative requirements.
- Lack of willingness to pay for services provided by The City of Calgary for regional users and municipalities.

This scenario helps recommend the following tactic areas and actions for The City to navigate the challenges:

- Ensuring adequate funding. This includes continuing to investigate and address cross-subsidization borne by The City of Calgary and its taxpayers in favor of others in the region.
- Achieving diverse sources of funding by continuing to explore and collaborate with regional users for potential cost-sharing solutions.
- Managing expenditures. Through increasing collaboration with regional neighbours in support of regional economic development, The City continues to investigate municipal governance structures that promote the cost-effective delivery of services for regional economic benefit.
- Operating with prudent foresight. Ensure The City's efforts in supporting regional economic development do not decrease Calgary's own competitiveness.
- Strengthening resilience by building awareness and exploring tools through regional collaboration.

Scenario 4: Workforce efficiency improvement

Given that a significant portion of The City's operating budget comprises labour and associated costs, gains in productivity and efficiency have the potential to yield significant savings. This scenario starts with an example showing how much The City can save on its operating cost hypothetically over the 10 years between 2023 and 2032 with one per cent of labour cost efficiency improvement every year, and then explores the possibility and options on how to realize the efficiency improvement by working with services across the Corporation.

The key challenges that emerge from this scenario are summarized below:

- Stresses on services' long-term capacity and levels of service, given the service demand of expected value and quality from Calgarians and the growing population of Calgary.
- Increasing capital requirement to invest in service automation and innovation to improve workforce efficiencies.
- Concerns from potentially decreased levels of service as it may create more uncertainty and negative impact on lower income individuals.

This scenario helps recommend the following tactic areas and actions for The City to navigate the challenges:

- Ensuring adequate funding. This refers specifically to ensuring that the estimates of future service requirements are complete and sustainable.
- Achieving diverse sources of funding. Services should explore revenue sources from untapped revenue potential and develop additional options to maintain services' long-term capacity.



- Managing expenditures. This includes increasing efficiencies through collaboration across services and setting spending priorities to ensure the most important areas are funded.
- Using debt strategically to invest on assets for long-term efficiency improvement.
- Operating with prudent foresight. The City needs to build awareness of the projected future cost of City services, and to enhance its investment towards automation and innovation.
- Maintaining sufficient cash flow. The City needs to ensure its cash flow is spread over the year to meet obligations while minimizing debt requirements.

Scenario 5: Property tax growth

This scenario is developed to illustrate the importance for The City to maintain the property tax growth rates at a sustainable level. When The City is facing operating gap pressures, the property taxes are the main tool available to close the gap and allow The City to balance its budget. This scenario illustrates two examples of property tax growth paths, neither of which is sustainable in the long term, by showing what may happen to municipal finances when the property tax rate increase is too high or too low.

The key challenges that emerge from this scenario are summarized below:

- Property taxes not growing proportionally with economic growth.
- Lack of autonomy in municipal tax regime and alternative revenue tools.

- Decreasing ability and willingness to pay property taxes by taxpayers.
- Obstacles in collecting revenue from activities in the new economy.
- Pressures to maintain tax competitiveness and livability to compete with other jurisdictions in attracting business and population growth.

This scenario helps recommend the following tactic areas and actions for The City to navigate the challenges:

- Achieving diverse sources of funding, including exploring new tax sources and revenue options, advocating to higher orders of government on funding tools and flexibility, and enhancing property tax revenue stability.
- Using debt strategically to make available essential assets with long lifespans and to examine a wider range of debt financing instruments for funding flexibility.
- Operating with prudent foresight. The City continues to collaborate with regional governments on regional economic development while ensuring its own competitiveness.
- Maintaining sufficient cash flow to ensure The City's cash flow is spread over the year to meet obligations while minimizing debt requirements.
- Strengthening resilience by continuing to improve property taxation policy and its implementation to balance stability between the level of taxation and the level of service.



