

HALIFAX

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Item No. 3

**Budget Committee
December 13, 2017**

TO: Chair and Members of Budget Committee (Standing Committee of the Whole on Budget)

Original Signed by 

SUBMITTED BY:

Jacques Dubé, Chief Administrative Officer

DATE: December 5, 2017

SUBJECT: Fiscal Direction

ORIGIN

The fiscal direction from Council for the 2018-19 Budget and Business Plans needs to be established.

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 staff revise the 2018-2019 Budget according to Council's approved priorities, and preliminary fiscal direction, 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 at a 1.9% increase, and that

Regional Council approve the "Advanced Tender Project List" in Appendix A.

BACKGROUND

In December of 2017 Regional Council set direction for its four year financial framework. As part of that direction Regional Council approved the 2017-18 Operating and Capital Budgets and, for the first time, approved a Year Two Operating Budget “in principle” (for 2018-19). This “in principle” budget was established to budget quality but was meant to be updated for changes in assumptions and circumstances. It included a draft 1.6% tax increase and also the second year costs of the service increases approved by Regional Council in Year One (Over/Under Process). It remains subject to full Council review including any additions, deletions and any other changes.

The 2018-2019 in principle Operating Budget was used throughout 2017-2018 as a planning document but also helped shorten the administrative burden around preparing the annual budget. The general approach by staff to reviewing it is to look at those assumptions that have changed in the six months that it was passed by Regional Council.

As part of the annual budget and business planning process, Council has already started a dialogue on priorities and outcomes. Commencing in January 2018 Council will begin the review of individual budgets and plans for the upcoming fiscal year. The first stage of this process, however, consists of providing broad direction to staff on the underlying assumptions for taxation and fiscal items. These assumptions, in turn, will influence the available funds for each of the services and projects the municipality is able to undertake in 2018-19 and future years.

DISCUSSION

Preparing and finalizing a budget for Halifax is an extensive exercise which includes many iterative steps. There is tremendous demand for new and improved services; the maintenance of existing services; extension of current services to new homes and businesses; and, the ongoing maintenance of \$3.4 billion in municipal assets. Balanced against this is the need to set appropriate tax levies on homeowners, businesses and others. The revenues from these rates allow for the provision of these services. Regardless, the proposed tax levy must be balanced against the value to society of those services, the ability of taxpayers to pay for those items, and the broad competitiveness that the mix of services and taxes will support.

Staff have identified four critical influences that affect the municipality’s fiscal situation. These four key influences are:

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

Within these four critical influences there are seven key decisions that Council will have to provide direction on to staff:

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. 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?

Tax Supported Debt

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

Reserves

7. What reserve balances does HRM expect?

Economic and Financial Assumptions

The Halifax economy is generally a stable economy that shows consistent yet moderate growth. That growth is supported by a mixture of a strong public sector employment and by a considerable presence of finance, insurance and real estate sectors. In order to prepare an updated scenario for 2018-19, staff have reviewed the recent economic forecasts from organizations such as the Conference Board of Canada. The updates to these trends show that GDP is forecast to be stronger than it was earlier in the year and that personal income (after being re-stated) is growing faster. There has also been a significant increase in the population.

	Trends Earlier this Year		Revised Trends	
	Year 2	Year 3	Year 1	Year 2
	2018-19	2019-20	2018-19	2019-20
Real Gross Domestic Product (GDP)	1.7%	1.7%	1.9%	2.1%
Personal Income per Capita	46,121	47,286	45,264	46,547
- Percent Change	2.0%	2.5%	2.5%	2.8%
Inflation (CPI)	1.9%	2.2%	2.0%	2.2%
Population (000)	433	438	440	445
Dwelling Units	196,954	198,782	196,524	198,837
Dwelling Units %	1.0%	0.9%	1.2%	1.2%

While the economy remains strong, the commercial real estate market is in the downward part of its cycle. Over the last number of years there has been a significant buildout of office space within Halifax. As such, the vacancy rate has risen and lease prices are experiencing downward pressure. At the exact same time, many organizations require less physical space than they have in the past. In 2018, the growth in the commercial tax base is essentially flat. While the total value of the commercial base is at a historic high, its growth rate for 2018 is at the lowest level in twenty years.

There are both positives and negatives for the current state of commercial assessment. For one, the decline in the price of commercial leases is valuable for many tenants, allowing them to become more profitable. It also makes Halifax even more attractive to outside investors. For the municipality, however, commercial taxes have been a significant source of revenues and have been used to invest in many new and better services that have come to be expected by the public and the business community. In 2018-19, property tax revenues are expected to be \$4.5m lower than expected due to the slower growth in the assessment roll. This trend should be expected to continue, possibly for the next several years.

In addition to pressures from the tax base, there are a variety of other changing costs and circumstances that need to be updated in the 2018-19 budget.

The changes include:

- The Halifax Regional Police Association (HRPA) collective agreement has been settled through arbitration. This contract has been outstanding since 2015-16. The arbitrator awarded a 2.75% settlement for five years. In 2018-19 this has resulted in a cost of \$8.5m for the contract (not including any non-union compression). The settlement also results in an increase for the International Association of Fire Fighters (IAFF) in the last year of their contract. Members of the IAFF are entitled to 95% of the wages of a police officer. While that IAFF contract expired in 2015-16, there is a 2018-19 cost for that contract of an additional \$1.4 million.
- There are also five collective agreements that are outstanding and are under negotiations.
- HRM's extensive technology systems require an additional \$1m in software licensing costs.
- There are a variety of other minor changes and corrections to the budget including some compensation errors that need to be corrected.

In addition, there are a number of areas where non-tax revenues need adjustments.

- Regional Council has budgeted to receive \$2m in additional ticket fines as well as \$1.2m in planning and building permits. The changes required to achieve these targets have not been implemented and, as such, \$2.9m of these revenues are not achievable.
- Transit fare revenues are expected to be \$1m less than budgeted.
- Deed Transfer Taxes remain robust and are expected to be \$2.2 million higher than budgeted.
- A number of other revenues have are expected to increase, providing additional revenues of \$1.2 million.

Lastly, staff included service adjustments, especially any additional costs required to fulfill direction from Regional Council. This includes:

- New standards established by Regional Council require four fire fighters on an engine. These standards require additional staffing but also training costs and backfilling. Requirements for backfilling and training means additional overtime and compensation costs of approximately \$3m.
- Grants for community museums (\$220k) and the seniors snow support (\$200k) have been included.
- There are several new positions within the organization that will cost roughly \$600,000.

In order to re-balance the operating budget, staff made a number of adjustments including reductions in:

- the valuation allowance of \$500k,
- debt charges of \$2.1m, and,
- reserve contributions of \$1.5m.

As part of its two year budget, Council had provided direction to plan for a 1.6 percent tax increase. This increase helped provide for the sustainability of the organization including its plans for capital expenditures, improved services and covering costs such as collective agreements. The 1.6% increase raises \$8.5m which is sufficient to fund the higher costs of the HRPA arbitration. It is recommended that the 1.6% increase be adjusted to 1.9%, providing a further \$1.4m that will cover the costs of the now expired IAFF contract.

Alternatives to further increasing taxes would include service reductions or reducing funds which go towards the capital budget, either through capital from operating or reserves.

In the longer term, HRM remains in extremely good financial shape. But it is not poised to take advantage of the strong economic growth that exists and invest in the opportunities that are arising:

- Economic growth is proceeding but municipal revenues are not keeping pace, despite expectations of better and improved services,
- Ten-year Capital Outlook requires \$500m to balance, and
- There are significant inflationary and other pressures on municipal operations which cannot be funded under the current direction.

At this point in time, HRM requires significant improved intelligence around the assessment roll and its relationship to economic growth and future tax revenues.

In order to be successful and provide for a sustainable, growing community it is critical that the municipality improve its planning and budgeting systems; that it link tax decisions to growth and services, and, it focus on the trade-offs around priorities

In addition to fiscal direction, Appendix A allows advanced tenders for projects that are time sensitive, generally due to a short construction season or the need to meet a critical opening date, to be awarded in time to take advantage of the construction season. Another advantage of advanced tending is that it often results in competitive pricing as contractors are looking to secure contracts for the upcoming construction season. All but four of these projects were included in the Approved Budget "In Principle". The projects receiving advanced capital tending cannot spend funds until Council has approved the 2018/19 budget.

FINANCIAL IMPLICATIONS

There are no immediate financial implications associated with this recommendation. A budget and business plan for each business unit and for fiscal services will be presented to Council for its review before a final decision is made.

RISK CONSIDERATION

Risks related to the recommendations in this report include changes in the underlying economic assumptions as well as assumptions as to the value of the final assessment roll.

COMMUNITY ENGAGEMENT

Budget Consultations will consist of an on-line balance-the-budget tool (the "budget allocator") as well as an opportunity for the Public to attend the Business Unit draft budget presentations to Committee of the Whole, and ask questions afterwards.

ENVIRONMENTAL IMPLICATIONS

None

ALTERNATIVES

None

ATTACHMENTS

Appendix A - Advanced Tender Project List

Appendix B - Draft 2018-19 Capital Budget

Attachment 1 - Fiscal Framework 2017 to 2020: Year 2 – 2018-2019 presentation

Attachment 2 - Capital Budget presentation

A copy of this report can be obtained online at halifax.ca or by contacting the Office of the Municipal Clerk at 902.490.4210.

