HALIFAX

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Item No. 03
Committee of the Whole
March 7, 2017

TO: Mayor Savage and Members of Halifax Regional Council

Original Signed by

SUBMITTED BY: ______________________________
John Traves, Acting, Chief Administrative Officer

Original Signed by

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Jane Fraser, Acting Deputy Chief Administrative Officer

DATE: February 27, 2017

SUBJECT: **17/18 and 18/19 Fiscal and Consolidated Accounts**

ORIGIN

As per Administrative Order 1, and the Budget and Business Plan consultation schedule presented in the Information Report of November 22, 2016, staff is required to present the 2017/18 draft Business Unit Budget and Business Plans to the Committee of the Whole for review and discussion prior to consideration by Regional Council.

February 15th, 2017 Committee of the Whole on Budget Options that directed staff to "prepare an analysis of funding alternatives to an increase in the tax rate having regard to taking more operating funds from capital, drawing down on reserves, and an increased use of debt."

LEGISLATIVE AUTHORITY

Halifax Charter, section 35 (1) The Chief Administrative Officer shall (b) ensure that an annual budget is prepared and submitted to the Council.

RECOMMENDATION

It is recommended that the Committee of the Whole direct staff to

1. Proceed to prepare the 2017/2018 Multi-year Fiscal and Consolidated Accounts, including 2018/2019 in principle, as proposed in the accompanying presentation and consistent with the preliminary fiscal direction,
2. Review the approach to Grants during the 2017-18 year,
3. Reduce Capital from Operating by
    a. $1.970m in 2017-18 and
    b. $1.809m in 2018-19, 2019-20, 2020-21, and,
4. Withdraw from Capital Fund Reserve (Q526)
    a. $1.970m in 2017-18 and
    b. $1.809m in 2018-19.

BACKGROUND

In February of 2016 Regional Council directed staff to undertake

> *… in 2017-2018 and the following years, a much broader view that looks at the underlying fiscal and economic assumptions and critical key decisions such as the level of the overall capital budget, debt, tax levels, reserves and the capacity to undertake service enhancements.*

Staff has completed some of the key processes that will help build a much more financially sustainable approach. For the first time there will be a multi-year budget. The first year (2017-2018) will be the formal approved budget. The second year (2018-2019) will be approved in principle and used throughout 2017-2018 as a planning document. Years 3 and 4 provide longer term fiscal direction.

At the December 6, 2016 Committee of the Whole Regional Council considered and confirmed their Council Priority Outcomes and on December 14, 2016 provided fiscal direction for the 17/18 multi-year budget, directing staff to "develop the 2017/18 Multi-year Budget and Business Plans in support of the fiscal direction and approved priorities" including

- *"Maintaining the appropriate level of existing services with the addition of the new services previously approved by Council;*
- *a stable capital budget that maintains state of good repair while also funding growth related issues and service improvements;*
- *a responsible and declining debt position;*
- *appropriate reserve balances that allow for risk mitigation, future obligations and opportunities;*
- *alignment of the current average tax bill for residential homes and commercial properties with all relative economic indicators."*

DISCUSSION

Preparing and finalizing a budget for Halifax is an extensive exercise which includes many iterative steps. Including four critical influences:

1. Operating Budget,
2. Net Capital Budget,
3. Tax Supported Debt, and,
4. Reserves (Net Obligations)

In January and February, there were five Committee of the Whole meeting dedicated to Budget. Each business unit presented proposed budgets that met Council's preliminary fiscal direction. As directed by Council, these were prepared to balance service and tax increases. The Key Assumptions used in preparing the Budget included:

- Average Single Family Homes assessment is up 1.8%
- The Assessment cap is 1.4%
- Commercial Assessment growth is 1.1%
- The average tax bill for single family homes will increase by 1.8% or $33.

	Year 1 2017-18	Year 2 2018-19	Year 3 2019-20	Year 4 2020-21
Real Gross Domestic Product (GDP)	2.5%	1.7%	1.7%	1.2%
Personal Income per Capita	45,207	46,121	47,286	48,449
- Percent Change	2.2%	2.0%	2.5%	2.5%
Consumer Price Index	1.7%	1.9%	2.2%	2.0%
Population (000)	428	433	438	442
Dwelling Units	195,100	196,954	198,782	200,627
Dwelling Units %	1.0%	1.0%	0.9%	0.9%
Change in Single Family Home Taxes	0.0%	0.0%	0.0%	0.0%
Residential Taxes/Income	1.53%	1.49%	1.45%	1.41%
Commercial Taxes/GDP	0.91%	0.88%	0.86%	0.85%
Debt Targets ($000)	245,800	240,700	235,600	230,600
Capital from Operating	43,700	46,300	48,900	51,800

Source: GHP; CBOC; HRM Finance

Based on this information, staff can confirm the 2017-18 proposed tax rates:

Residential	**2016-17**	**2017-18**	**change**
Urban	$0.662	$0.667	*0.005*
Suburban	$0.629	$0.634	*0.005*
Rural	$0.629	$0.634	*0.005*
Commercial	**2016-17**	**2017-18**	**change**
Urban	$2.832	$2.869	*0.037*
Suburban	$2.832	$2.869	*0.037*
Rural	$2.510	$2.542	*0.032*
Transit	**2016-17**	**2017-18**	**change**
Transit	$0.151	$0.146	*-0.005*

Based on Council's direction, these rates will see the average residential tax bill increase by 1.8% and the average commercial tax bill increase by 1.6%.

A number of other tax rates must be set by Regional Council for the 2017/18 fiscal year. These rates are to be set once the amounts are finalized. These tax rates include:

- Supplementary Education
- Fire Protection Charge
- Stormwater Right-of Way Charge
- Provincially Mandated Services:
  - Halifax Regional School Board
  - Correctional Services
  - Property Valuation Services Corporation
  - Metropolitan Regional Housing Authority

Staff noted during the development of the budget that there has been a significant increase in the number of onetime grants. As such, staff are recommending that a review of the approach to grants be taken during the 2017-18 fiscal year.

Funding of Budget Options:

During the Committee of the Whole Budget process, Council reviewed each Business Unit's high level budget and proposed plans in advance of detailed preparation. In an effort to create flexibility within the process, the business unit presentations included options for the Committee's consideration, both above and below Council's Preliminary fiscal direction. Council selected items from the above and below options by formal motion as well as 6 items from base budgets that were originally included to balance. At the February 15 COW, Council considered the $2.6m in options that were on the final list but otherwise outside Council's preliminary fiscal direction. It chose to add options to the final budget that cost $1,969,800 in 2017-18 and 1,808,900 in 2018-19 (See Attachment A). Council thereafter directed staff to "prepare an analysis of funding alternatives to an increase in the tax rate having regard to taking more operating funds from capital, drawing down on reserves, and an increased use of debt."

Debt is typically issued for the funding of asset purchase and construction, not for ongoing operating costs. It would be possible, however, to reduce the organization's contribution to capital from operating in favour of additional debt. The savings from capital to operating could then be redirected to the program costs. There are two serious weaknesses to this approach. First, the organization would have to re-issue additional debt not just once, but in each year that it was operating those programs. Secondly, the debt would have to be re-paid through future operating budgets. Hence, this solution is not sustainable and essentially just pushes the funding requirement forward into future budgets.

Reserves are an option to fund these ongoing costs but only in the short run. Funds are typically placed into reserve for specific uses, some of which extend past the four year planning cycle. There are some resources in reserves that are in excess of current needs and could be used. However, the withdrawals could not be repeated indefinitely. Much like Debt, this is not a sustainable solution.

The most sustainable solutions are either to find new ongoing revenues or reduce other ongoing costs. In terms of revenues, HRM is heavily dependent upon property tax revenues. Roughly 80% of all revenues come through property taxes. Other revenue sources have their own limits, either practical or legal. In the case of property taxation, an additional tax increase of 0.3 cents per $100 of assessment would be sufficient to fund these ongoing program costs of nearly $2m. This would amount to a tax increase on the average single family home of $7.73 in Year 1 and $7.09 in Year 2. This is a sustainable approach, although the tax increase that it requires is in addition to that proposed through Council's preliminary fiscal direction.

The other sustainable approach is to reduce other costs. Regarding the operating budget, Council has already finished its review of current services and wished to enhance, not reduce, operating services. Another option is the capital budget. The Capital Budget has been approved by Council for 2017-18 and 2018-19 although it has not yet been set for future years.

There is another possibility. If Council wishes to fund the program changes it identified, it could use its reserves (vs capital from operating) to support the approved capital budget in 2017-18 and 2018-19 and in future years reduce the capital budget by the amount of the ongoing program costs. In that way it could maintain the approved capital budget, enhance ongoing programs and avoid additional tax increases. It would, however, see a lower capital budget than it had planned in Years 3, 4 and forward.