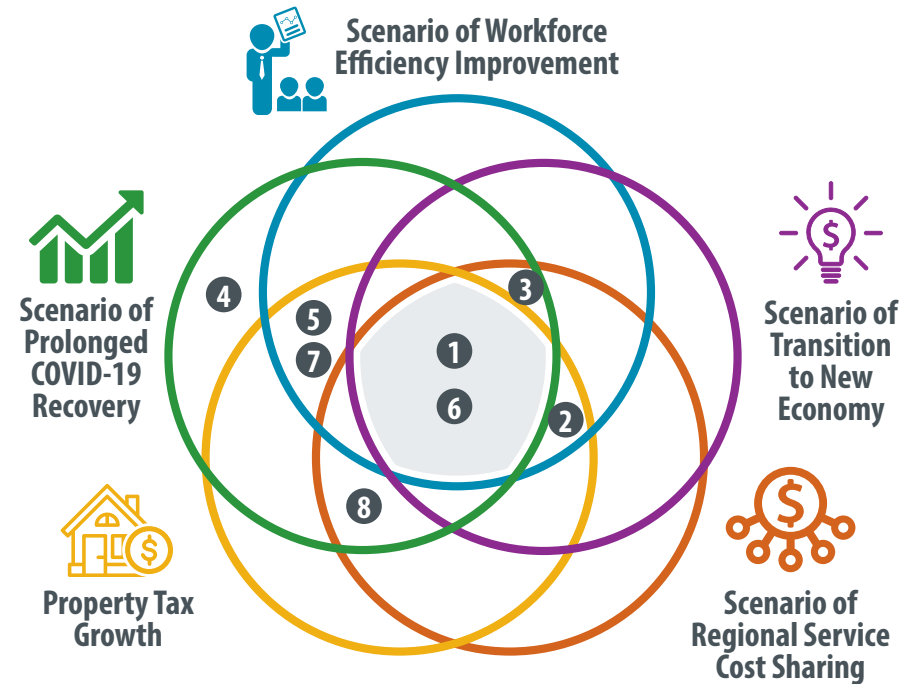
Overlap of scenarios

To navigate the challenges in the overlap of scenarios, The City needs to implement multiple corresponding strategies and tactics emerging from the scenarios.

As illustrated in Chart O5, The City needs to focus on the following tactic areas that have the most overlap across different scenarios and risks to build the long-term resilience and sustainability.

- Tactic 1: ensuring adequate funding.
- Tactic 6: operating with prudent foresight.
- Tactic 2: achieving diverse sources of funding.
- Tactic 3: managing expenditures.

Chart O5
The City's Tactics to Respond to the Overlap of Multiple Scenarios



Tactics:

- | | |
|--|------------------------------------|
| ➊ Ensuring adequate funding | ➋ Using debt strategically |
| ➌ Achieving diverse sources of funding | ➍ Operating with prudent foresight |
| ➎ Managing expenditures | ➏ Maintaining sufficient cash flow |
| ➐ Providing for contingencies | ➑ Strengthening resilience |



Conclusions

The LRFP is The City's strategic financial plan that addresses immediate financial pressures and meets longer term financial needs with a view of potential funding gaps between The City's revenues and expenditures in the next 10 years beyond the current 2019-2022 budget cycle.

This specific LRFP analyzes potential influencing factors on municipal finances from multiple channels. It provides 10-year projections on The City's revenues and expenditures, and examples of alternative scenarios with different impacts on municipal finances. It includes financial goals, strategies and actions to reduce the funding gap and improve The City's financial sustainability and resilience in one single, forward-looking plan. The LRFP is not an exercise in precision, but remains a work in progress which lays the groundwork for improvement with each update.

While The City of Calgary's financial position is strong, there are systemic and emerging issues that could potentially threaten The City's financial sustainability and resilience. Current sources and levels of revenue and funding are not sufficient to meet projected requirements, and it indicates that continuing to provide the same services in the same way with the same revenue and funding is not financially sustainable. The City will also be further challenged by continued demographic shifts, economic volatility and structural changes, technological advancement and associated challenges, citizen's ability and willingness to pay property taxes, and uncertainties from constantly evolving circumstances. Without actions to address these issues, The City will become increasingly challenged to provide the services and infrastructure that citizens expect and value.

Therefore, The City needs to continually develop and implement actions that support necessary financial strategies identified in the LRFP. The impacts on The City's financial projections will need to be monitored to de-

termine the effectiveness and any required adjustments to strategies or implementation. Administration will periodically update the LRFP to reflect Council decisions, changes to the economy and internal and external developments that affect The City financially.



The City of Calgary

2021-2032

Long Range Financial Plan

Overview