

HALIFAX

Fiscal Framework 2017 to 2020

Presentation for Halifax Regional Police Board of
Commissioners – January 16, 2017

Extracts from Halifax Regional Council Committee
of the Whole Presentation on December 14, 2016
– Preliminary Approval of Fiscal Direction 17/18
and Multi Year Business Plans

Presentation Outline

- How do Council's priorities shape budgets and fiscal strategies?
- What financial tools are available to support Council's decisions?
- What is the base case estimate for the next 4 years?
- What scenarios can be created to balance and sustain fiscal health?
- What is the recommended preliminary fiscal strategy?
-plus HRP specific focus – budgets, cost structure and reserves

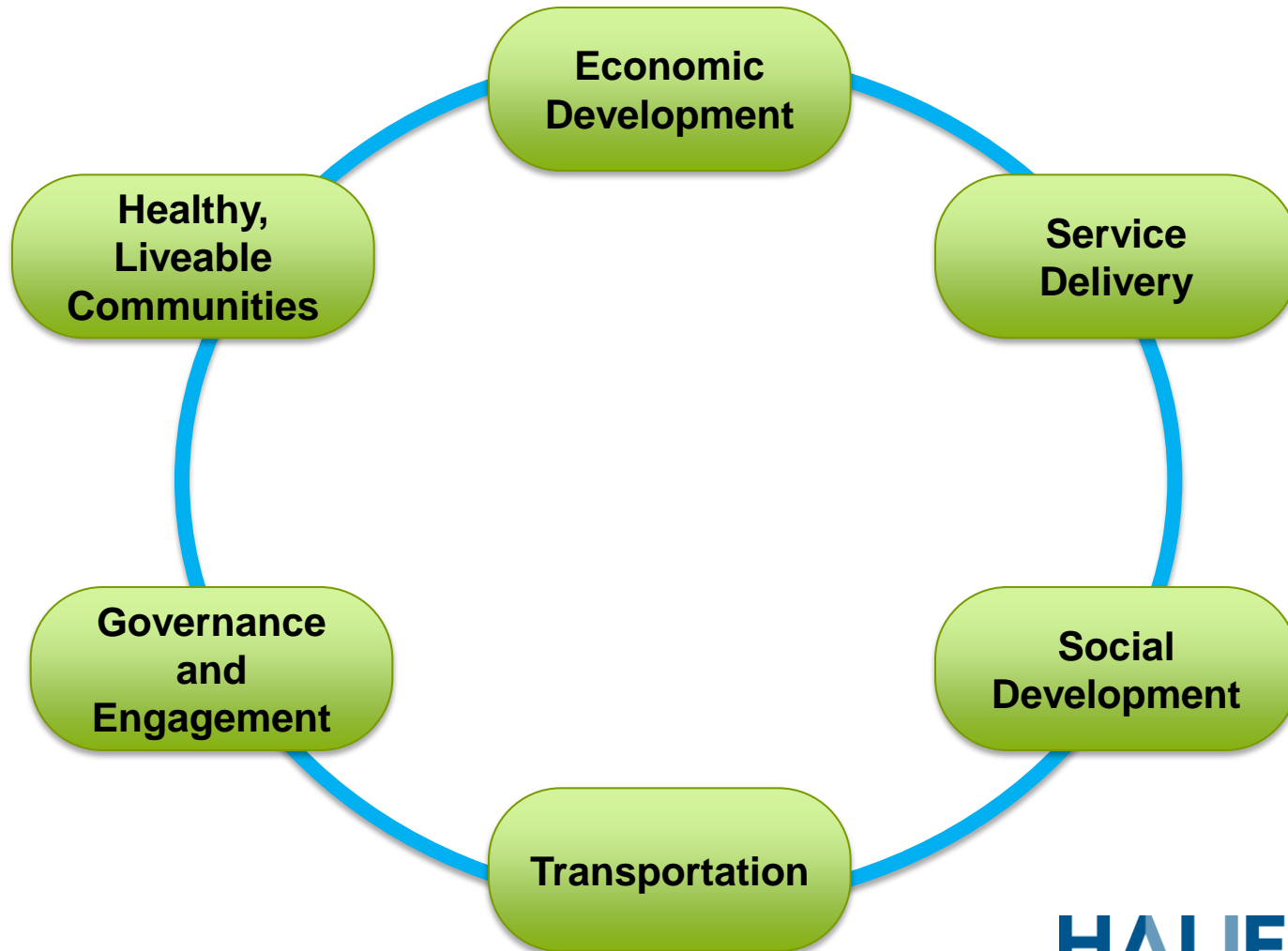
Council's Priorities

Recommendation

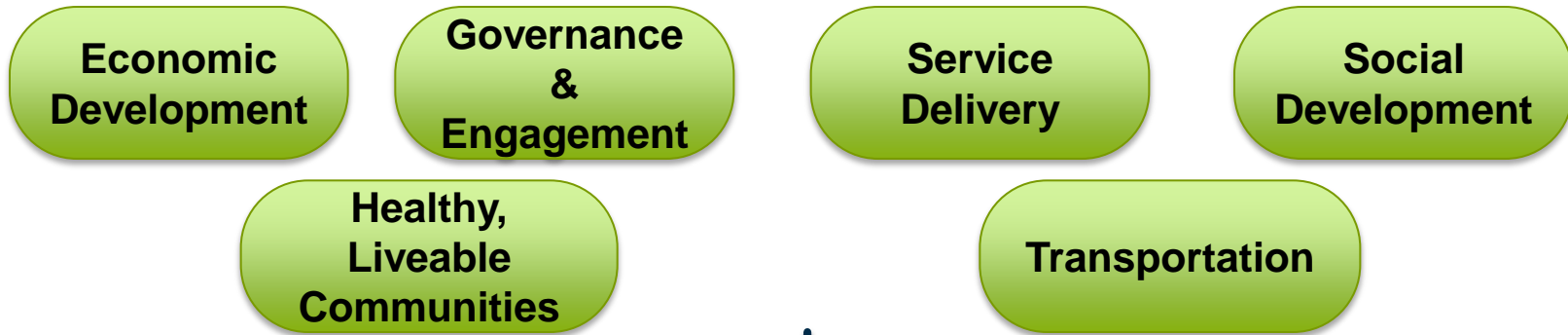
It is recommended that staff develop the multi-year operating budgets for 2017-2018 and 2018-2019 according to Council's approved priorities, and preliminary fiscal direction, including:

- 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 with all relative economic indicators.

Alignment with Council Priorities



2. Existing Municipal Services



**Service and Capital investments should reflect Council's Priorities
Budgets should be aligned to have maximum impact on priorities**

- Public Transit
- Police Service
- Fire and Emergency Services
- Streets and Roads and Sidewalks
- Recreation and Cultural Programs
- Libraries
- Community Planning
- Economic Development
- Regulatory and Compliance Services
- Environmental Stewardship
- Environmental Services (water, waste water and storm water management services are provided by Halifax Water)

Approach to Multi-year Budgeting

- Benefits
 - Predictability/sustainability
 - Less annual effort
 - Enables long term view
 - Reflects modern practices in other jurisdictions
- Approach
 - Years 1 and 2 to budget quality
 - Years 3 and 4 estimates
- Direction from Council
 - Approve Annual Budget and multi years in principle at Council's discretion

4 Critical Influences

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

4 Critical Influences

1. Operating Budget

Property Tax Levels:

- Average Single Family Home pays \$1,835
- 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?