Therefore, staff is recommending that the most sustainable approach to including these options is to reduce Capital from Operating by an equivalent amount. In 2017-18 and 2018-19 there will be an equivalent reserve withdrawal to offset that reduced funding and maintain the Approved Capital Budget. In Years 3 and 4 funding for the Capital Budget will be reduced with no offsetting reserve withdrawal.

FINANCIAL IMPLICATIONS

Capital from Operating will be reduced in Year 1 by $1,969,800 and in Year 2 by $1,808,900. Withdrawals from the Capital Fund reserve will offset this lost funding, allowing the Approved Capital

Budget to be maintained. The Capital Fund Reserve (Q526) “provides funding for capital projects as identified in the annual budget process”.

The recommendations in this report will lead to the development of a proposed multi-year budget for 2017-18. Other than the change in funding for the Approved Capital Budget, there are no immediate financial implications from these recommendations. The broader financial implications will be discussed and debated as the budget is developed in more detail.

RISK CONSIDERATION

The risk associated with this report is financial to the extent Regional Council approves expenditures over the proposed budget.

COMMUNITY ENGAGEMENT

Public participation was invited throughout the Business Unit presentations during the Committee of the Whole process. In addition, the results of Shape Your City, Public Participation in Budgeting, is detailed in a separate report.

ENVIRONMENTAL IMPLICATIONS

None

ALTERNATIVES

The Committee of the Whole can choose to amend the Budget as proposed in the accompanying presentation through specific motion, and direct staff to proceed to prepare the Budget for inclusion in the proposed HRM Budget and Business Plan documents.

With respect to funding its budget options, Committee of the Whole has two alternatives.

- First, it can revisit the budget options list and reduce or modify it,
- Second, it can increase property taxes by an additional 3/10 cent. This means that the combined urban/transit tax rate of 81.3 cents in 2016-17 will increase to 81.6 cents. The average tax bill for a single family home in the urban area will increase not by the planned $33, but by $40.

ATTACHMENTS

Attachment A – Additions Above Preliminary Fiscal Direction – February 15, 2017 COW
Attachment B - Fiscal and Consolidated Accounts 2017 – 2018 Multi-year Budget Presentation

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A copy of this report can be obtained online at http://www.halifax.ca/council/agendasc/cagenda.php then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 902.490.4210, or Fax 902.490.4208.

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Report and Financial Approval by: Original Signed

Amanda Whitewood, Director of Finance and Information Technology/CFO, 902.490.6308

Attachment A – Additions Above Preliminary Fiscal Direction – February 15, 2017 COW

Strategic Theme	Priority Outcome	Option Description	17/18 Amount	17/18 Avg Bill Impact	18/19 Amount	18/19 Avg Bill Impact
Economic Development	Arts, Culture and Heritage	Halifax Explosion Anniversary	75,000	$0.30	0	$0.00
Economic Development	Promote and Maximize Growth	Increase International Partnership Activity	30,000	$0.12	30,000	$0.12
Economic Development Options	**Percent of All year 1 Options**	**5.3%**	105,000	$0.42	30,000	$0.12
Governance and Engagement	Fiscal Responsibility	False alarm fee increase – fine has not been changed since inception in 1999. Revenues to be split between FICT, Police and Fire	-350,000	-$1.37	-350,000	-$1.37
Governance and Engagement	Fiscal Responsibility	Eliminate Employee Discount*	15,000	$0.06	15,000	$0.06
Governance and Engagement	Fiscal Responsibility	Increase Streets Re-Cap Resources				
Governance and Engagement	Fiscal Responsibility	Structural alterations to CAO Reporting Structure	-300,000	-$1.17	-300,000	-$1.17
Governance and Engagement	Municipal Governance	Additional Resources for the Access to Information Office	60,000	$0.23	60,000	$0.23
Governance and Engagement Options	**Percent of All year 1 Options**	**-29.2%**	-575,000	-$2.25	-575,000	-$2.25
Healthy, Livable Communities	Public Safety	Police Board request over Fiscal direction	553,800	$2.17	850,400	$3.33
Healthy, Livable Communities	Recreation and Leisure	Upgrades to the Library Collection	250,000	$0.98	250,000	$0.98
Healthy, Livable Communities	Community Health	Spay and Neuter Program (Added by Regional Council Jan 24th)	50,000	$0.20	50,000	$0.20
Healthy, Livable Communities	Recreation and Leisure	Reduce Mowing Area	-30,000	-$0.12	-30,000	-$0.12
Healthy, Livable Communities	Recreation and Leisure	Improved Park/Field Maintenance	500,000	$1.96	500,000	$1.96
Healthy, Livable Communities	Recreation and Leisure	Increase Contributions to Community Facilities	65,000	$0.25	65,000	$0.25
Healthy, Livable Communities	Recreation and Leisure	Jumpstart- Eliminate Funding and Staff Wages*	146,000	$0.57	146,000	$0.57
Healthy, Livable Communities	Recreation and Leisure	Increase Artificial Turf Fee*	81,000	$0.32	81,000	$0.32
Healthy, Livable Communities	Recreation and Leisure	Reduce Parks State of Good Repair*	76,000	$0.30	18,500	$0.07

Healthy, Livable Communities	Recreation and Leisure	Remove Monitors On All- Weather Fields*	60,000	$0.23	60,000	$0.23
Healthy, Livable Communities	Recreation and Leisure	Rationalize 8-10 Parks/Fields/Year	0	$0.00	-80,000	-$0.31
Healthy, Livable Communities Options	**Percent of All year 1 Options**	**88.9%**	1,751,800	$6.86	1,910,900	$7.48
Our People	Culture	Employee Engagement Survey	60,000	$0.23	0	$0.00
Our People	Leadership	Corporate Learning & Development Program expansion	100,000	$0.39	100,000	$0.39
Our People	Talent	Bridging the Gap 20 - 15 positions	-300,000	-$1.17	-300,000	-$1.17
Our People Options	**Percent of All year 1 Options**	**-7.1%**	-140,000	-$0.55	-200,000	-$0.78
Service Delivery	Service to Our People	Public Technology Upgrades	300,000	$1.17	300,000	$1.17
Service Delivery	Service to Our People	Shift Optimization for the Citizen Contact Centre - 311	-122,000	-$0.47	-122,000	-$0.47
Service Delivery Options	**Percent of All year 1 Options**	**9.0%**	178,000	$0.70	178,000	$0.70
Social Development	Equity and Inclusion	Implement French Translation Services for Municipal PSA’s	100,000	$0.39	100,000	$0.39
Social Development	Equity and Inclusion	Increase CAO - GREA budget by $60K for diversity and inclusion for African and Aboriginal communities engagement	60,000	$0.23	60,000	$0.23
Social Development	Housing and Neighborhoods	Develop poverty reduction strategy	50,000	$0.20	0	$0.00
Social Development	Social Infrastructure	Reduce Volunteer Support Services*	125,000	$0.49	145,000	$0.57
Social Development Options	**Percent of All year 1 Options**	**17.0%**	335,000	$1.31	305,000	$1.19
Transportation	A safe and accessible transportation network	Low Income Transit Pass Program (Added by Regional Council Feb 7th)	160,000	$0.63	160,000	$0.63
Transportation	Interconnected and Strategic Growth	Alderney Ferry service extension (17/18)	155,000	$0.61		
Transportation Options	**Percent of All year 1 Options**	**16.0%**	315,000	$1.24	160,000	$0.63
		Total Estimated Increase in Tax Payable for the Average Home	**1,969,800**	**$7.73**	**1,808,900**	**$7.09**

Attachment B

Fiscal and Consolidated Accounts Multi-Year Budget & Business Plan

Committee of the Whole on Budget

March 7, 2017

Overview

- What is Fiscal Services?
- Overview and Link to Preliminary Fiscal Framework & Priorities
- Key Features:
  - Revenues – Assessment and Taxes
  - Expenditures – Grants and Tax Relief
  - COW Budget Options – Funding Strategies
- Council's Direction – Questions and Answers
- Appendix:
  - Debt
  - Capital from Operating
  - Reserves
  - Operating Cost of Capital (OCC)
  - Other Revenues and Expenses

Recommendations

1. Proceed to prepare the 2017/2018 Multi-year Fiscal and Consolidated Accounts, including 2018/2019 in principle, as proposed in the accompanying presentation and consistent with the preliminary fiscal direction,
2. Review the approach to Grants during the 2017-18 year,
3. Reduce Capital from Operating by
    - $1.970m in 2017-18 and
    - $1.809m in 2018-19, 2019-20, 2020-21, and,

   Withdraw from Capital Fund Reserve (Q526)
    - $1.970m in 2017-18 and
    - $1.809m in 2018-19.

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What is Fiscal Services?