Report Prepared by: Bruce Fisher, Manager of Financial Policy and Planning 902.490.4493

Financial Approval by: Original signed
Jerry Blackwood, Director of Finance and Asset Management/CFO, 902.490.6308

Attachment A

Advanced Tender Project List

Project Number	Project Name	Budget Category	Proposed 2018/19	Advanced Request	2018/19 Approved in Principle in 2017/18
CBX01154	Accessibility - HRM Facilities	Buildings	500,000	75,000	500,000
CB000075	Dartmouth North Community Centre Upgrades	Buildings	600,000	100,000	600,000
CB000006	Dartmouth Sportsplex Revitalization	Buildings	6,975,000	2,000,000	4,500,000
CB000052	Fire Station 2, University Ave Recapitalization	Buildings	1,000,000	1,000,000	1,000,000
CB000002	Multi-District Facilities (MDF)-Upgrades	Buildings	1,980,000	1,980,000	-
CB000032	Power House Recapitalization	Buildings	250,000	250,000	-
CBX01165	Regional Library Facility Upgrade	Buildings	1,200,000	300,000	700,000
CB000060	Sackville Sports Stadium	Buildings	540,000	350,000	1,000,000
CB000028	Scotiabank Centre	Buildings	2,850,000	2,200,000	2,850,000
CB000080	Sheet Harbour Recreation Centre	Buildings	100,000	100,000	2,515,000
CVD00429	Access-A-Bus Expansion	Halifax Transit	100,000	100,000	240,000
CB000082	Burnside Transit Centre Roof Repairs	Halifax Transit	2,000,000	2,000,000	-
CM000012	Bus Stop Accessibility & Improvements	Halifax Transit	235,000	235,000	235,000
CV020003	Conventional Bus Expansion	Halifax Transit	4,850,000	4,850,000	4,850,000
CV020004	Conventional Bus Replacement	Halifax Transit	9,022,000	9,022,000	9,022,000
CM000001	Electric Bus Pilot	Halifax Transit	1,000,000	1,000,000	-
CD990003	Cultural Spaces	Parks & Playgrounds	250,000	100,000	250,000
CP000002	Park Recapitalization	Parks & Playgrounds	3,185,000	2,000,000	1,500,000
CPX01149	Parkland Acquisition	Parks & Playgrounds	1,000,000	500,000	1,000,000
CPX01193	Public Gardens Upgrades	Parks & Playgrounds	600,000	600,000	600,000
CPX01331	Regional Water Access/Beach Upgrades	Parks & Playgrounds	400,000	400,000	650,000
CP000003	Sports Fields/Courts - State of Good Repair	Parks & Playgrounds	2,850,000	2,700,000	1,500,000
CP000014	Western Common Master Plan Implementation	Parks & Playgrounds	50,000	50,000	50,000
CTU00420	Active Transportation - Strategic Projects	Roads & Active Transportation	4,100,000	3,000,000	4,100,000
CRU01077	Bridges	Roads & Active Transportation	2,500,000	1,500,000	2,500,000
CR000002	New Paving Streets - HRM Owned Roads	Roads & Active Transportation	345,000	345,000	500,000
CRU01079	Other Road Related Works	Roads & Active Transportation	2,250,000	1,200,000	2,250,000
CR990002	Road Operations and Construction - State of Good Repair	Roads & Active Transportation	4,000,000	2,000,000	4,000,000
CKU01084	Sidewalk Renewals	Roads & Active Transportation	3,250,000	1,100,000	3,250,000
CR000005	Street Recapitalization	Roads & Active Transportation	30,900,000	17,500,000	30,000,000
			88,882,000	58,557,000	80,162,000

Attachment B

Draft 2018/19 Capital Budget Summary
as of Dec 13, 2017

Budget Category	2018/19 Gross Capital	2018/19 Project Specific Funding	2018/19 Net
Buildings	25,945,000	12,634,000	13,311,000
Business Tools	12,531,000	1,560,000	10,971,000
District Capital Funds	1,504,000		1,504,000
Equipment & Fleet	6,800,000	-	6,800,000
Halifax Transit	23,907,000	7,853,500	16,053,500
Parks & Playgrounds	8,608,500	1,458,500	7,150,000
Roads & Active Transportation	49,325,000	11,225,000	38,100,000
Solid Waste	5,085,000	5,085,000	-
Traffic Improvements	27,630,000	23,180,000	4,450,000
Grand Total	161,335,500	62,996,000	98,339,500

Project Specific Funding

Reserves	43,209,000
Cost Sharing	10,787,000
Other	9,000,000
Total	62,996,000

Capital Budget Capacity

Additional Debt Approved	29,800,000
Capital From Operating	36,191,000
Gas Tax	26,200,000
Crespool (leftover Debt)	2,142,000
Cappool (Leftover Cap from Op)	2,119,500
Re-allocation of Deferred Business Tool Budgets to be resumed in future years	880,000
Total	97,332,500

Shortfall**1,007,000**

Draft 2018/19 Capital Budget Summary of Changes
as of Dec 13, 2017

Budget Category	2018/19 Gross Capital Budget	2018/19 Net Capital	2018/19 Gross from 17/18	2018/19 Net from 17/18	Gross Variance from 17/18	Net Variance from 17/18
Buildings	25,945,000	13,311,000	23,825,000	12,816,000	2,120,000	495,000
Business Tools	12,531,000	10,971,000	9,735,000	7,735,000	2,796,000	3,236,000
District Capital Funds	1,504,000	1,504,000	1,504,000	1,504,000	-	-
Equipment & Fleet	6,800,000	6,800,000	6,700,000	6,700,000	100,000	100,000
Halifax Transit	23,907,000	16,053,500	27,232,000	16,773,500	3,325,000	720,000
Parks & Playgrounds	8,608,500	7,150,000	7,800,000	7,050,000	808,500	100,000
Roads & Active Transportation	49,325,000	38,100,000	48,100,000	38,435,000	1,225,000	335,000
Solid Waste	5,085,000	-	4,235,000	-	850,000	-
Traffic Improvements	27,630,000	4,450,000	27,530,000	4,350,000	100,000	100,000
Grand Total	161,335,500	98,339,500	156,661,000	95,363,500	4,674,500	2,976,000

Draft 2018/19 Capital Budget Detail of Changes
as of Dec 13, 2017

Capital Projects	2018/19 Gross	2018/19 Net	2018/19 Gross from 17/18	2018/19 Net from 17/18	Gross Variance from 17/18	Net Variance from 17/18
Buildings						
Accessibility - HRM Facilities	500,000	500,000	500,000	500,000	-	-
Alderney Gate Recapitalization	150,000	-	500,000	-	- 350,000	-
BMO Centre	250,000	-	250,000	-	-	-
Cole Harbour Place	1,450,000	1,450,000	1,300,000	1,300,000	150,000	150,000
Consulting - Buildings	100,000	100,000	100,000	100,000	-	-
Dartmouth Multi-Pad	100,000	-	100,000	-	-	-
Dartmouth North Community Centre Upgrades	600,000	600,000	600,000	600,000	-	-
Dartmouth Sportsplex Revitalization	6,975,000	-	4,500,000	-	2,475,000	-
Energy Efficiency Upgrades	-	-	500,000	-	- 500,000	-
Environmental Remediation/Building Demolition	400,000	-	400,000	-	-	-
Fire Station 2, University Ave Recapitalization	1,000,000	1,000,000	1,000,000	1,000,000	-	-
Fire Station Recapitalization	250,000	250,000	-	-	250,000	250,000
General Building Recapitalization	700,000	700,000	-	-	700,000	700,000
Halifax City Hall and Grand Parade Restoration	250,000	250,000	-	-	250,000	250,000
HRFE Future Buildings Recapitalization	-	-	250,000	250,000	- 250,000	- 250,000
HRM Depot Upgrades	400,000	400,000	400,000	400,000	-	-
MacKintosh Depot Replacement	750,000	750,000	-	-	750,000	750,000
Metropark Upgrades	100,000	-	100,000	-	-	-
Multi-District Facilities (MDF)-Upgrades	1,980,000	1,980,000	-	-	1,980,000	1,980,000
Power House Recapitalization	250,000	250,000	-	-	250,000	250,000
Regional Library Facility Upgrade	1,200,000	1,200,000	700,000	700,000	500,000	500,000
Roof Recapitalization	-	-	750,000	750,000	- 750,000	- 750,000
Sackville Sports Stadium	540,000	540,000	1,000,000	1,000,000	- 460,000	- 460,000
Sambro/Harrietsfield Fire Station	1,500,000	1,500,000	1,500,000	1,500,000	-	-
Scotiabank Centre	2,850,000	-	2,850,000	-	-	-
Sheet Harbour Rec Centre	100,000	100,000	2,515,000	2,515,000	- 2,415,000	- 2,415,000
Site Work	250,000	250,000	150,000	150,000	100,000	100,000
South Peninsula School Gym Enhancement	-	-	460,000	460,000	- 460,000	- 460,000
St. Andrew's Community Centre Renovation	3,300,000	1,491,000	3,300,000	1,491,000	-	-
Structural Upgrades	-	-	100,000	100,000	- 100,000	- 100,000
Buildings Total	25,945,000	13,311,000	23,825,000	12,816,000	2,120,000	495,000
Business Tools						
Application Recapitalization	800,000	800,000	800,000	800,000	-	-

Draft 2018/19 Capital Budget Detail of Changes
as of Dec 13, 2017

Capital Projects	2018/19 Gross	2018/19 Net	2018/19 Gross from 17/18	2018/19 Net from 17/18	Gross Variance from 17/18	Net Variance from 17/18
Corporate Scheduling	795,000	795,000	370,000	370,000	425,000	425,000
CRM Software Replacement	476,000	476,000	-	-	476,000	476,000
Employee Self Service/Manager Self-Service	-	-	425,000	425,000	-	-
Enterprise Content Management Program	500,000	500,000	150,000	150,000	350,000	350,000
HRFE Fire Department Management (FDM) Review & Enhancements	150,000	150,000	150,000	150,000	-	-
HRP Records Management System Optimization	200,000	200,000	-	-	200,000	200,000
ICT Business Tools	240,000	240,000	300,000	300,000	-	-
ICT Infrastructure Recapitalization	800,000	800,000	800,000	800,000	-	-
IT Service Management	125,000	125,000	125,000	125,000	-	-
Parking Technology	1,560,000	-	2,000,000	-	-	-
Permitting, Licensing, and Compliance Replacement Solution	2,620,000	2,620,000	1,775,000	1,775,000	845,000	845,000
Recreation Services Software	1,950,000	1,950,000	1,070,000	1,070,000	880,000	880,000
Revenue Management Solution	2,065,000	2,065,000	1,270,000	1,270,000	795,000	795,000
SAP Optimization	250,000	250,000	250,000	250,000	-	-
Web Transformation Program	-	-	250,000	250,000	-	-
Business Tools Total	12,531,000	10,971,000	9,735,000	7,735,000	2,796,000	3,236,000
District Capital Funds						
District 1 Project Funds	94,000	94,000	94,000	94,000	-	-
District 2 Project Funds	94,000	94,000	94,000	94,000	-	-
District 3 Project Funds	94,000	94,000	94,000	94,000	-	-
District 4 Project Funds	94,000	94,000	94,000	94,000	-	-
District 5 Project Funds	94,000	94,000	94,000	94,000	-	-
District 6 Project Funds	94,000	94,000	94,000	94,000	-	-
District 7 Project Funds	94,000	94,000	94,000	94,000	-	-
District 8 Project Funds	94,000	94,000	94,000	94,000	-	-
District 9 Project Funds	94,000	94,000	94,000	94,000	-	-
District 10 Project Funds	94,000	94,000	94,000	94,000	-	-
District 11 Project Funds	94,000	94,000	94,000	94,000	-	-
District 12 Project Funds	94,000	94,000	94,000	94,000	-	-
District 13 Project Funds	94,000	94,000	94,000	94,000	-	-
District 14 Project Funds	94,000	94,000	94,000	94,000	-	-
District 15 Project Funds	94,000	94,000	94,000	94,000	-	-
District 16 Project Funds	94,000	94,000	94,000	94,000	-	-
District Capital Funds Total	1,504,000	1,504,000	1,504,000	1,504,000	-	-