Economic and Financial Assumptions

Council's Aspirational Growth Plan

	2016	by Year 5 (2021)	by Year 15 (2031)
Population (000)	423,000	470,000	550,000
Annual Growth Rate	1.2%	1.7%	1.7%
Real Gross Domestic Product (GDP)	\$18.7 Billion	\$22 Billion	\$30 Billion
Annual Growth Rate	2.6%	2.9%	2.9%

Source: Halifax Partnership

Base Budget Assumptions for Next Four Years

	Year 1	Year 2	Year 3	Year 4
	2017-18	2018-19	2019-20	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

Base Budget Assumptions

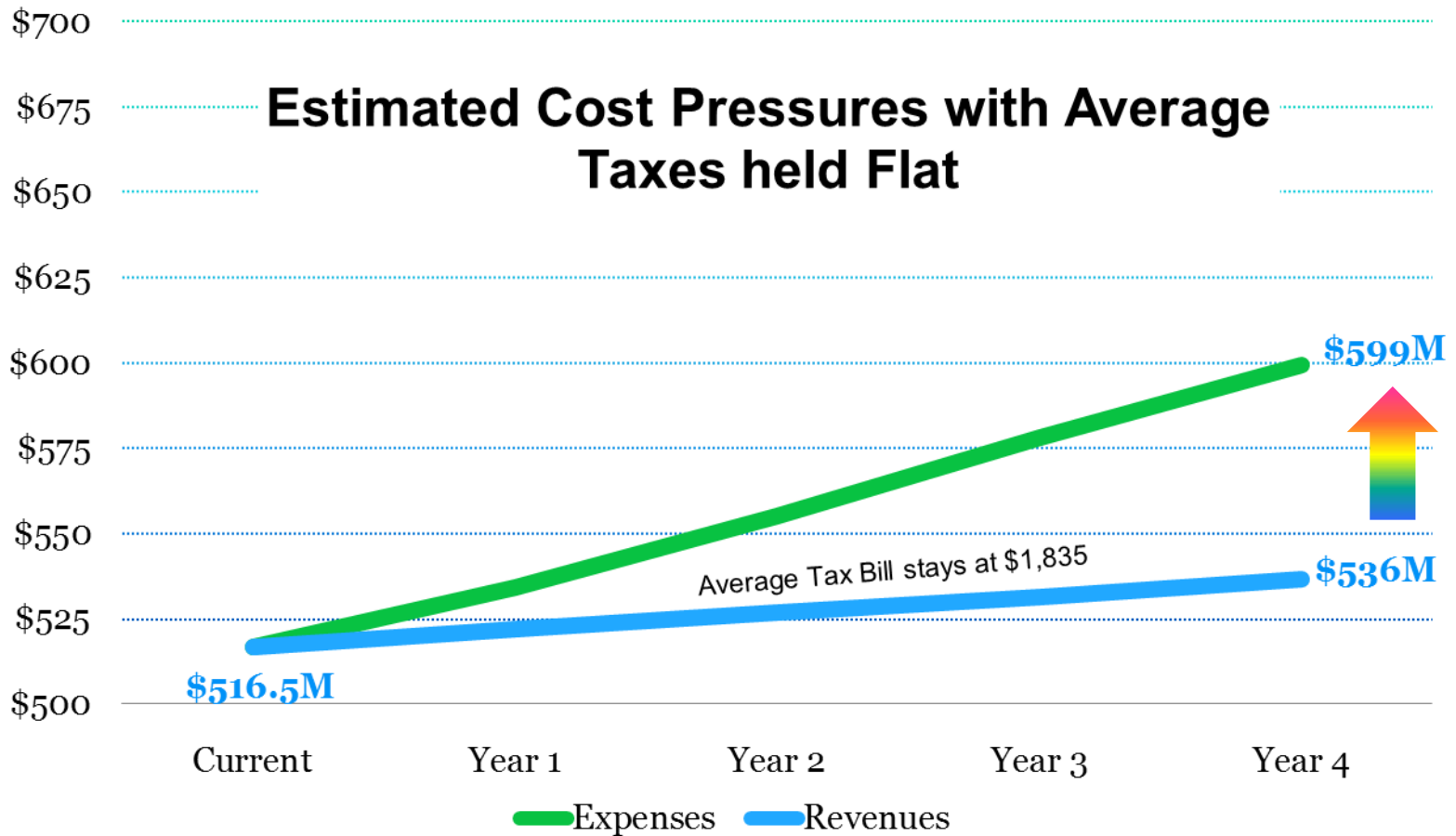
How Do They Shape our Costs?