- Not a Business Unit, no services or initiatives per se.
- Organization wide costs and revenues that are not fully allocated to Business Units, including:
  - Property and Other Taxes
  - Non-departmental revenues
  - Private Roads, other Area Rates
  - Debt Charges
  - Capital from Operating
  - Reserves
  - Provincial Mandatory Costs
  - Supplementary Education
  - Contingencies for Compensation
  - Intern Program, Other Compensation costs
  - Grants and Tax Relief
  - Valuation Allowance
  - Insurance

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Assumptions for Next Four Years

	Year 1 2017-18	Year 2 2018-19	Year 3 2019-20	Year 4 2020-21
Real Gross Domestic Product (GDP)	2.5%	1.7%	1.7%	1.2%
Personal Income per Capita	45,207	46,121	47,286	48,449
- Percent Change	2.2%	2.0%	2.5%	2.5%
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Source: GHP; CBOC; HRM Finance

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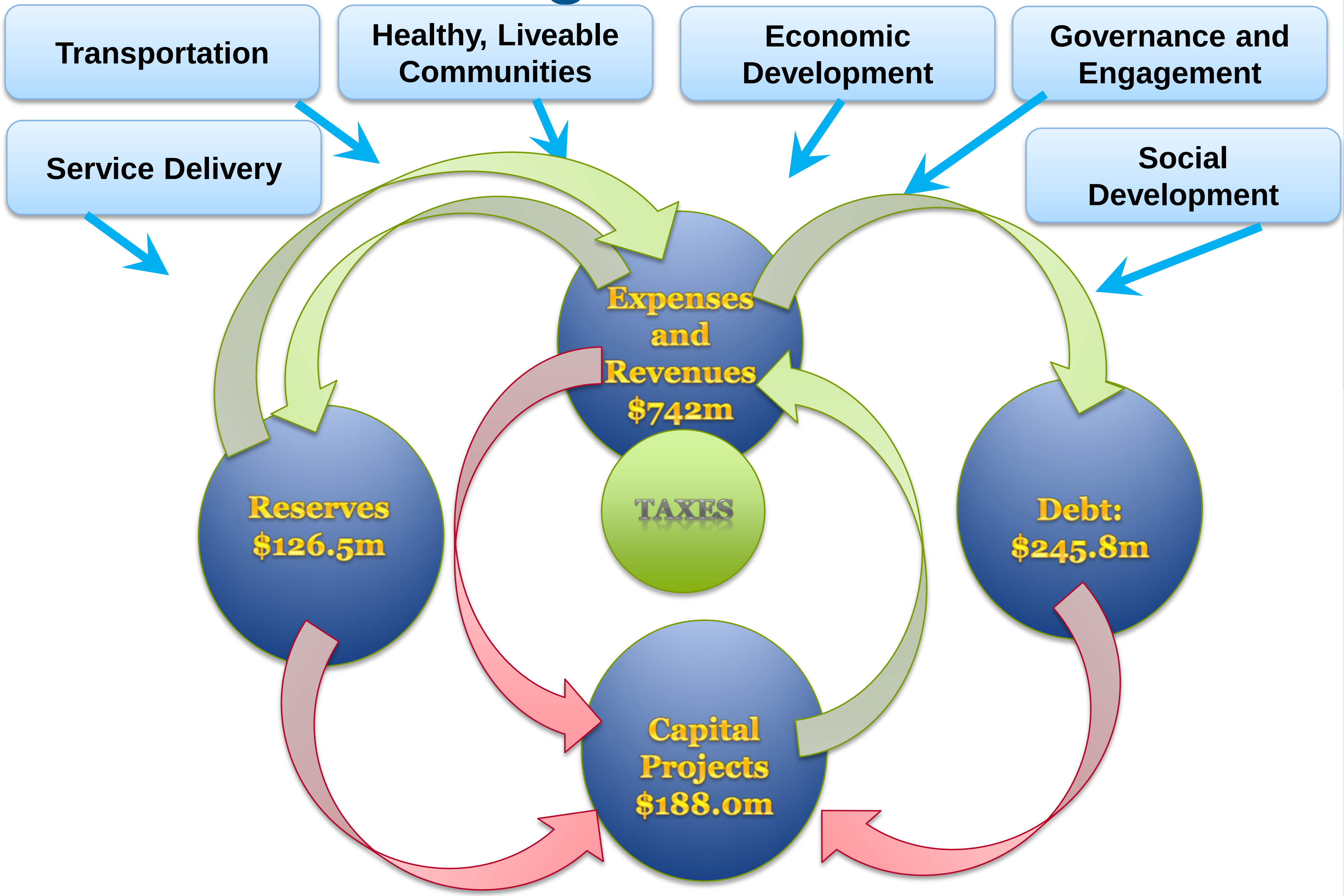
The HRM Budget – 2017-18



The 7 Key Council Decisions

Operating Budget

1. **Taxes** – Should taxes rise, fall or stay the same?
2. **Services (Existing)** – How can value be optimized?
3. **Services (New)** – Will new services be funded?

Capital Budget

4. **Capital Budget** – How much should be invested in State of Good Repair, Growth and Service Improvements?
5. **Capital from Operating** – How much should HRM pay down on the Capital Budget?

Debt

6. **Debt** – What level of debt does HRM wish to approve?

Reserves

7. **Reserves** – What reserve balances does HRM expect?

Municipal Expenditures

	2016-17 Base Year	2017-18 Proposed	2018-19 Proposed
Gross Expenditures	872,838,100	894,893,900	921,465,300
Less: Mandatory Expenditures	-148,831,900	-152,843,200	-157,777,000
Municipal Expenditures	**$724,006,200**	**$742,050,700**	**$763,688,300**

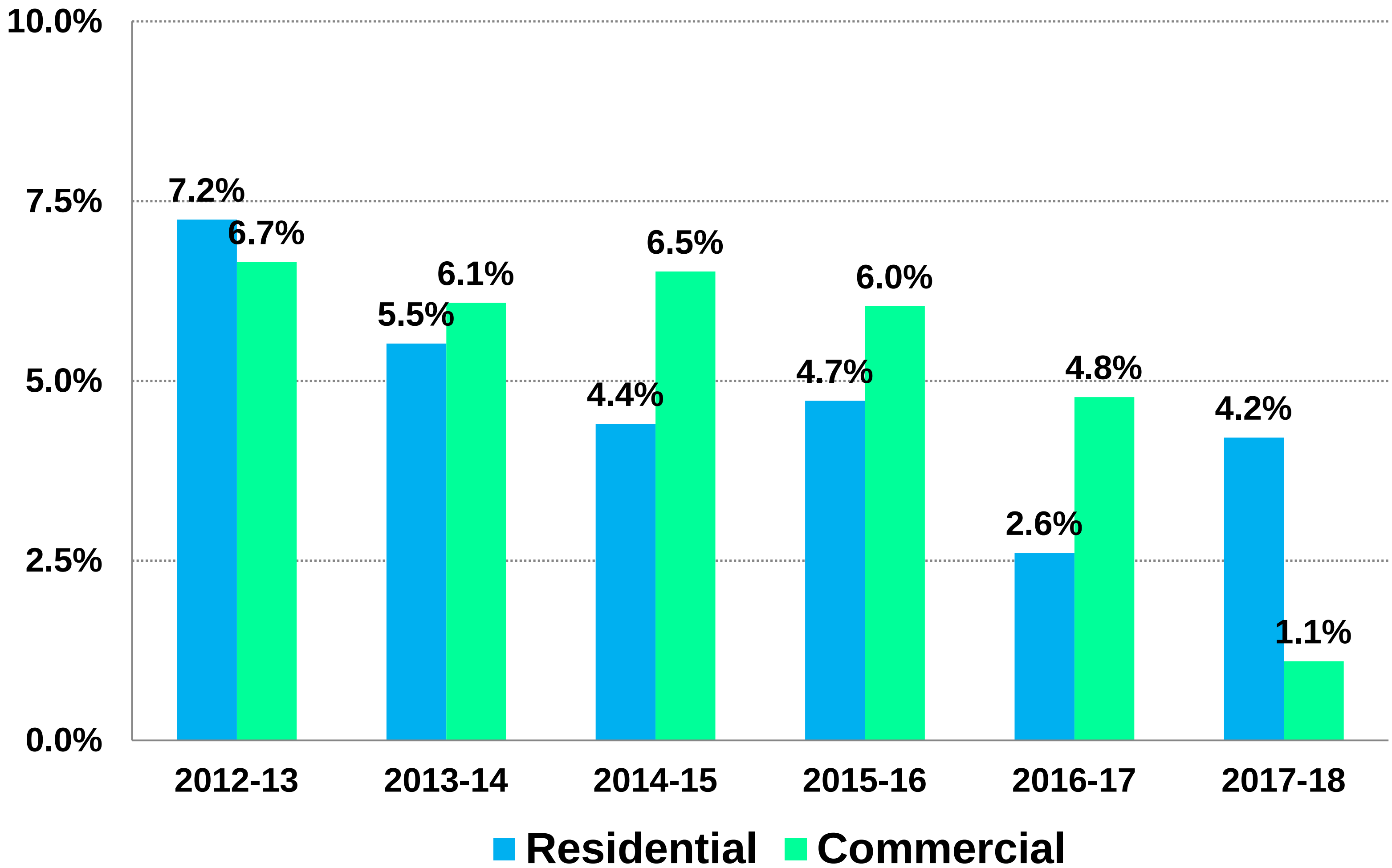
Note: Some costs and revenues will be moved from fiscal services into Business Unit budgets before the final budget is presented to Regional Council.