Draft 2018/19 Capital Budget Detail of Changes
as of Dec 13, 2017

Capital Projects	2018/19 Gross	2018/19 Net	2018/19 Gross from 17/18	2018/19 Net from 17/18	Gross Variance from 17/18	Net Variance from 17/18
Equipment & Fleet						
Fire Apparatus Replacement	2,490,000	2,490,000	2,490,000	2,490,000	-	-
Fire Services Equipment Replacement	1,250,000	1,250,000	1,100,000	1,100,000	150,000	150,000
Fire Services Water Supply	-	-	50,000	50,000	-	50,000
Fleet Vehicle Replacement	1,300,000	1,300,000	1,300,000	1,300,000	-	-
Ice Resurfacers Replacement	125,000	125,000	125,000	125,000	-	-
Police Fleet	1,000,000	1,000,000	1,000,000	1,000,000	-	-
Police Services Replacement Equipment	460,000	460,000	460,000	460,000	-	-
Police Vehicle Equipment	175,000	175,000	175,000	175,000	-	-
Equipment & Fleet Total	6,800,000	6,800,000	6,700,000	6,700,000	100,000	100,000
Halifax Transit						
Access-A-Bus Expansion	100,000	50,000	240,000	120,000	-	140,000
Access-A-Bus Replacement	-	-	210,000	105,000	-	210,000
Biennial Ferry Refit	300,000	300,000	600,000	600,000	-	300,000
Burnside Transit Centre Roof Repairs	2,000,000	2,000,000	-	-	2,000,000	2,000,000
Bus Maintenance Equipment Replacement	625,000	625,000	300,000	300,000	325,000	325,000
Bus Stop Accessibility & Improvements	235,000	117,500	235,000	117,500	-	-
Commuter Rail	500,000	500,000	-	-	500,000	500,000
Conventional Bus Expansion	900,000	900,000	4,850,000	2,420,000	-	3,950,000
Conventional Bus Replacement	9,022,000	4,511,000	9,022,000	4,511,000	-	-
Electric Bus Pilot	1,000,000	1,000,000	-	-	1,000,000	1,000,000
Halifax Ferry Terminal	100,000	100,000	-	-	100,000	100,000
Mid-Life Rebuild	635,000	635,000	185,000	185,000	450,000	450,000
New Transit Technology	4,100,000	2,100,000	8,480,000	6,480,000	-	4,380,000
Ragged Lake Transit Centre Expansion	2,000,000	2,000,000	-	-	2,000,000	2,000,000
Ragged Lake Transit Centre Paving Project		-	100,000	100,000	-	100,000
Sustainable Fuel Study	200,000	200,000	-	-	200,000	200,000
Transit Priority Measures	350,000	175,000	350,000	175,000	-	-
Transit Strategy	250,000	250,000	-	-	250,000	250,000
Transit Support Vehicle Replacement	90,000	90,000	160,000	160,000	-	70,000
West Bedford Park & Ride	300,000	300,000	500,000	500,000	-	200,000
Wrights Cove Terminal	1,200,000	200,000	2,000,000	1,000,000	-	800,000
Halifax Transit Total	23,907,000	16,053,500	27,232,000	16,773,500	3,325,000	720,000
Parks & Playgrounds						

Draft 2018/19 Capital Budget Detail of Changes
as of Dec 13, 2017

Capital Projects	2018/19 Gross	2018/19 Net	2018/19 Gross from 17/18	2018/19 Net from 17/18	Gross Variance from 17/18	Net Variance from 17/18
Beazley Field Complex	-	-	500,000	500,000	-	500,000
Cemetery Upgrades	50,000	50,000	-	-	50,000	50,000
Cornwallis Park Master Plan Implementation	-	-	500,000	500,000	-	500,000
Cultural Spaces	250,000	-	250,000	-	-	-
Halifax Common Upgrades	-	-	1,000,000	1,000,000	-	1,000,000
Park Land Acquisition	1,000,000	500,000	1,000,000	500,000	-	-
Park Recapitalization	3,185,000	2,750,000	1,500,000	1,500,000	1,685,000	1,250,000
Point Pleasant Park Upgrades	-	-	250,000	250,000	-	250,000
Public Gardens Upgrades	600,000	600,000	600,000	600,000	-	-
Regional Water Access/Beach Upgrades	400,000	400,000	650,000	650,000	-	250,000
Sports Fields/Courts - State of Good Repair	2,850,000	2,800,000	1,500,000	1,500,000	1,350,000	1,300,000
Sports/Ball Fields/Courts - New	223,500	-	-	-	223,500	-
Western Common Master Plan Implementation	50,000	50,000	50,000	50,000	-	-
Parks & Playgrounds Total	8,608,500	7,150,000	7,800,000	7,050,000	808,500	100,000
Roads & Active Transportation						
Active Transportation - Strategic Projects	4,100,000	4,100,000	4,100,000	4,100,000	-	-
Bridges	2,500,000	2,500,000	2,500,000	2,500,000	-	-
Macdonald Bridge Bikeway Connection	1,000,000	1,000,000	1,000,000	1,000,000	-	-
New Paving Streets - HRM Owned Roads	345,000	-	500,000	335,000	-	155,000
New Paving Subdivision Streets - Provincial	980,000	-	500,000	-	480,000	-
Other Road Related Works	2,250,000	2,250,000	2,250,000	2,250,000	-	-
Road Operations and Construction - State of Good Repair	4,000,000	4,000,000	4,000,000	4,000,000	-	-
Sidewalk Renewals	3,250,000	3,250,000	3,250,000	3,250,000	-	-
Street Recapitalization	30,900,000	21,000,000	30,000,000	21,000,000	900,000	-
Roads & Active Transportation Total	49,325,000	38,100,000	48,100,000	38,435,000	1,225,000	335,000
Solid Waste						
Composting/Anaerobic Digestion (AD) Plant	250,000	-	250,000	-	-	-
Environment Monitoring Site Work 101 Landfill	100,000	-	100,000	-	-	-
Green Carts for New Residents/Replacement Greencarts	735,000	-	735,000	-	-	-
Leachate Forcemain	300,000	-	-	-	300,000	-
Materials Recovery Facility Purchase	1,200,000	-	750,000	-	450,000	-
Materials Recovery Facility Repairs	50,000	-	50,000	-	-	-
Miller Composting Purchase	2,100,000	-	2,100,000	-	-	-
New Era Recapitalization	350,000	-	250,000	-	100,000	-

Draft 2018/19 Capital Budget Detail of Changes
as of Dec 13, 2017

Capital Projects	2018/19 Gross	2018/19 Net	2018/19 Gross from 17/18	2018/19 Net from 17/18	Gross Variance from 17/18	Net Variance from 17/18
Solid Waste Total	5,085,000	-	4,235,000	-	850,000	-
Traffic Improvements						
Cogswell Interchange Redevelopment	23,000,000	-	23,000,000	-	-	-
Controller Cabinet and Detection Program	800,000	800,000	800,000	800,000	-	-
Destination Signage Program	-	-	100,000	100,000	-	- 100,000
Intersection Improvement Program	900,000	900,000	900,000	900,000	-	-
Opticom Signalization System	80,000	-	80,000	-	-	-
Road Corridor Land Acquisition	100,000	-	100,000	-	-	-
Shearwater Connector	100,000	100,000	-	-	100,000	100,000
Street Lighting	330,000	330,000	230,000	230,000	100,000	100,000
Traffic Signal Installation	400,000	400,000	400,000	400,000	-	-
Traffic Signal Rehabilitation	1,400,000	1,400,000	1,400,000	1,400,000	-	-
Traffic Signal Re-lamping Program	520,000	520,000	520,000	520,000	-	-
Traffic Improvements Total	27,630,000	4,450,000	27,530,000	4,350,000	100,000	100,000
Grand Total	161,335,500	98,339,500	156,661,000	95,363,500	4,674,500	2,976,000

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**Fiscal Framework
2017 to 2020**

Year 2 – 2018-2019

Standing Committee of the Whole on Budget

December 13, 2017

Presentation Outline

- Approach to Multi-Year Budgeting
- Factors and Risks in Year Two
 - Factors and Risks since April
- Approach to 2018-19 Budget
- Conclusions
- Recommendations

Approach to Multi-Year Budgeting

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Approach to Multi-year Budgeting

■ Benefits

- Predictability/sustainability
- Less annual effort
- Enables long term view
- Reset every second year, New “Two Year Budget” (19-20 and 20-21) next year.