Base Case Scenario - Taxes Flat, Expenses Rise with Inflation and Demographics

	Base Year 2016-17	Year 1 2017-18	Year 2 2018-19	Year 3 2019-20	Year 4 2020-21
Operating Budget Gap (Millions)	\$0	\$12	\$28	\$47	\$63
Average Property Tax Bill	\$1,835	\$1,835	\$1,835	\$1,835	\$1,835
Net Capital Budget (Millions)	\$100	\$97	\$101	\$105	\$108
Debt (Millions)	\$250.9	\$245.8	\$240.7	\$235.6	\$230.6
Per Dwelling Debt Ratio (Tax Supported)	\$1,299 5.9%	\$1,260 5.7%	\$1,222 5.9%	\$1,185 6.2%	\$1,149 6.1%
Reserves (Millions)	\$95.3	\$118.3	\$117.1	\$114.4	\$109.8

Note: 2016-17 Net Capital Budget (\$100m) includes additional Debt, Capital from Operating and Gas Tax funds. Gross Capital Budget (\$198m) also includes \$98m in cost sharing, infrastructure funds and reserves.

The Medium Term Trend



Compensation is a significant Cost Driver

- Compensation is 50% of the Municipal Budget
- HRM has seven collective agreements, all with significant wage pressure
 - Six to negotiate for 2017-18
- Pension costs remain substantial.
- Approved wage mandates are held in fiscal until contract finalized with unions.

Compensation as a Percent of Budget

Transportation & Public Works*	21%
Operations Support	40%
CAO	52%
Parks & Recreation	61%
Halifax Transit	64%
Finance & ICT	69%
Library	75%
Planning & Development	81%
Legal	86%
Human Resources	88%
Police	92%
Fire	94%
Auditor General	94%

* **Note:** TPW includes Contracts for Solid Waste, Winter Works and other services.

HRP Actuals – Historical View

Expense Category	2015-16			2016-17		Projected Variance
	Actuals	Budget	Variance	Forecast	Budget	
Total Revenues	-\$7,773,821	-\$7,393,800	\$380,021	-\$9,022,600	-\$8,776,700	\$245,900
6001 Salaries - Regular	57,665,097	60,111,900	2,446,803	59,595,400	60,230,200	634,800
6002 Salaries - Overtime	3,575,796	2,618,000	-957,796	4,060,200	2,715,300	-1,344,900
6050 Court Time	1,110,893	1,187,500	76,607	1,081,500	1,187,500	106,000
Other Compensation & Benefits	14,493,121	14,017,200	-475,921	14,796,500	14,463,900	-332,600
Office	515,450	555,100	39,650	519,700	560,200	40,500
External Services	2,913,468	2,721,500	-191,968	3,058,600	2,930,700	-127,900
Supplies	809,619	596,200	-213,419	867,600	632,200	-235,400
Building Costs	78,066	53,700	-24,366	53,700	53,700	0
Equipment & Communications	946,707	1,799,700	852,993	1,568,600	1,689,500	120,900
Vehicle Expense	7,529	4,000	-3,529	4,000	4,000	0
Other Goods & Services	1,626,675	1,667,800	41,125	1,829,000	1,810,300	-18,700
Interdepartmental	345,945	-216,200	-562,145	-216,200	-216,200	0
Other Fiscal	30,238	-639,800	-670,038	-442,000	-319,900	122,100
Total Expenditures	\$84,118,602	\$84,476,600	\$357,998	\$86,776,600	\$85,741,400	-\$1,035,200
Net Expenditures & Surplus/Def	\$76,344,781	\$77,082,800	\$738,019	\$77,754,000	\$76,964,700	-\$789,300

- 2013-14 Net Surplus: \$ 2,231,946
- 2014-15 Net Surplus: \$ 418,549

HRP – Support Services

- Services provided to HRP from within HRM Business Units: \$7,162,000
- Services provided to HRP from within HRP Budget: \$3,731,000
- Examples include HR, IT, Payroll, Finance, Facilities Management etc.
- As a function of total approx. budget of \$77M + \$7M = \$84M; $\$11M/\$84M = 13\%$ Direct + Indirect Costs