Revenues

Cost Elements Groups Revenues	2016 Budget Base Year	2017 Budget Proposed	2018 Budget Proposed
Tax Revenue	-445,037,700	-462,064,600	-481,499,200
Area Rate Revenue	-23,917,200	-21,803,400	-22,227,700
Tax Agreements	-10,358,500	-10,953,300	-10,983,000
Payments in Lieu of taxes	-37,509,000	-38,804,000	-39,384,000
Transfers from other Governments	-3,700,000	-3,700,000	-3,772,000
Interest Revenue	-6,806,900	-7,099,200	-7,309,000
Fee Revenues	-4,575,000	-4,612,700	-4,649,700
Other Revenue	-19,617,100	-18,862,000	-18,585,500
Fiscal Services Total	**-$551,521,400**	**-$567,899,200**	**-$588,410,100**
Business Unit Expenditures	-172,484,800	-174,151,500	-175,278,200
Municipal Total	**-$724,006,200**	**-$742,050,700**	**-$763,688,300**

Note: Some costs and revenues will be moved from fiscal services into Business Unit budgets before the final budget is presented to Regional Council.

Annual Assessment Changes



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Average Assessment and Tax Rates Preliminary Estimates

			Year 1	
	2015-16	2016-17	2017-18	
Average Assessment (Single Family Home)	223,700	226,500	230,500	
* Urban Tax Rate	0.820%	0.813%	0.813%	
Average Tax Bill	**$1,835**	**$1,841**	**$1,874**	$33 or 1.8%

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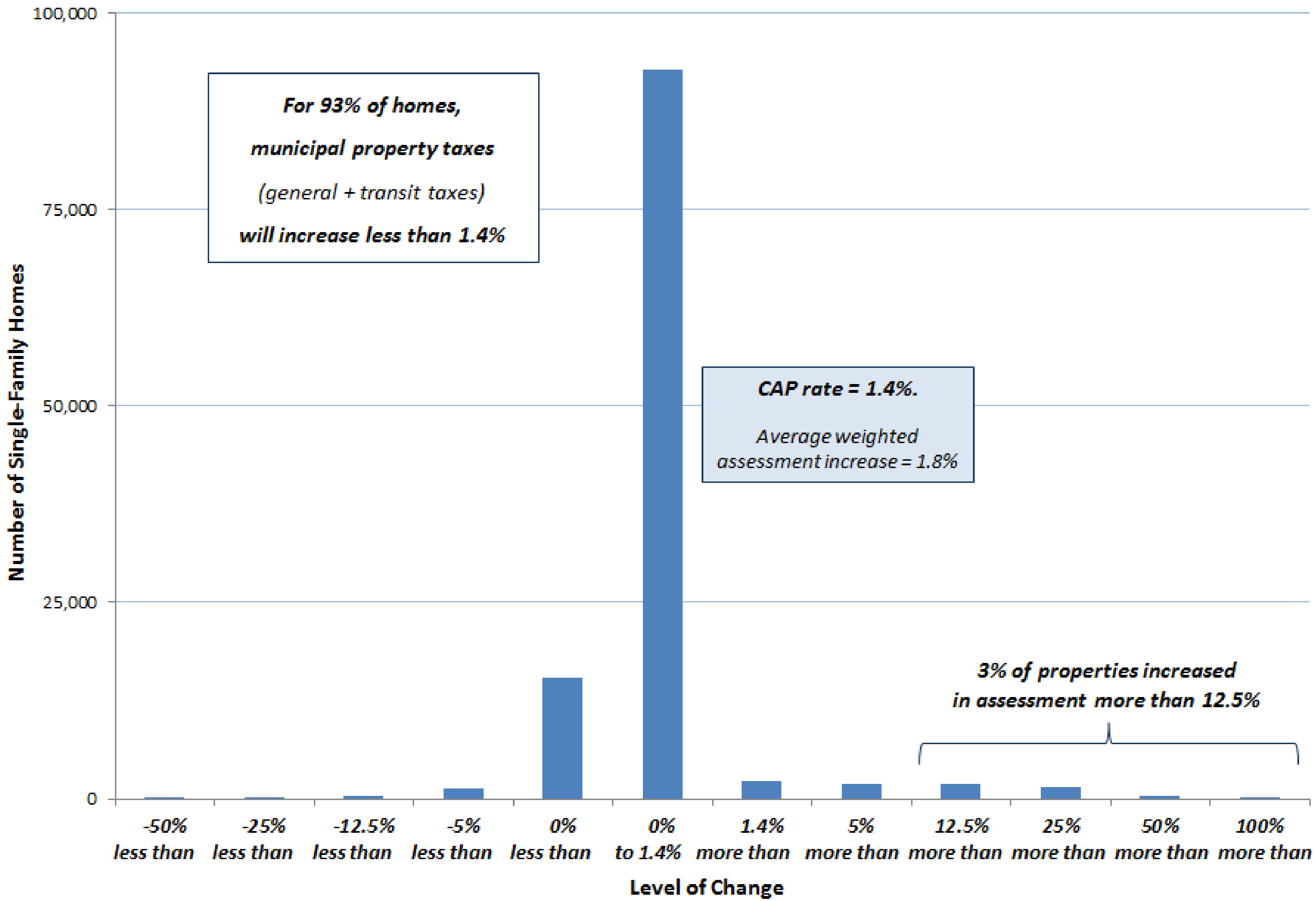
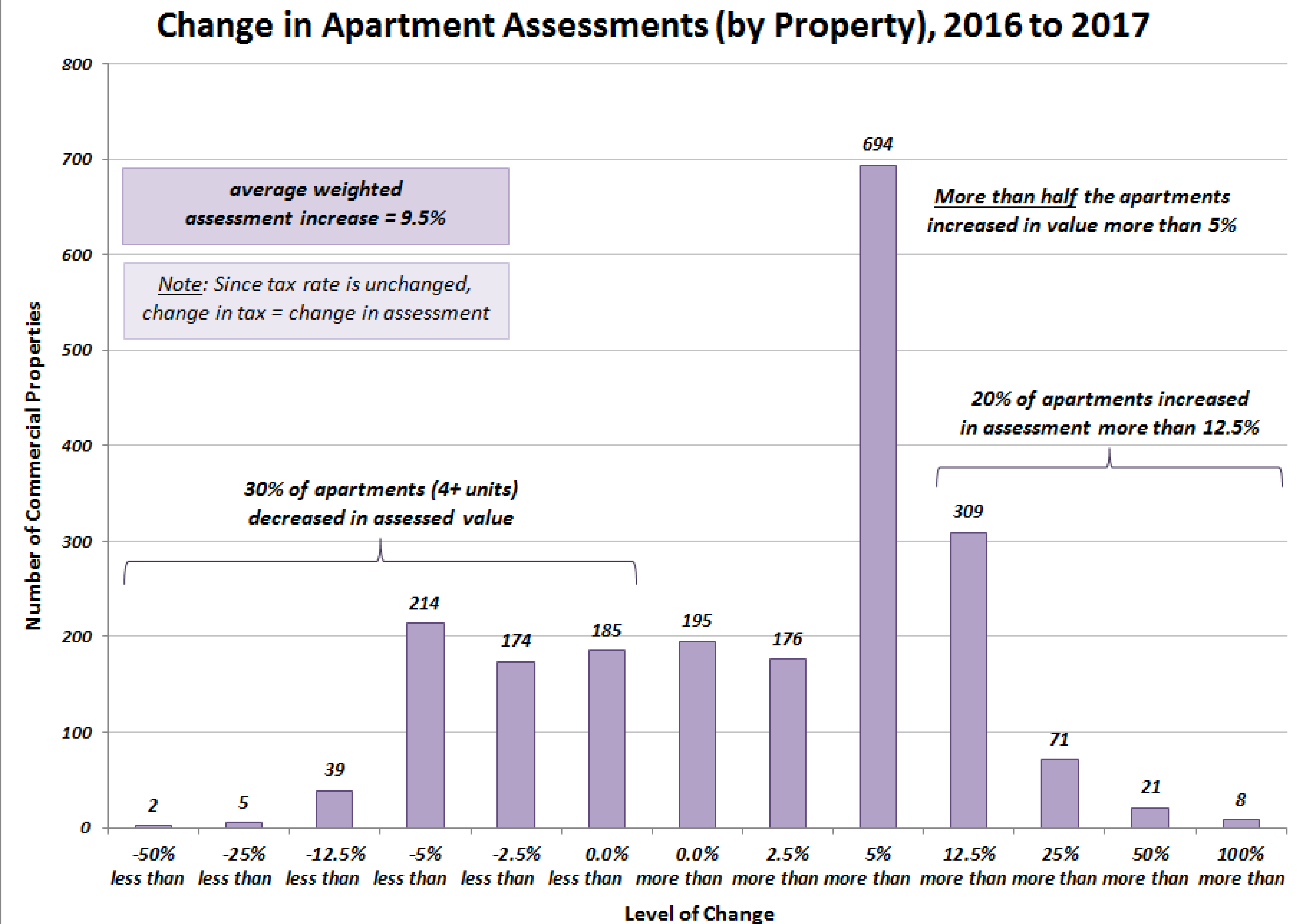
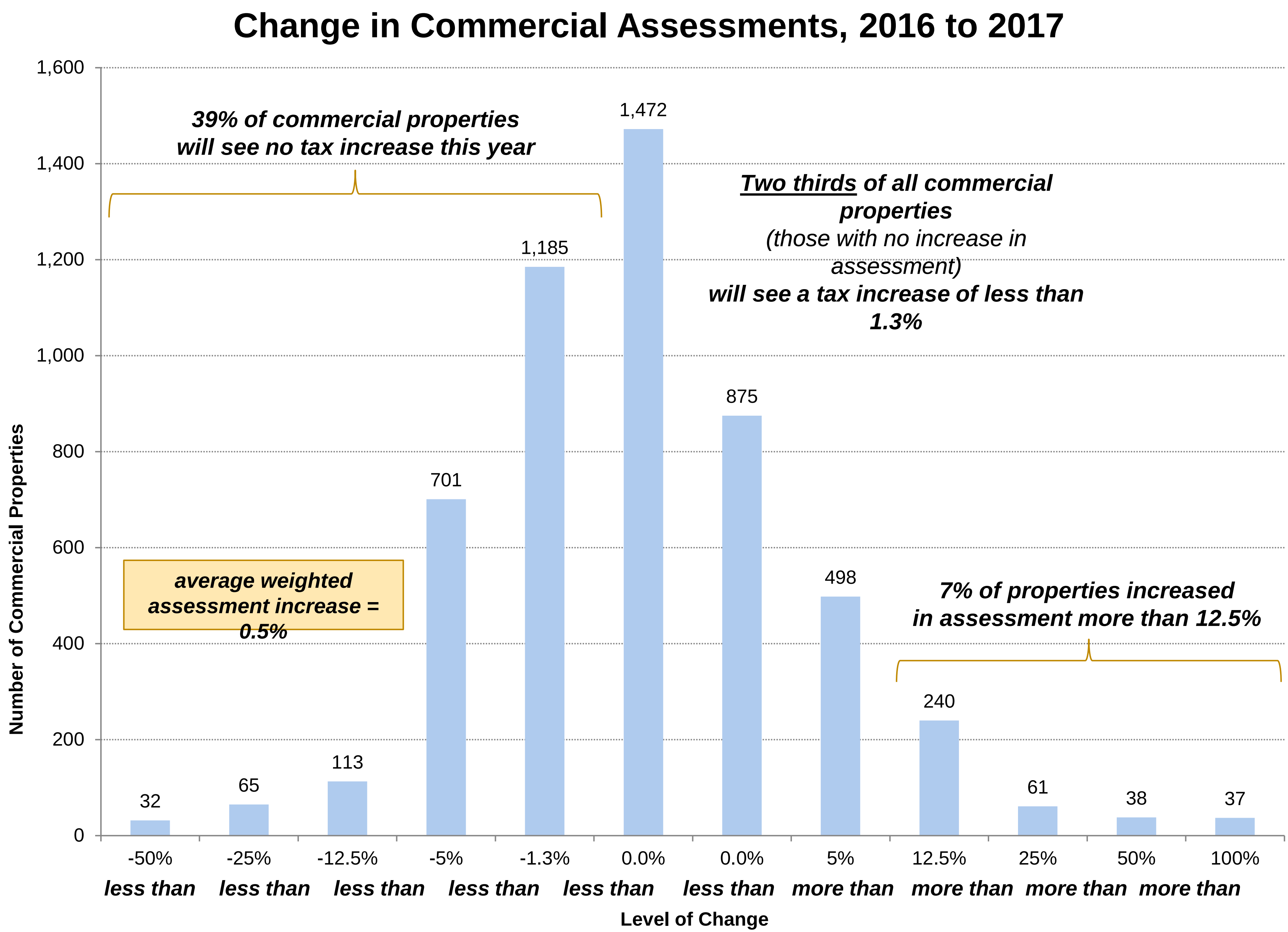
Change in Single-Family Home Assessments, 2016 to 2017