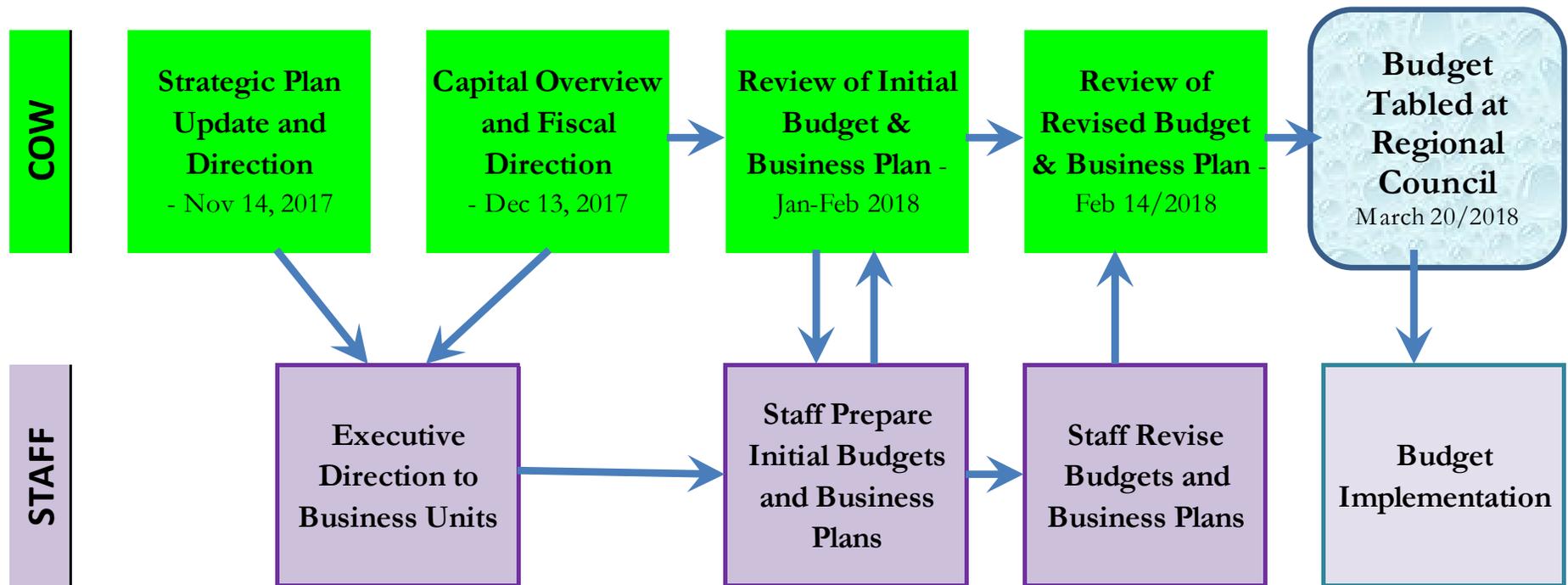
■ Approach

- Years 1 and 2 to budget quality
- Years 3 and 4 estimates

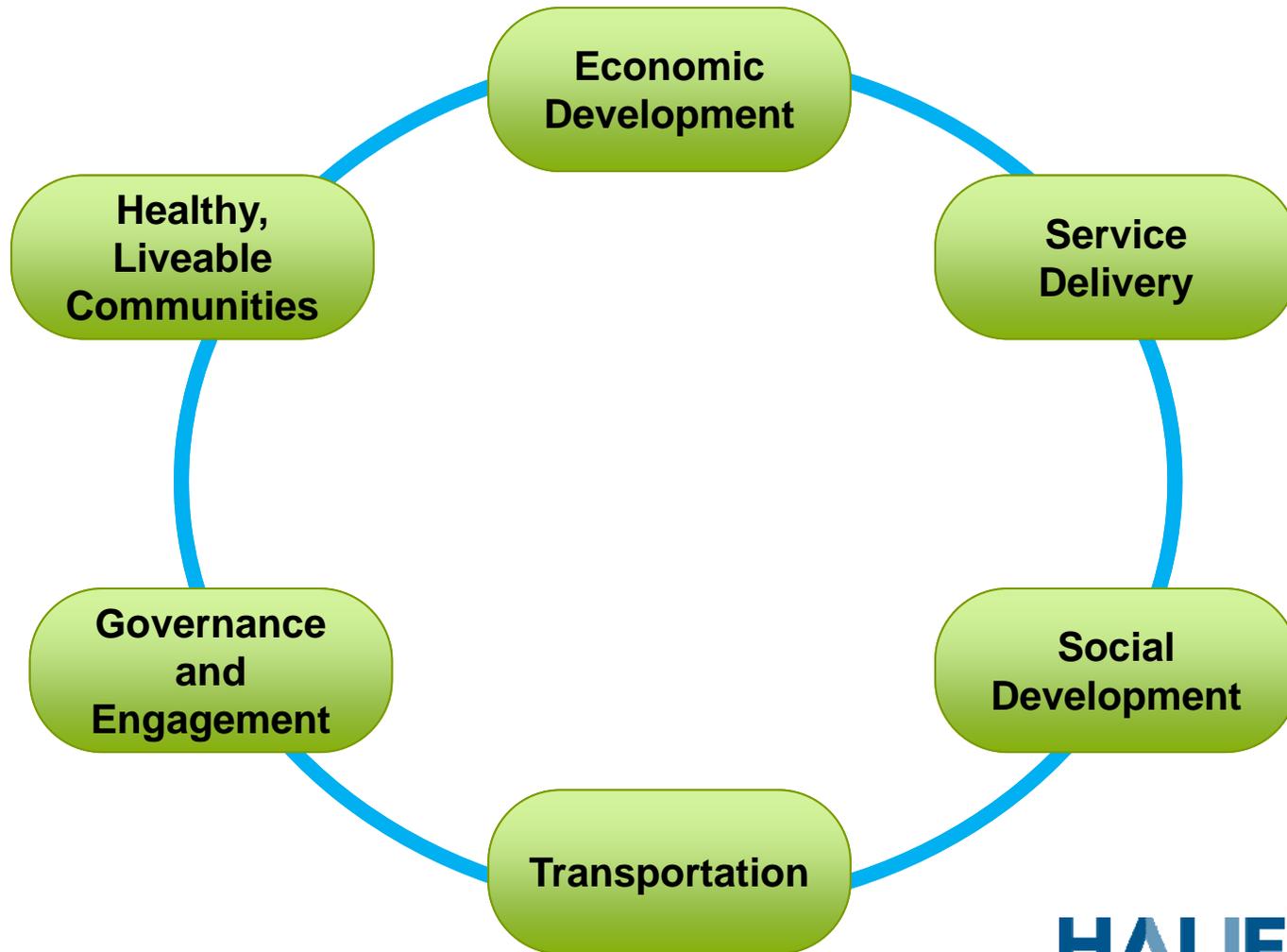
■ Direction from Council

- Approved 2018-19 Annual Budget in principle

Budget and Business Planning Process



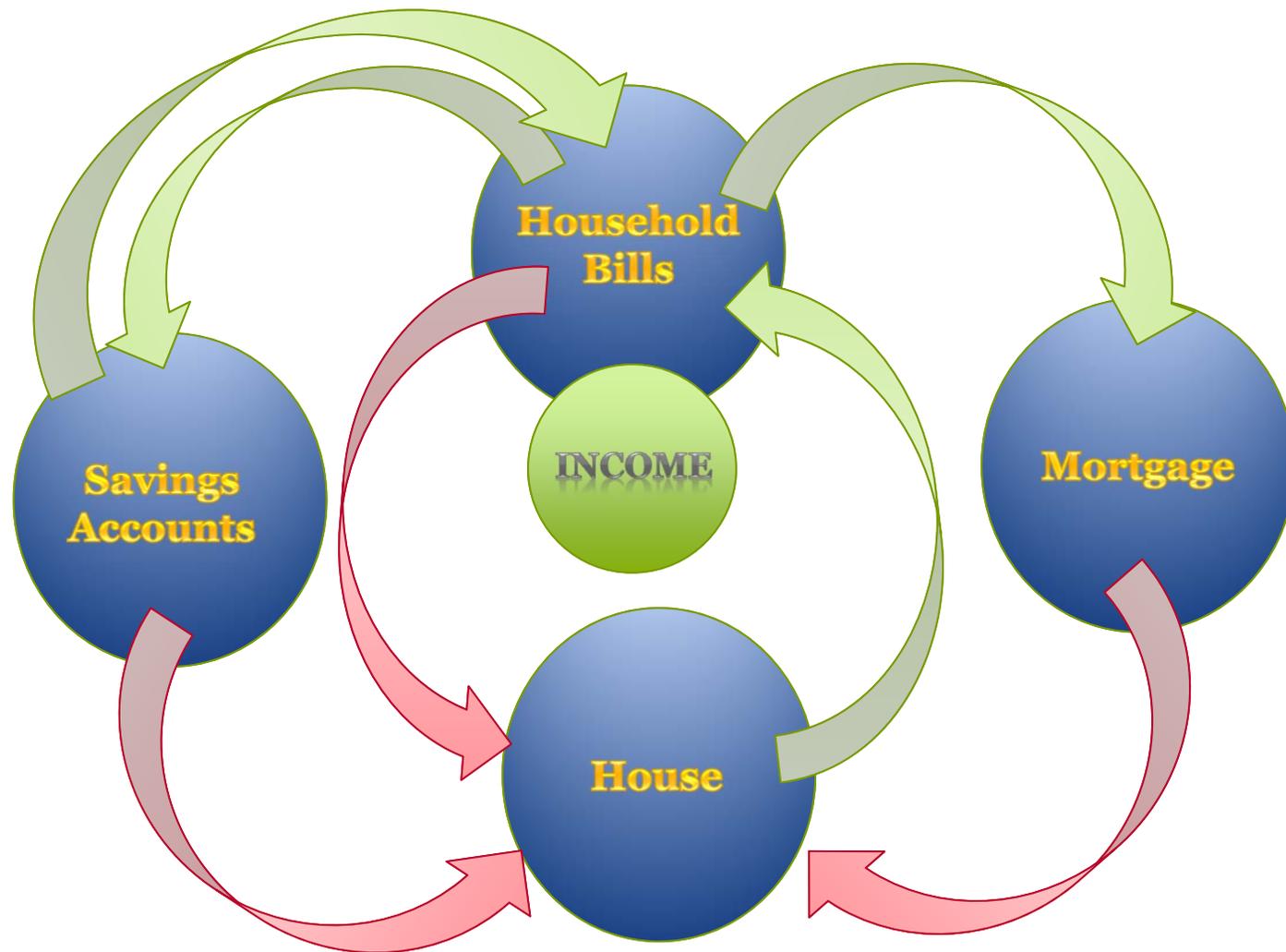
Alignment with Council Priorities



4 Critical Influences

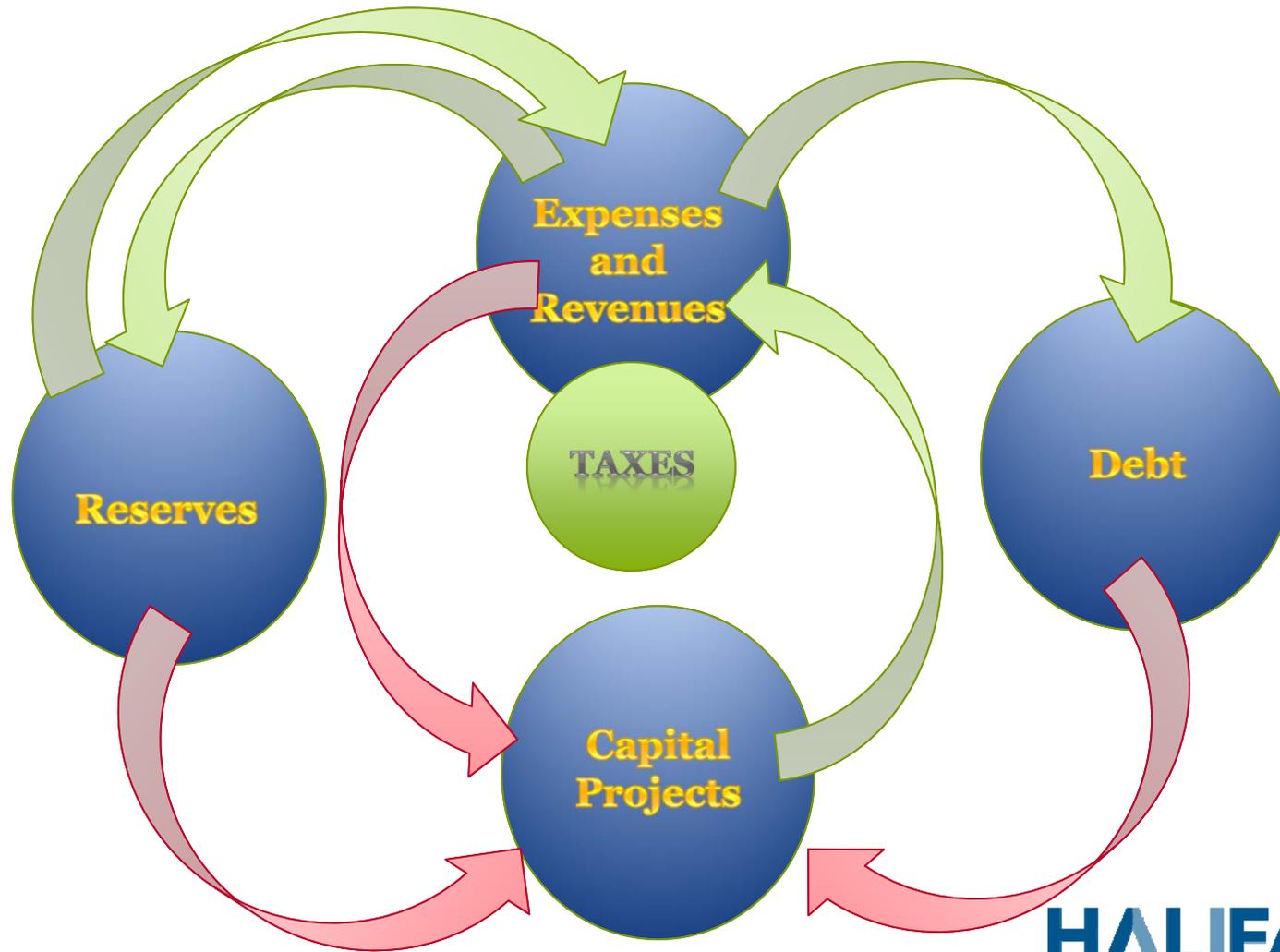
**Concept to Tools:
Operating, Capital, Debt, Reserves**

A Household Budget



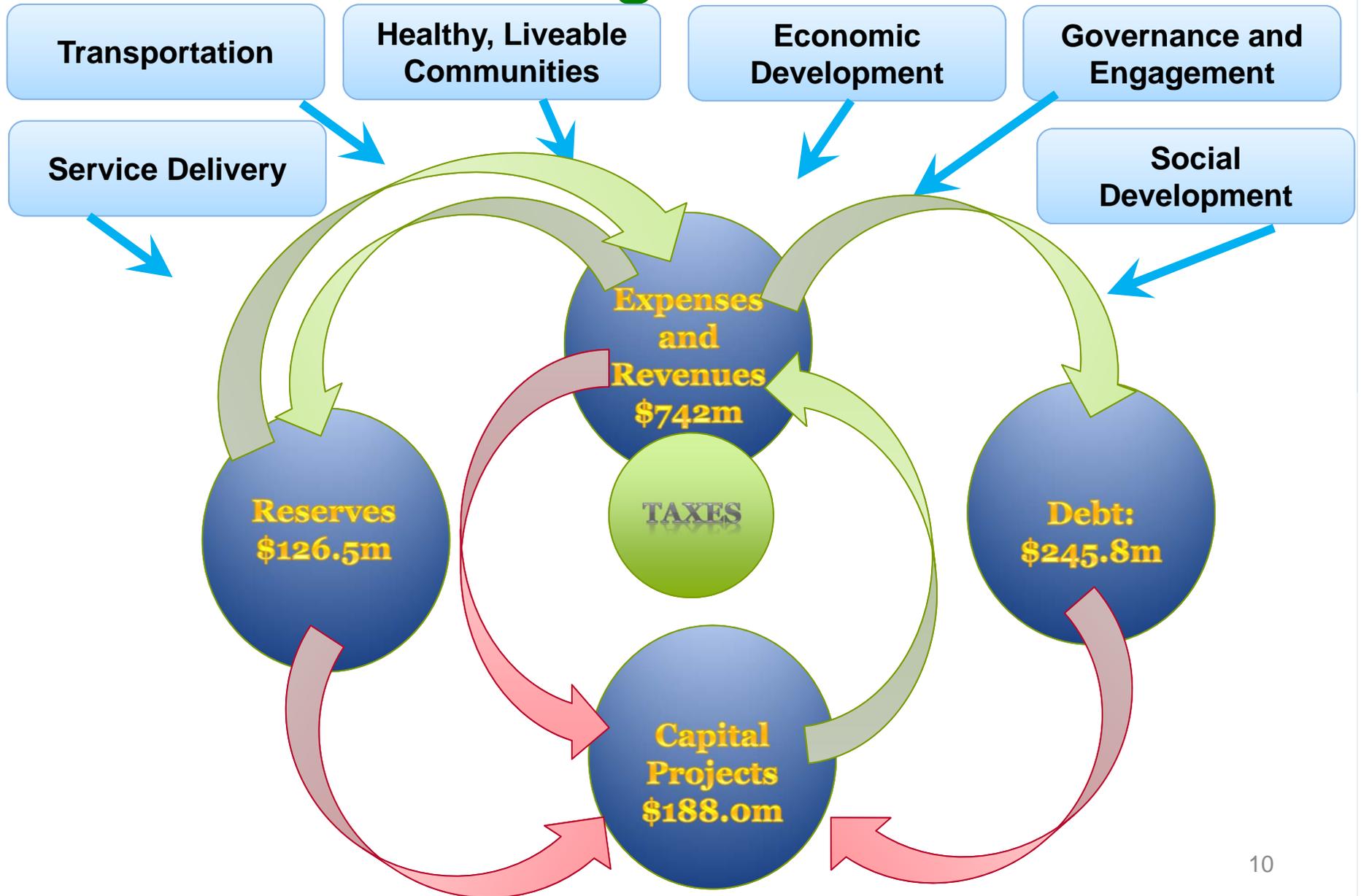
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A Municipal Budget



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The HRM Budget – 2017-18



4 Critical Influences

1. Operating Budget

Property Tax Levels:

- Average Single Family Home pays \$1,874
- New Homes and Business pay tax
- Nearly 80% dependent on property tax

Services (new and existing):

- Pressures – Inflation, New Homes to service, Collective Agreements
- Regulatory Costs
- Expectation of new services, leads to additional operating costs

2. Capital Budget

- Expectation to maintain existing assets, build new assets
- New Assets require additional operating costs
- Funding includes **Debt** and **Capital from Operating**. Both increase operating costs.

3. Debt

- Debt is at acceptable levels.