HRP – Support Services

- Health and Wellness Services currently provided by central HR – uptake limited to ergonomic assessment. More options available – EAP, Wellness Programing etc.
- Criminal Record Check revenue – standardization options and potential revenue loss

Development of the Base Case and Council's 7 Tools

The 7 Key Decisions – Base Case

	Base Year 2016-17	Year 4 2020-21	Change \$	
Operating Budget Gap (Millions)	\$0	\$63	\$63	
Average Property Tax Bill	\$1,835	\$1,835	\$0	1 Tax Decisions
Property Tax Revenues	\$517m	\$536m	\$20m	
Existing and New Homes and Businesses	516.5	536.5	19.9	
Tax Increase/Decrease	0.0	0.0	0.0	
Services provided	\$452m	\$489m	\$37m	2 Existing Services
Existing Services (net cost)	452.2	472.1	19.8	
New or Expanded Services	0.0	17.0	17.0	3 New Services
Fiscal Items	\$64m	\$110m	\$46m	
Debt Charges - to repay debt (Capital Budget)	54.2	55.4	1.2	
Capital from Operating - for the Capital Budget	41.3	51.8	10.5	
Reserves - for risk, opportunities, obligations	22.1	22.9	0.8	
Other expenses and revenues (net)	-53.3	-20.1	33.2	Capital Budget
Net Capital Budget (Millions)	\$100	\$108	\$8	4 5 Cap from Op
Debt (Millions)	\$250.9	\$230.6	-\$20.3	6 Debt
Reserves (Millions)	\$95.3	\$109.8	\$14.5	7 Reserves

1. Taxes

- Assessment based tax system
 - A wealth tax. (Not a service tax)
 - Assumes higher assessment = a greater ability to pay
- The main source of revenues for HRM
 - 80% of all revenues
 - Limited alternatives for additional revenues
 - Limited cost-sharing from other governments
- HRM compares well to other cities
- Tax Revenues are growing slower than
 - Inflation
 - Personal Income
 - Expenditure Pressures

Average Assessment and Tax Rates - Residential

Average Assessments and Tax Rates

	Base Year	Year 1	
	2015-16	2016-17	
Average Assessment (Single Family Home)	\$223,700	\$225,700	The property tax rates will be reduced to offset any assessment increase.
* Urban Tax Rate	0.820	0.813	
Average Tax Bill	\$1,835	\$1,835	

Average Assessment and Tax Rates - Commercial

Average Assessments and Tax Rates

	Base Year	Year 1	
	2015-16	2016-17	
Average Comm'l Property (excl. 2015 bldg permits)	\$1,409,300	\$1,440,600	} The property tax rates will be reduced to offset any assessment increase.
Urban Tax Rate	2.895	2.832	
Average Tax Bill	\$40,800	\$40,800	

Business Unit Budget Development

- Business Units will be present draft budgets and business plans that meet Council's fiscal direction.
- Council will also be presented with
 - Options connected to priorities
 - The impact of those options on
 - The average tax bill
 - Council's Priorities
 - Service Delivery

Sample Options Format

Description	Proposed 17/18 \$ Impact	Projected 18/19 \$ Impact	Impact on avg. Tax Bill (for 17/18)	Impact on Service Delivery/Priorities
Eg, Procure 100 more products/year	\$200,000	\$210,000	\$0.79	Meet community demand for products which encourage youth engagement, a Council Priority
Eg, Change response time from 24hrs to 48 hrs	-\$100,000	-\$100,000	-\$0.39	Service is performing at 98% within standard so longer wait for service may be acceptable. Service is not aligned with Council's Priorities