Change in Apartment Assessments (by Property), 2016 to 2017
Number of Commercial Properties
800
700
600
500
400
300
200
100
0
average weighted assessment increase = 9.5%
Note: Since tax rate is unchanged, change in tax = change in assessment
More than half the apartments increased in value more than 5%
20% of apartments increased in assessment more than 12.5%
30% of apartments (4+ units) decreased in assessed value
2
5
39
214
174
185
195
176
694
309
71
21
8
-50% less than
-25% less than
-12.5% less than
-5% less than
-2.5% less than
0.0% less than
0.0% more than
2.5% more than
5% more than
12.5% more than
25% more than
50% more than
100% more than
Level of Change



Change in Commercial Assessments, 2016 to 2017
39% of commercial properties will see no tax increase this year
Two thirds of all commercial properties (those with no increase in assessment) will see a tax increase of less than 1.3%
average weighted assessment increase = 0.5%
7% of properties increased in assessment more than 12.5%
Number of Commercial Properties
1,600
1,400
1,200
1,000
800
600
400
200
0
32
65
113
701
1,185
1,472
875
498
240
61
38
37
-50% less than
-25% less than
-12.5% less than
-5% less than
-1.3% less than
0.0% less than
0.0% more than
5% more than
12.5% more than
25% more than
50%
100%
Level of Change

Tax Rate Changes

Residential	2016-17	2017-18	change
• Urban	$0.662	$0.667	*0.005*
• Suburban	$0.629	$0.634	*0.005*
• Rural	$0.629	$0.634	*0.005*
Commercial	2016-17	2017-18	change
• Urban	$2.832	$2.869	*0.037*
• Suburban	$2.832	$2.869	*0.037*
• Rural	$2.510	$2.542	*0.032*
Transit	2016-17	2017-18	change
• Transit	$0.151	$0.146	-*0.005*

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Other Tax Rates

- **Stormwater Right-of-Way Charge**
  - *By-Law under development*
- **Supplementary Education**
  - *MOU to expire March 31, 2017, Direction required.*
  - *Council to set Area Rate, after MOU finalized*
- **Fire Protection –** *$7.5M*
- **Provincial Area Rates**
  - Final amounts not official, will be set as an Area Rate:
    - *Halifax Regional School Board $135.4M*
    - *Correctional Services $6.7M*
    - *Property Valuation (PVSC) $7.0M*
    - *Metropolitan Regional Housing Authority $3.5M*

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Expenses

Cost Elements Groups Expenditures	2016-17 Base Year	2017-18 Proposed	2018-19 Proposed
Compensation and Benefits	14,193,700	18,494,600	27,231,200
Office	17,800	0	0
External Services	1,230,300	350,000	1,029,000
Supplies	5,800	0	0
Building Costs	122,950	0	0
Equipment & Communications	15,600	0	0
Other Goods & Services	2,079,050	8,172,401	12,604,700
Interdepartmental	140,000	141,000	145,000
Debt Service	45,495,100	43,281,600	45,465,800
Grants	569,000	1,039,000	769,000
Tax Relief	5,655,000	6,555,000	6,570,000
Reserves	21,617,200	20,439,600	18,672,600
Capital from Operating	32,280,000	27,340,200	31,391,100
Other Fiscal	36,747,700	40,073,300	41,493,000
Fiscal Services Total	**$160,169,200**	**$165,886,701**	**$185,371,400**
Business Unit Expenditures	563,837,000	576,164,000	578,316,900
Municipal Total	**$724,006,200**	**$742,050,700**	**$763,688,300**

Note: Some costs and revenues will be moved from fiscal services into Business Unit budgets before the final budget is presented to Regional Council.

Grants and Tax Relief

- **Grants**
  - Significant number of one-time grants are occurring outside of approved grant programs.
  - **Approach: Review approach to Grants**
- **Tax Relief (non-profit)**
  - Major inconsistencies across the existing program:
    - Still waiting for legislative changes from Province.
    - Difficult to deal with new requests
    - Some tax relief is in excess of that allowed under Charter.
    - Staff to review in 2017-18: Modify program as much as possible. Unless Charter is amended may have to increase non-profit taxes.