- Ability to approve more debt, but repayment places upward pressure on taxes.

4. Reserves

- Used to manage risk, provide for future obligations, opportunities
- Considerable balance available but majority is already earmarked for projects

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?

Service and Cost Changes made in 2017-18

	Year 1 2017-18	Year 2 2018-19
Municipal Expenditures, start of year	\$724.0	\$724.0
Service Increases:		
New Firefighters	\$0.5	\$1.6
Volunteer Honorariums	1.1	1.1
Operating Cost of Capital	3.4	6.6
Transit Service	1.8	4.7
Grants (incl reserves)	3.6	0.2
Other	<u>2.5</u>	<u>2.9</u>
Total	\$13.0	\$17.2
Cost Increases/(Decreases):		
Capital from Operating	-4.3	-5.1
Debt Service	-2.7	-0.8
Compensation	8.1	18.6
Other	<u>3.5</u>	<u>9.2</u>
Total	\$4.6	\$21.9
Municipal Expenditures, end of year	\$741.5	\$763.1

Current Multi-year Plan

Four Critical Influences

	Year 1	Year 2	Year 3	Year 4
	2017-18	2018-19	2019-20	2020-21
Municipal Expenditures (\$m)	\$742	\$763	\$780	\$794
Net Capital Budget (\$m)	\$95	\$95	\$92	\$92
Debt (\$m)	\$246	\$241	\$236	\$231
Reserves (\$m)	\$127	\$135	\$147	\$157

- Regional Council's change in course:
 - Operating Gap has been eliminated.
 - Net Capital Budget has been smoothed to match available funding.
 - Debt continues to decline.