4. Capital Budget

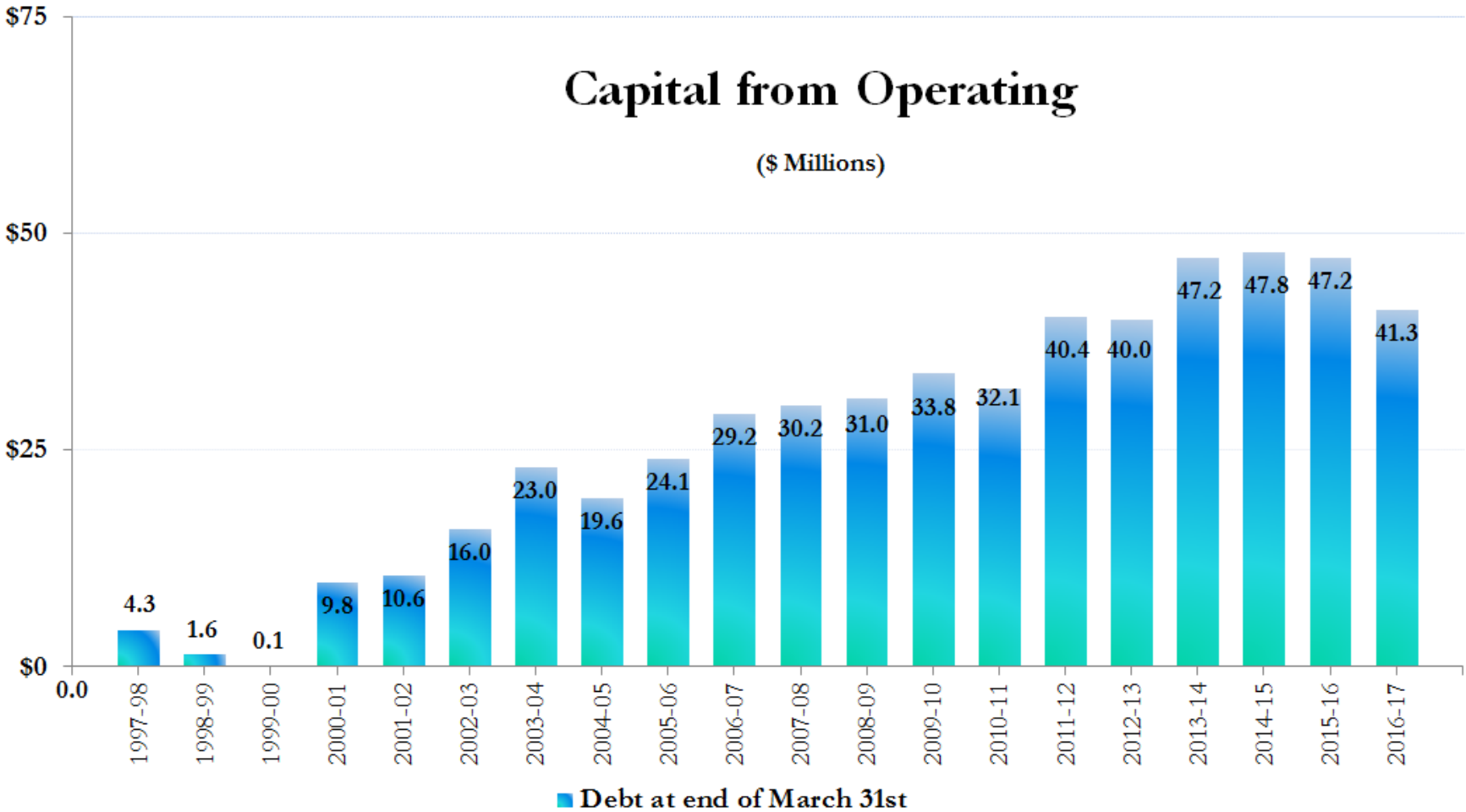
- Over \$3.4 Billion worth of assets
- Replacement value over \$5 Billion
 - 308 Buildings
 - 1,215 Parks and Playgrounds
 - 638 sport field / courts and ball fields
 - 1,800 KM's of Paved Roads
 - 920 KM's of Sidewalks
 - 222 KM's of trails
 - 82 Bridges
 - 1,200 Vehicles and 4 Ferries

5. 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 66% 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) \$78.9m
 - 2016 Capital from Operating \$41.3m

Capital from Operating

(\$ Millions)