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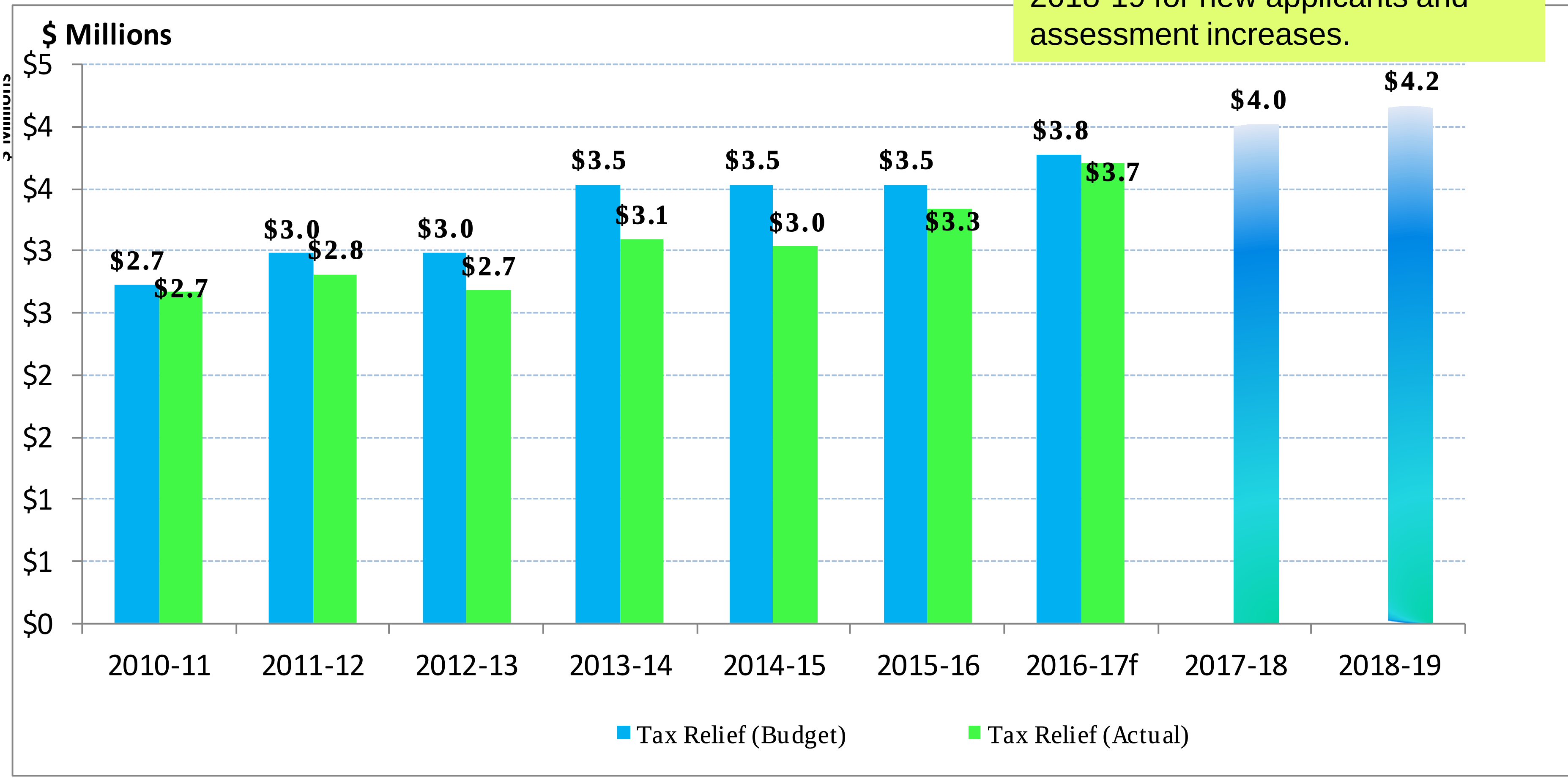
Grants

	2016-17 (actuals)	2017-18	2018-19
Grant Programs:			
Community Grants Program	463,000	500,000	500,000
Halifax Explosion 100	76,000	-	-
District Activity Grants	69,000	69,000	69,000
Sub-Total	**608,000**	**569,000**	**569,000**
"One-Off" Grants by Resolution:			
Tennis Canada (Reserve)	-	2,500,000	-
Lake District Rec Association	-	50,000	50,000
100 Wild Islands	-	150,000	150,000
FCM (Reserve)	-	500,000	-
Neptune	-	50,000	-
Lake Loon Cherry Brook Devel Assoc (LLCBDA)		170,000	-
Atlantic Agricultural Fall Fair	20,000		
Citadel Army Museum	25,000	-	-
Engage NS	50,000	-	-
Sub-Total	**95,000**	**3,420,000**	**200,000**

Note: Excludes grants outside fiscal services.

Non-Profit Tax Relief

Additional budget in 2017-18 and 2018-19 for new applicants and assessment increases.



COW Budget Options - Feb 15, 2017

Strategic Theme	17/18 Amount	Percent	17/18 Avg Bill Impact	18/19 Amount	Percent	18/19 Avg Bill Impact
Economic Development	105,000	5.3%	$0.42	30,000	1.7%	$0.12
Governance and Engagement	-575,000	-29.2%	-$2.25	-575,000	-31.8%	-$2.25
Healthy, Livable Communities	1,751,800	88.9%	$6.86	1,910,900	105.6%	$7.48
Our People	-140,000	-7.1%	-$0.55	-200,000	-11.1%	-$0.78
Service Delivery	178,000	9.0%	$0.70	178,000	9.8%	$0.70
Social Development	335,000	17.0%	$1.31	305,000	16.9%	$1.19
Transportation	315,000	16.0%	$1.24	160,000	8.8%	$0.63
Total	**$1,969,800**	**100%**	**$7.73**	**$1,808,900**	**100%**	**$7.09**

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Funding Strategies

- Proposed program increases are permanent in nature and will require a sustainable solution:
  - Decrease other operating programs,
  - Decrease capital budget,
  - Increase property taxes.
- Changes to debt and reserves are not in themselves sustainable over time.
  - Debt increases operating costs (debt charges)
  - Reserves have dedicated long-term uses
- If Council wishes to avoid tax increases, most effective solution is to reduce Capital from Operating, and hence Capital Budget.
  - **Approach: Permanently reduce Capital from Operating. Maintain Capital Budget in Years 1 and 2 (reserve withdrawals) and reduce Capital Budget in Years 3 and 4.**

Recommendations

1. Proceed to prepare the 2017/2018 Multi-year Fiscal and Consolidated Accounts, including 2018/2019 in principle, as proposed in the accompanying presentation and consistent with the preliminary fiscal direction,
2. Review the approach to Grants during the 2017-18 year,
3. Reduce Capital from Operating by
    - $1.970m in 2017-18 and
    - $1.809m in 2018-19, 2019-20, 2020-21, and,

   Withdraw from Capital Fund Reserve (Q526)
    - $1.970m in 2017-18 and
    - $1.809m in 2018-19.

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Overview

- What is Fiscal Services?
- Overview and Link to Preliminary Fiscal Framework & Priorities
- Key Features:
  - Revenues – Assessment and Taxes
  - Expenditures – Grants and Tax Relief
  - COW Budget Options – Funding Strategies
- Council's Direction – Questions and Answers
- Appendix:
  - Debt
  - Capital from Operating
  - Reserves
  - Operating Cost of Capital (OCC)
  - Other Revenues and Expenses

Appendix

Capital from Operating

- Strategy is to shift funding from debt to capital from operating.
- Targets:
  - Outstanding Debt per dwelling unit declines 3% per year.
  - Capital from Operating per dwelling unit increases 3% + CPI per year
- State of Good Repair is 67% of the total Capital Budget. The goal is to use Capital from Operating for all State of Good Repair:
  - 2016 State of Good Repair (net) $65.6m
  - 2016 Capital from Operating $38.9m