Factors and Risks in Year Two

Changes since April

- Economic Assumptions
- Revenues
- Expectations
- Assessment

Economic Assumptions Remain Strong

	Trends Earlier this Year		Revised Trends		
	Year 2	Year 3	Year 1	Year 2	
	2018-19	2019-20	2018-19	2019-20	
Real Gross Domestic Product (GDP)	1.7%	1.7%	1.9%	2.1%	↑
Personal Income per Capita	46,121	47,286	45,264	46,547	↓
- Percent Change	2.0%	2.5%	2.5%	2.8%	↑
Inflation (CPI)	1.9%	2.2%	2.0%	2.2%	↓
Population (000)	433	438	440	445	↑
Dwelling Units	196,954	198,782	196,524	198,837	↑
Dwelling Units %	1.0%	0.9%	1.2%	1.2%	

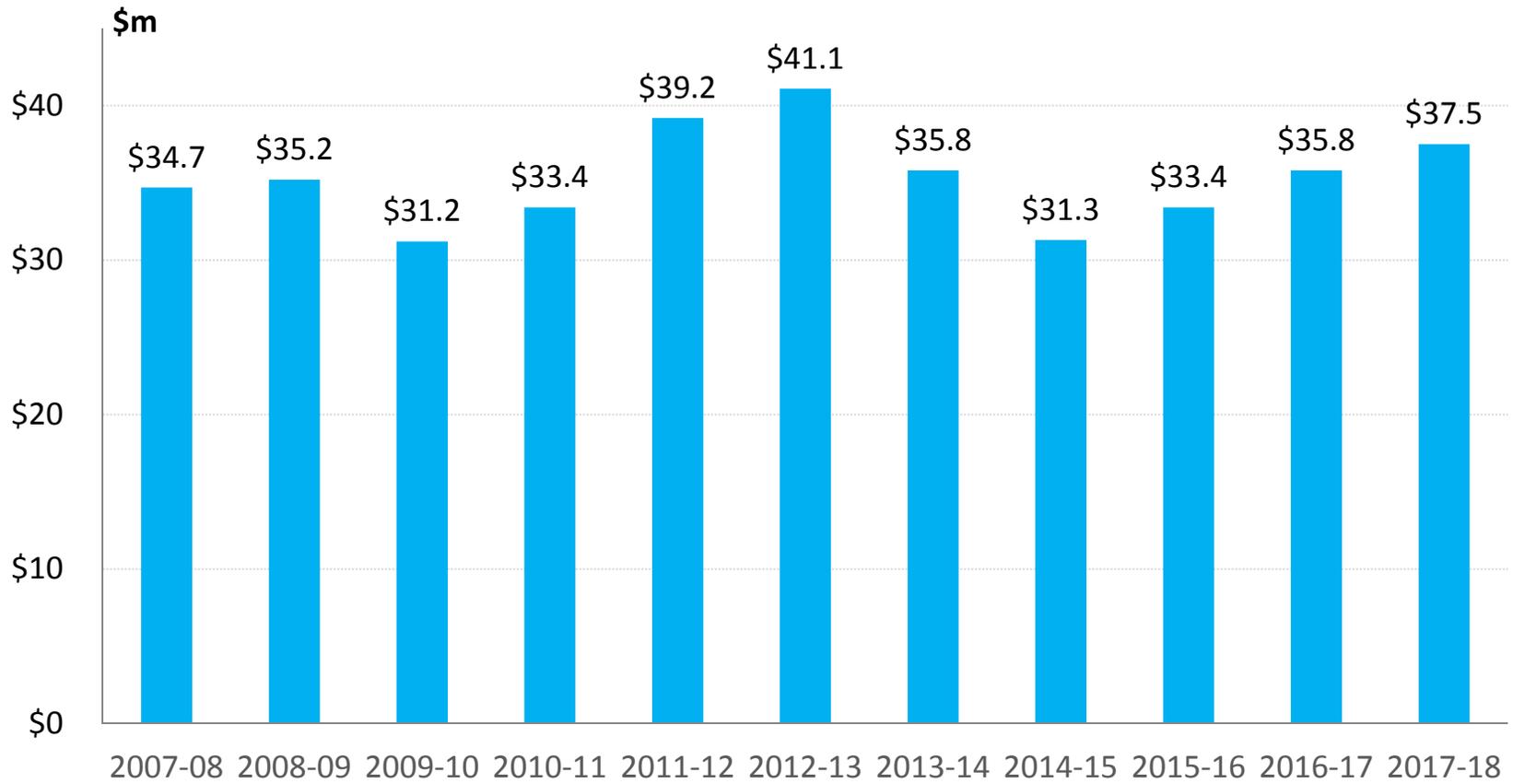
But the Budget for Revenues was too Ambitious...

- Challenges in implementing major changes in ticket prices and building permit fees. Will likely require adjustment of \$2.9m in 2018-19.
- Transit Fares continue to be flat. Downward adjustment of \$1 million.
- Deed Transfer Tax continues to perform well but is dependent upon larger transactions.

Deed Transfer Tax

- Revenues are subject to significant volatility. Large-commercial sales (or lack of) can have positive (negative) fiscal impacts.
- Due to a decline in average listings, there is a widening price gap and buyers are looking to the existing home market. (CMHC, 2017).
- The MLS average price is increasing:
 - 1.6 per cent per year since 2014
 - 2.6 per cent to 2019 (forecast)
- Square footage demand has fallen, due to structural factors related to reduced demand for labour and emergence of knowledge-based industry.(IMF, 2016).

Deed Transfer Tax



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That Strong Economy is Leading to High Expectations ...

- Expectations of New and Better Services.

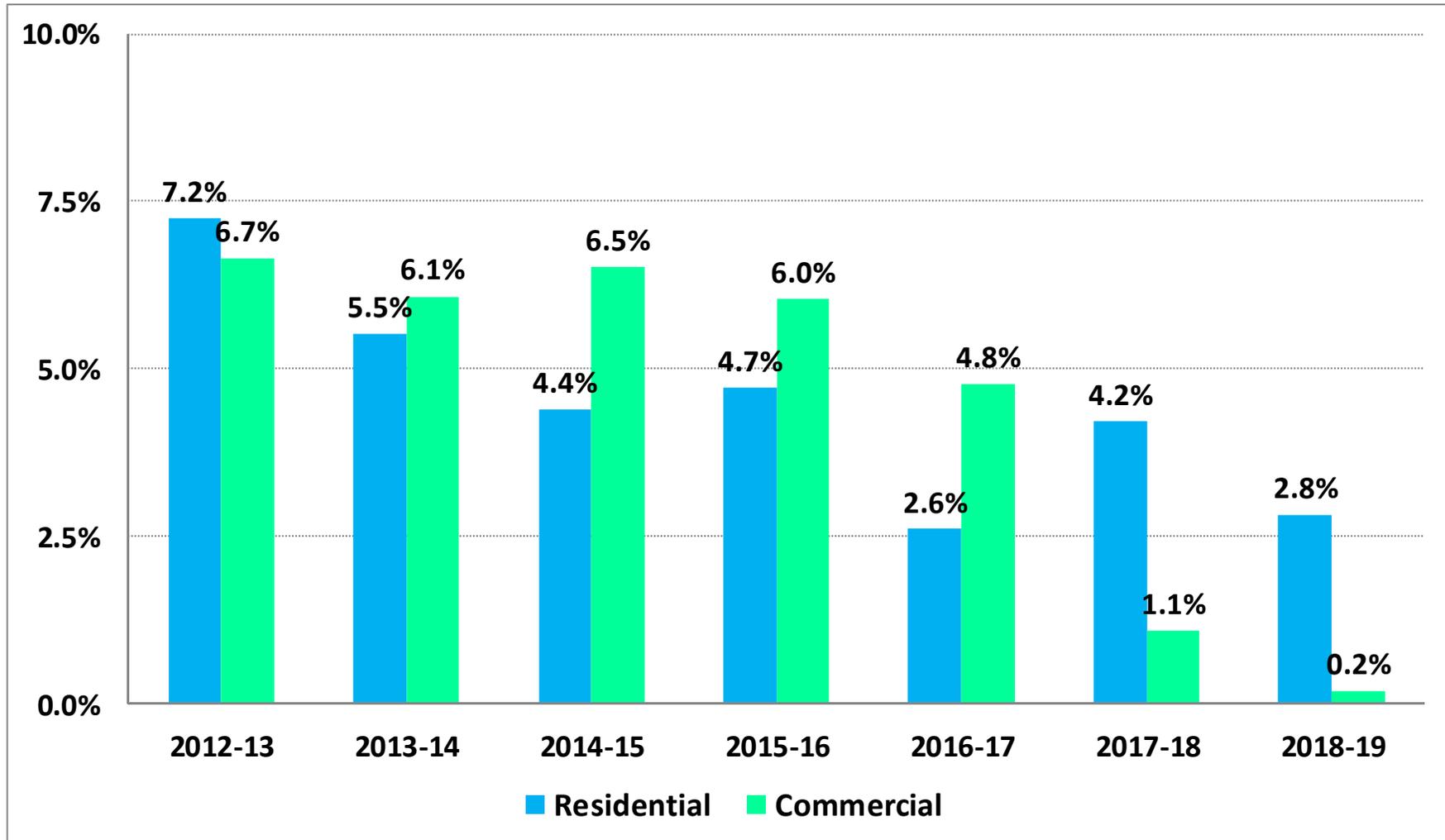
- Enormous pressure on capital projects:
 - Ten Year outlook is \$592M underfunded, excluding IMP
Future operating costs of possible capital projects would be substantial.

- Wage pressure substantial:
 - Police compensation to rise \$8.5m in 2018-19. Equal to the entire 1.6% tax increase. Its impact on the previous Firefighter's IAFF agreement is an additional \$1.4m.
 - Five other collective agreements are outstanding.
 - Additional wage pressure over Budget in Principle (\$4m) mostly due to new Fire Standards.

Just as the Real Estate Market is Transitioning ...

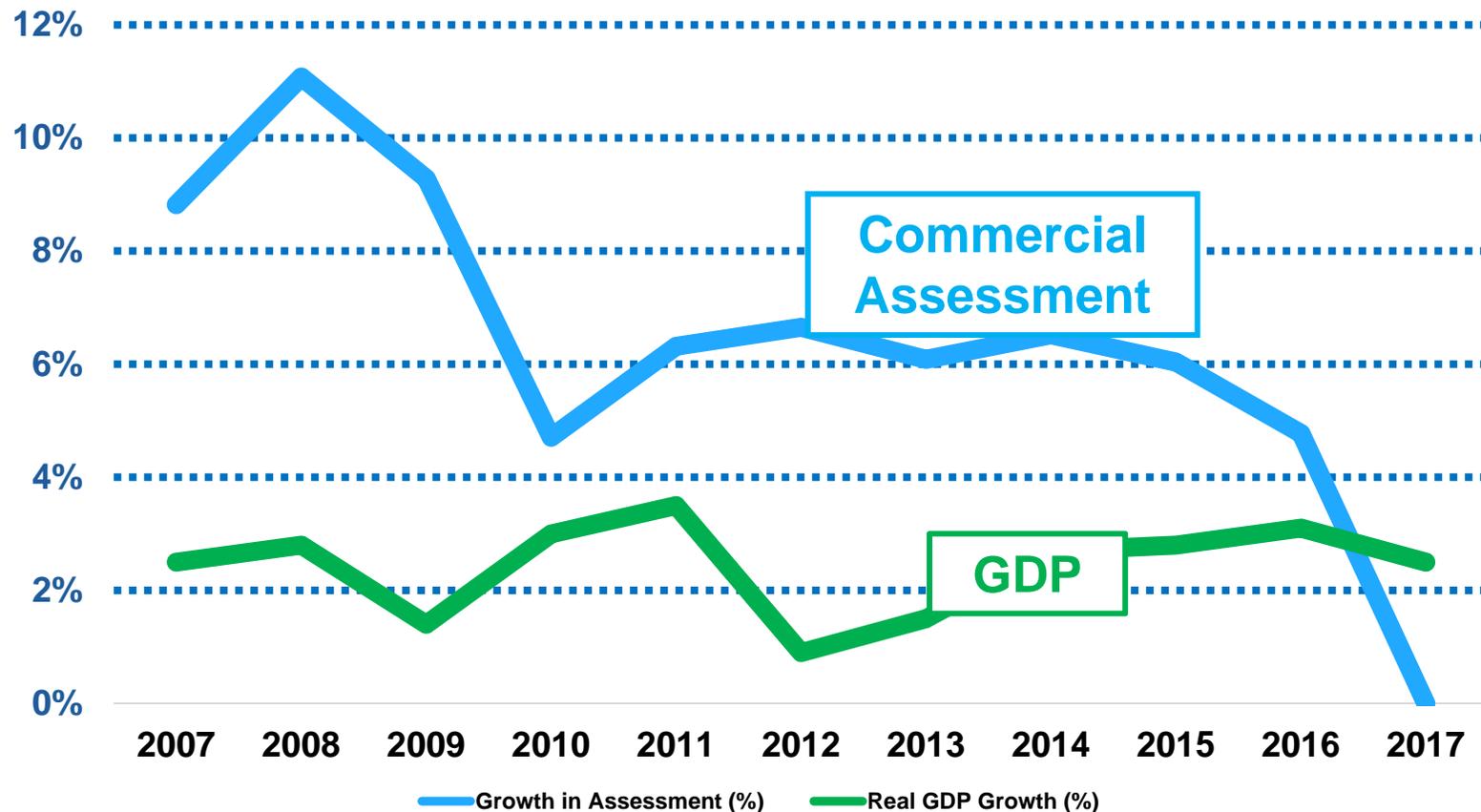
- Significant expansion was driven by low interest rates and Halifax's strong investment potential.
- Significant growth in commercial office space since 2010
- Limited need for additional office space at this time. Market must absorb what has been constructed.
 - Vacancy rate has risen
 - Firms require smaller office footprints
- 2018 Assessment has 0.2% change since 2017. Revenues will grow \$4.5m less than expected.

Preliminary Assessment Roll



Note: 2018-19 is not yet final.

Commercial Assessment vs Gross Domestic Product (Percent Growth)



Over the Medium Term

- Lease prices in office towers are becoming tighter, even declining.
 - Trend will continue as new space comes onto the market and expiring leases are re-negotiated.
 - A cyclical trend. **Assessment might not grow for several years.** More analysis is critical.
 - Lease prices declining. This lowers the cost for those renting, making Halifax even more competitive.
- Fiscal Framework based on average tax bills not changes in assessment.
 - New firms provided additional revenues, used to offset costs of new services.

Recent Examples of Firms and Commercial Space Usage

Firm	Previous Location	New Location	Change in Square Footage Occupied (%)
Stewart McKelvey	Purdy's	Queen's Marquee	-25
E&Y	Purdy's	Waterside	-30

Four Year Financial Framework

	In Principle 2018-19	Year 1 2018-19	Year 2 2019-20	Year 3 2020-21	Year 4 2021-22
Operating Budget Gap	\$0	\$1.4	\$1	\$8	\$6
Net Capital Budget (Millions)	\$95	\$95	\$92	\$95	\$94
Debt (Millions)	\$240	\$240	\$236	\$231	\$227
Reserves (Millions)	\$135	\$135	\$147	\$157	

Note: The projected reserves are still being reviewed and updated.

Approach to 2018-19 Budget

Summary of Pressures

External Pressures and Demands

Inflationary, Corrections and Other Changes	0.5
Revenue Changes	1.0
Decline in Property Tax Revenues	<u>4.5</u>
Sub-Total	6.0

Service Adjustments

Overtime and Compensation for Fire Standards	3.1
Grants - Snow Removal for Seniors	0.2
Community Museums Grants	0.2
Other Positions	<u>0.6</u>
Sub-Total	4.0

Adjustments to the 2018-19 Budget “In Principle”

- Staff intend to present adjustments to maintain existing services and level of capital.
- A number of adjustments can be made to limit the impact of costs.
- Difficult to adjust operations in short-term. Easiest way to react is through higher taxes or decreasing capital
 - Objective was to not increase taxes higher than the anticipated 1.6% increase in average tax bill.
 - Recommended tax increase from 1.6% to 1.9%

Summary of Actions

Adjustments to Balance	
Lower Valuation Allowance	-0.5
Reserve Adjustments	-1.5
Change in Debt Charges	-2.1
Other Fiscal Costs	-4.0
Other	-0.5
Sub-Total	-8.6
Shortfall	\$1.4
Tax Increase from 1.6% to 1.9%	-\$1.4

Conclusions

■ Second Year of Multi-Year Budgeting:

- 2018-19 was approved in principle by Council
- Included increase in services and taxes (1.6%)
- Shortfall of \$1.4m
- Next Year: Two Year Budget (2019-20 & 2020-21).

■ Factors and Risks since April:

- Collective Agreements, Arbitration (\$9.9m)
- Revenue adjustments
- Commercial Assessment flat

■ Recommended Tax Increase of 1.9%

- Average of \$35 per home
- Will cover increased costs for Police arbitration decision (\$9.9m).

Moving Forward

- HRM remains in extremely good financial shape. But it is not poised to take advantage of the economic growth and invest in the opportunities that are arising.
 - Economic growth is proceeding but municipal revenues are not keeping pace, despite expectations.
 - Ten-year Capital Outlook requires \$500m to balance.
 - Significant pressure on municipal operations
- Require significant intelligence around the assessment roll and its relationship to economic growth.
- Keys to winning the “Long Game”:
 - Stronger planning and budgeting,
 - Linking tax decisions to inflation, growth, services, and,
 - Making difficult trade-offs around priorities.

Recommendation

- It is recommended that staff revise the 2018-2019 Budget according to Council's approved priorities, and preliminary fiscal direction, 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 at a 1.9% increase.



HALIFAX

Capital Budget

Standing Committee of the Whole on Budget
December 13th, 2017

Capital Program Overview

- We are here to provide information on the Capital Plan for the next 10 years:
 - Key information on the draft 2018-19 Capital Plan.
 - Information on the Capital Plan, years 2 - 10.

Capital Project Definitions

- Some project definitions used:
 - State of Good Repair (SOGR):
 - Projects that maintain assets in a condition that supports the level of service that we have currently, including health and safety, maintenance, renewal and replacement.
 - In 2009, Council approved a policy objective to fund all renewal and replacement either through “pay as you go” operating sources or replacement reserves.

Capital Project Definitions (Cont'd)

- Service Improvements:
 - Projects that increase a level of service to existing residents and businesses.
- Growth:
 - Projects that provide services to new residents or businesses.