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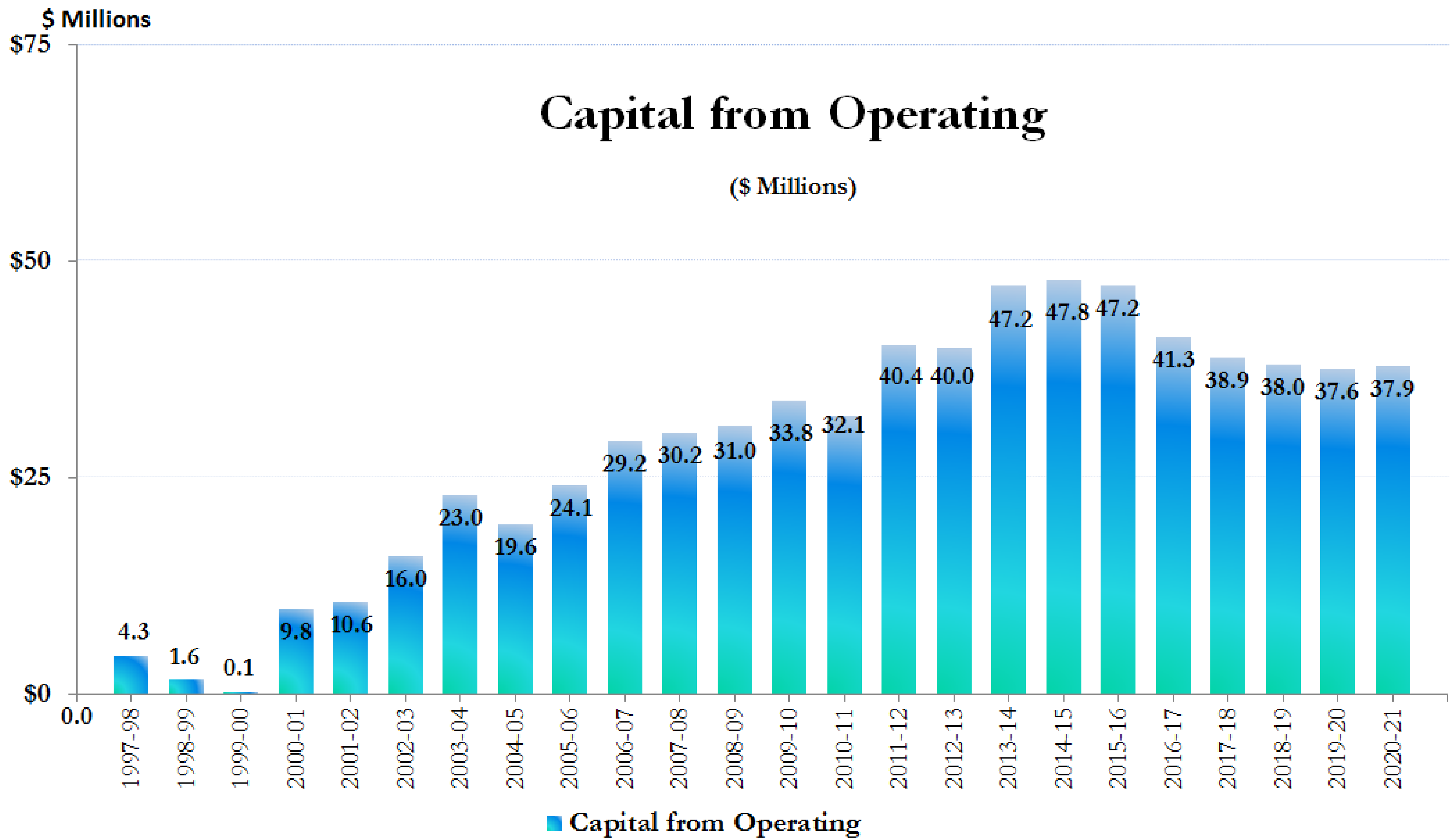

$ Millions
$75
Capital from Operating
($ Millions)
$50
$25
$0
0.0
4.3
1.6
0.1
9.8
10.6
16.0
23.0
19.6
24.1
29.2
30.2
31.0
33.8
32.1
40.4
40.0
47.2
47.8
47.2
41.3
38.9
38.0
37.6
37.9
1997-98
1998-99
1999-00
2000-01
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2003-04
2004-05
2005-06
2006-07
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2013-14
2014-15
2015-16
2016-17
2017-18
2018-19
2019-20
2020-21
Capital from Operating

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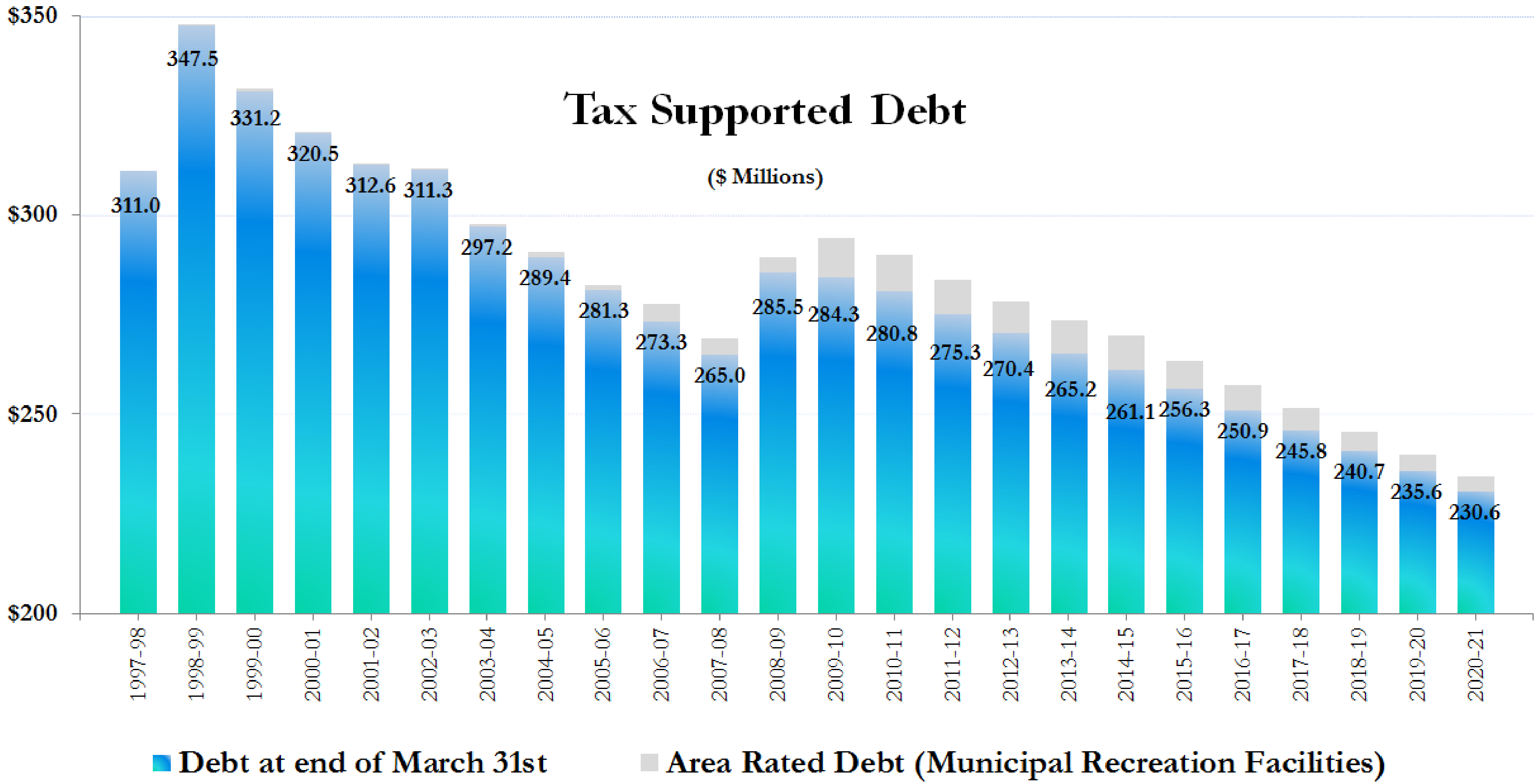
Debt

- HRM budgets for both Principle and Interest costs
- Debt is simply a financial tool.
  - Low Debt may mean
    - Assets are deteriorating
    - Cost of maintaining assets are increasing
    - We may lose out on opportunities.
  - High Debt may place financial pressure on future tax rates.
    - Creates risk and uncertainty
    - Rating Agency concerns
- HRM has capacity to borrow, however
  - Future debt payments will put pressure on taxes



Debt includes funding that is approved, issued and work-in-progress (WIP) as of March 31st year-end.

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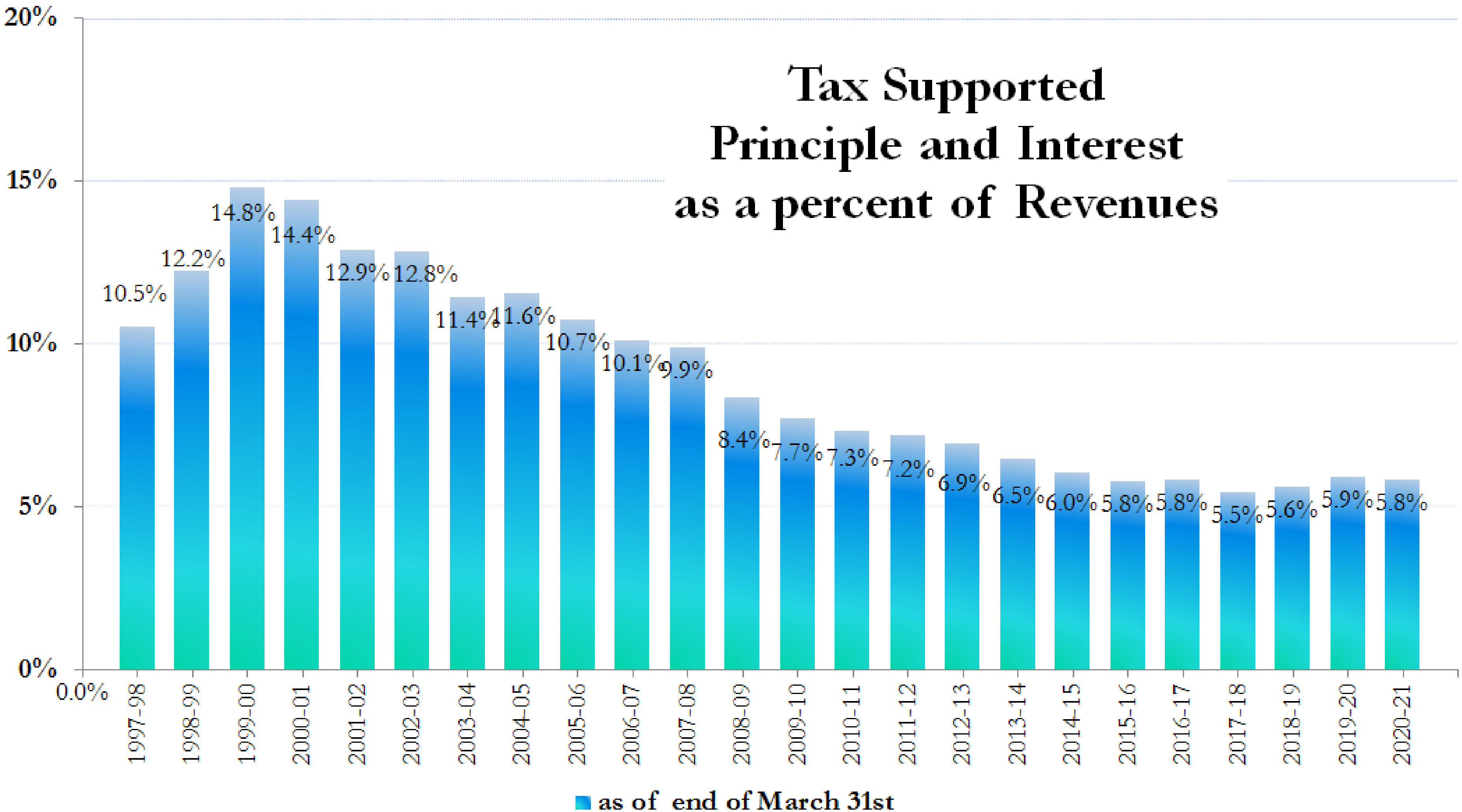

Tax Supported
Principle and Interest
as a percent of Revenues
20%
15%
10%
5%
0%
0.0%
10.5%
12.2%
14.8%
14.4%
12.9%
12.8%
11.4%
11.6%
10.7%
10.1%
9.9%
8.4%
7.7%
7.3%
7.2%
6.9%
6.5%
6.0%
5.8%
5.8%
5.5%
5.6%
5.9%
5.8%
1997-98
1998-99
1999-00
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14
2014-15
2015-16
2016-17
2017-18
2018-19
2019-20
2020-21
as of end of March 31st

Reserves

- The Gross balance of Reserves is $190.5m (as of December 31, 2016). The Net Available balance is projected to be $99.4 million (as of March 31, 2017).

- HRM has 20 reserves, with Council approved business cases. There are three categories of reserves:

  - To offset **<u>Risk</u>**:
    - Net Available - $14.8m (projected for March 31st, 2017)
    - Eg, Operating Stabilization
    - Eg, General Contingency

  - To save for Future **<u>Obligations</u>**:
    - Net Available - $33.3m (projected for March 31st, 2017)
    - Eg, Landfill Closure/Post Closure
    - Eg, Building Recapitalization and Replacement

  - To provide for **<u>Opportunity</u>**:
    - Net Available - $51.2m (projected for March 31st, 2017)
    - Eg, Strategic Capital Reserve,
    - Eg, Business/Industrial Parks Expansion

- Withdrawals from reserves must be approved by Council.

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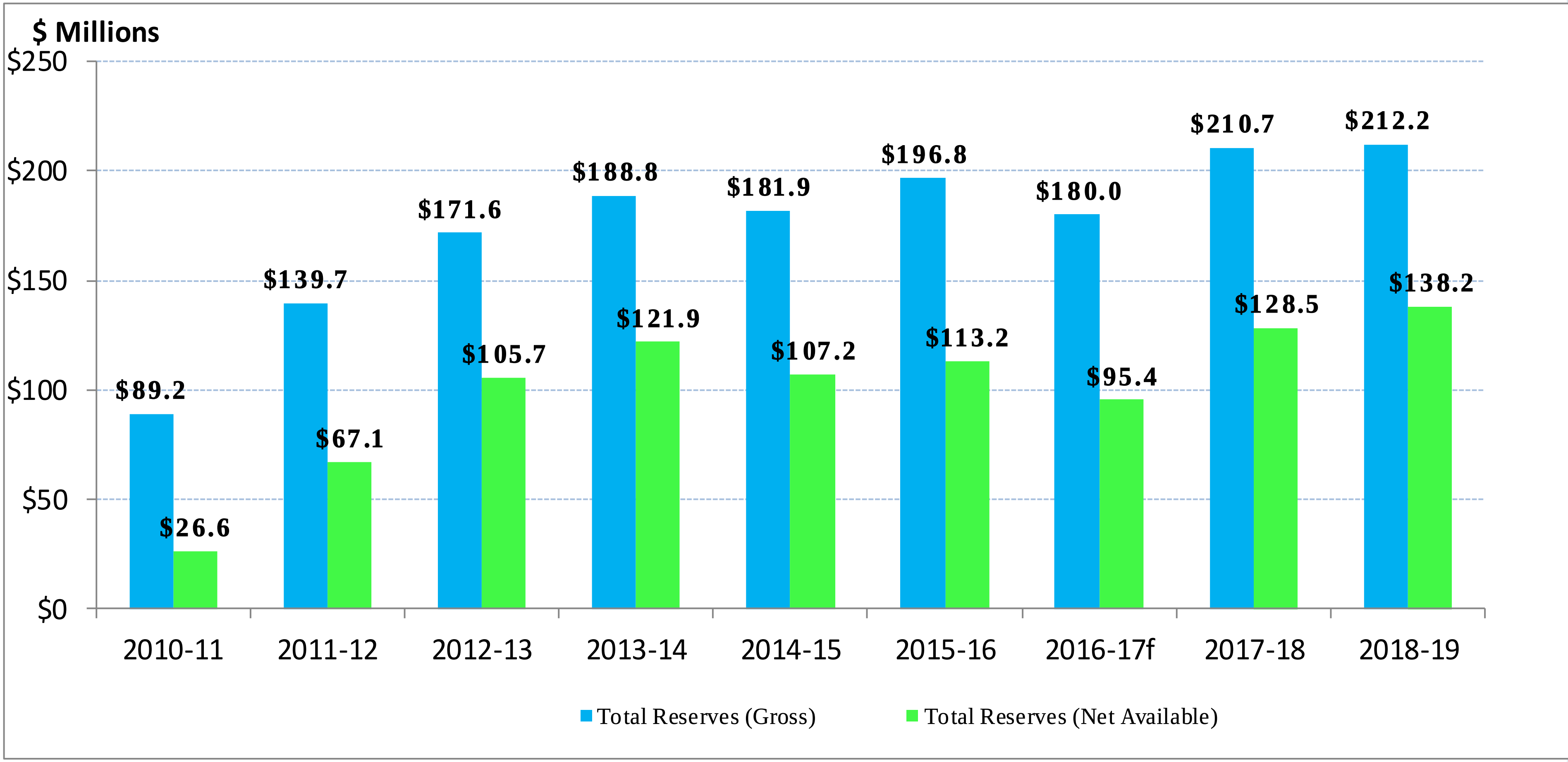
Reserves – Available Balances



The available balance for opportunity reserves includes a portion of the funding for large strategic projects such as LED Lights, Forum revitalization, Downtown streetscapes.

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Expanded Services – Operating Cost of Capital

Business Unit:		2017/2018	2018/2019
TPW	Ongoing	91,800	218,000
Roads & Transportation	Ongoing	361,600	689,100
P & D	Implementation	147,000	302,400
Buildings	Ongoing	59,400	239,400
Parks and Playgrounds	Ongoing	197,700	304,700
Operations Support	Ongoing	225,000	270,600
FICT	Ongoing	2,314,400	4,422,800
Total		**$ 3,396,900**	**$ 6,447,000**

Note: Upon completion of the capital project, the OCC funds will be moved from fiscal services into the Business Unit budget. Halifax Transit's budget includes estimated OCC.

Other Revenues and Expenses

- **Deed Transfer Tax**
  - Increases $1m in 2017-18 and $2m in 2018-19
- **Irving Shipbuilding (ISI) Tax Agreement**
  - Increased tax revenues of $380,000 in 2017-18
- **Halifax Convention Centre (HCC)**
  - Expected to open in 2017-18
  - HRM Responsible for 50% of costs at “substantial completion”
  - Commercial Tax from entire Nova Centre placed into reserve to fund Convention Centre.
  - Budgeted cost for 2017-18 is $5.6m. Funded from Convention Centre reserve.

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