Capital Funding Definitions

- Some of the funding definitions used:
 - Gross spending:
 - New funding for capital projects required.
 - Carry over funding:
 - Project funding that was not spent in prior years and is still available to be spent.
 - Total work plan:
 - Gross spending plus carry over funding,
 - Net spending:
 - Funding to be “raised” through debt or transfers from the operating budget.
 - Operating cost of capital:
 - Cost of operating the new assets (staffing, utilities, cleaning)

2018/19 Capital

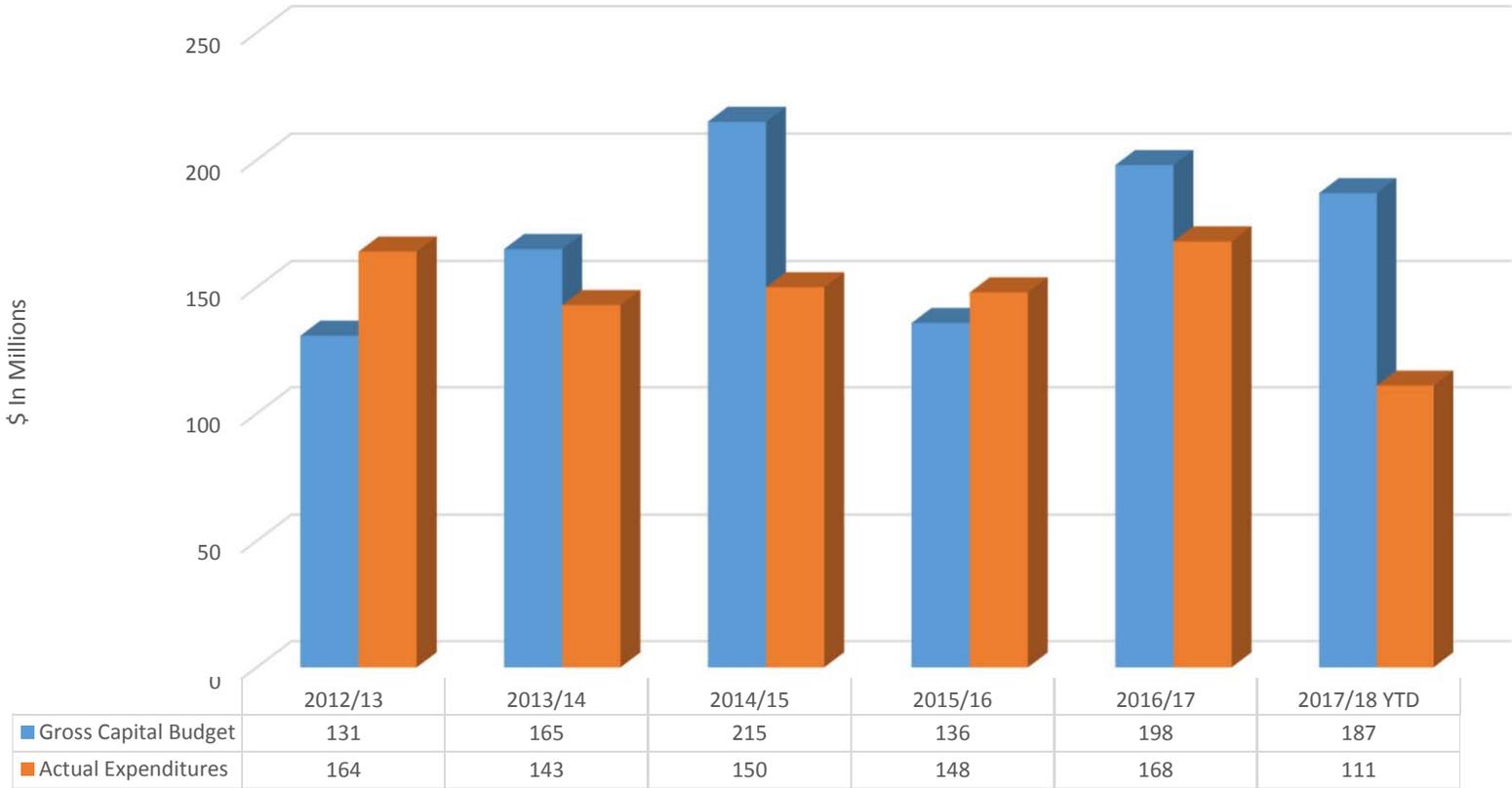
- Budget will be balanced using the following assumptions:
 - Gross spending of \$161M:
 - \$101M State of Good Repair
 - \$56M Service Improvements.
 - \$4M Growth.
 - Funding Assumptions
 - Gas Tax - \$26M
 - Reserves - \$43M
 - Debt - \$30M
 - Operating Pay as Your Go - \$36M
 - Cost Sharing - \$19M
 - Other Funding - \$6M

Capital Funding Risks

- The budget for 18/19 contains the following operating risks:
 - \$1M in additional Capital Requests
 - \$9m in additional road capitalization is unfunded
 - \$8.5m Transit (PTIF) funding in the budget but not yet approved.
 - Outstanding impact if there is a reduction in “pay as you go” funding from operating, if needed, to balance the operating budget.
- The Federal Funding Programs:
 - Scheduled to start in 2018/19.
 - Agreements have not been signed.
 - Risk that projects identified are not selected for funding under the signed Agreements.

Capital Spending History

5-Year Capital Budget vs Actuals



Capital Carry Forward

- The current capital projections contain a carry forward of approximately \$154m.
- This is due to projects that have “slipped” into future fiscal periods or projects that have “stalled” due to a variety of reasons.
 - Transit Technology Implementation (\$7M)
 - Downtown Streetscapes (\$11M)
 - Street Recapitalization (\$7M)
 - Active Transportation (\$4M)
- Other key projects have projected carry forward amounts:
 - Cogswell Interchange (\$15M)
 - Business Parks (\$7M)
 - LED Streetlight Conversion (\$5M)

Capital Pressures 18/19

- Key projects were added to the Capital Budget in 2018/19:
 - Increase to Dartmouth Sportsplex of \$2.475M (reserve)
 - MacKintosh Depot Upgrades – Total \$13.5M of which \$750K required in 2018/19.
 - Technology Projects – Total increase \$3.2M in 2018/19
 - (\$1.9 offset by surplus and deferred projects)
 - Transit Centre Roof Repairs – \$2M in 2018/19.
 - Ragged Lake Transit Centre Expansion \$2M in 2018/19
 - Electric Bus Pilot - \$1M in 2018/19

Capital Cashflow Adjustments

- The Cashflow on some projects are proposed to be adjusted:
 - Sheet Harbour Recreation Centre (\$2.4M)
 - South Peninsula School Gym enhancement (\$460K)
 - Employee Self Service Technology (\$425K)
 - Transit Technology (\$4.4M)
 - Wrights Cove Terminal (\$800K)
 - Beazley Field Complex (\$500K)
 - Cornwallis Park Master Plan Implementation (\$500K)
 - Halifax Common Upgrades (\$1M)

Summary

Budget Category	2018/19 Gross Capital Budget	2018/19 Net Capital	2018/19 Gross from 17/18	2018/19 Net from 17/18	Gross Variance from 17/18	Net Variance from 17/18
Buildings	25,945,000	13,311,000	23,825,000	12,816,000	2,120,000	495,000
Business Tools	12,531,000	10,971,000	9,735,000	7,735,000	2,796,000	3,236,000
District Capital Funds	1,504,000	1,504,000	1,504,000	1,504,000	-	-
Equipment & Fleet	6,800,000	6,800,000	6,700,000	6,700,000	100,000	100,000
Halifax Transit	23,907,000	16,053,500	27,232,000	16,773,500	- 3,325,000	- 720,000
Parks & Playgrounds	8,608,500	7,150,000	7,800,000	7,050,000	808,500	100,000
Roads & Active Transportation	49,325,000	38,100,000	48,100,000	38,435,000	1,225,000	- 335,000
Solid Waste	5,085,000	-	4,235,000	-	850,000	-
Traffic Improvements	27,530,000	4,350,000	27,530,000	4,350,000	-	-
Grand Total	161,235,500	98,239,500	156,661,000	95,363,500	4,574,500	2,876,000

Budget for 2018/19 - Balanced

- Budget will be balanced for 2018/19:
 - Based on direction of the Capital Steering Committee and COW, the budget will be balanced.
 - New priority projects have been added.
 - Some projects are recommended to be moved to future years.
 - Funding is consistent with what had been approved in principle in 2017/18.

Next steps – 2018/19

- A detailed list of projects will be prepared for COW.
- The proposed Capital Budget will be presented to Council that is balanced to the current level of available funding.
- Council will also be asked to approve a list of Advanced Tender Projects. This will allow these projects to be designed and tendered. The work is not to begin until the Capital Budget has been approved by Council.
- Capital Projects will be incorporated into the business unit plans presented.
- Council will be asked to approve this detailed Capital Budget for 2018/19 as part of their final approval of the budget.

HALIFAX

Long Term Capital Budget

Standing Committee of the Whole on Budget
December 13th, 2017



Long term Capital Plan

- Summarize the key items from the October 3, 2017 Long Term Strategic Capital Update.
- October 3, 2017, Council approved the following motion:
 - “THAT Halifax Regional Council direct staff to bring forward a framework for a ten-year capital outlook aligned with Regional Council Priorities, along with an initial ten-year capital outlook that includes funding for the Planned Strategic Projects as noted in the September 6, 2017 staff report, and options for other capital outlays including the Potential Strategic Projects”.

Current Capital Plan - Years 2 to 10

- The Capital Plan circulated in 2017/18 identified years 2 to 10 that included large scale projects such as Commuter Rail, Halifax Forum Redevelopment, Needham Centre, Police Headquarters, Stadium, Performing Arts, Regional Heritage Museum, Library Master Plan, Transit Centre, Shearwater Connector, Burnside Connection to HWY 107.
- Based on the details presented in 2017/18 and updated in 2018/19:
 - Total Proposed Gross Budget \$1.95B
 - Projects specific funding – Cost Sharing, Reserves \$403M
 - Net Budget to be funded by Debt, Funds from Operating \$953M
- If the current funding sources stay reasonably consistent we will have a shortfall of \$592M, excluding IMP.
- This is not sustainable.

Other Items to Consider

- There are key items that should be considered when looking at the long term picture for the Capital Plan:
 - If properties are not sold or do not generate sufficient funds, the reserves will have a shortfall that will need to be funded and could impact other strategic projects.
 - If we increase the debt funding for projects, it will put additional pressure on the operating budgets.
 - There could be other sources of funds that could support the Current Plan.
 - Federal/Provincial cost shared programs.
 - Other options, CCC's, other cost sharing.

Moving Forward – Long Term

- Review the Capital Plan to confirm the priorities:
 - Consider Council Priorities, approved strategic plans.
 - Projects that are not priorities should be removed from the Capital Plan.
- Review the appropriate timing for projects:
 - Projects should be allocated to the year when the project can be delivered.
- Establish a sustainable funding program for the Capital Plan.