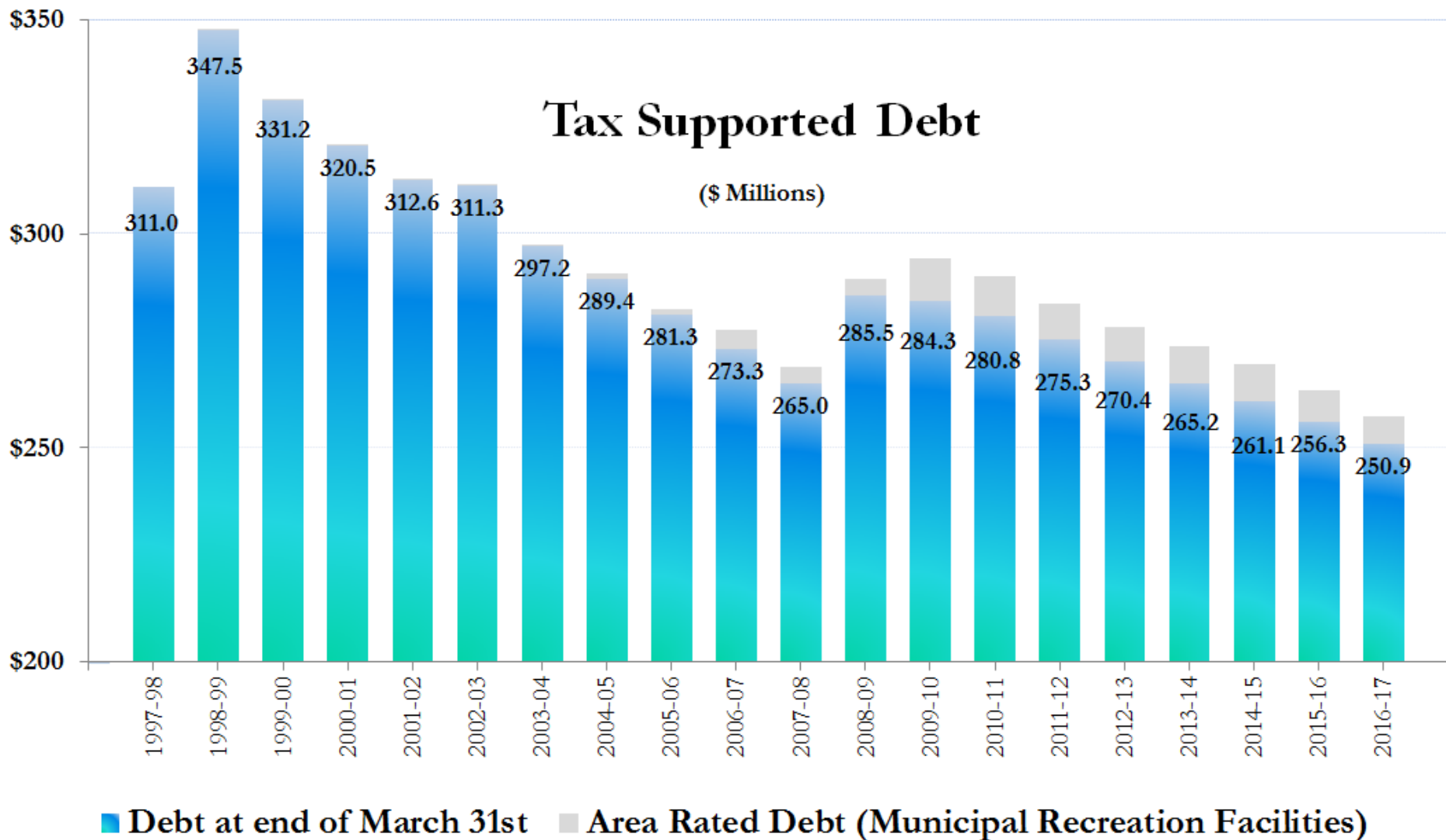
Debt includes funding that is approved, issued and work-in-progress (WIP) as of March 31st year-end.

6. 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

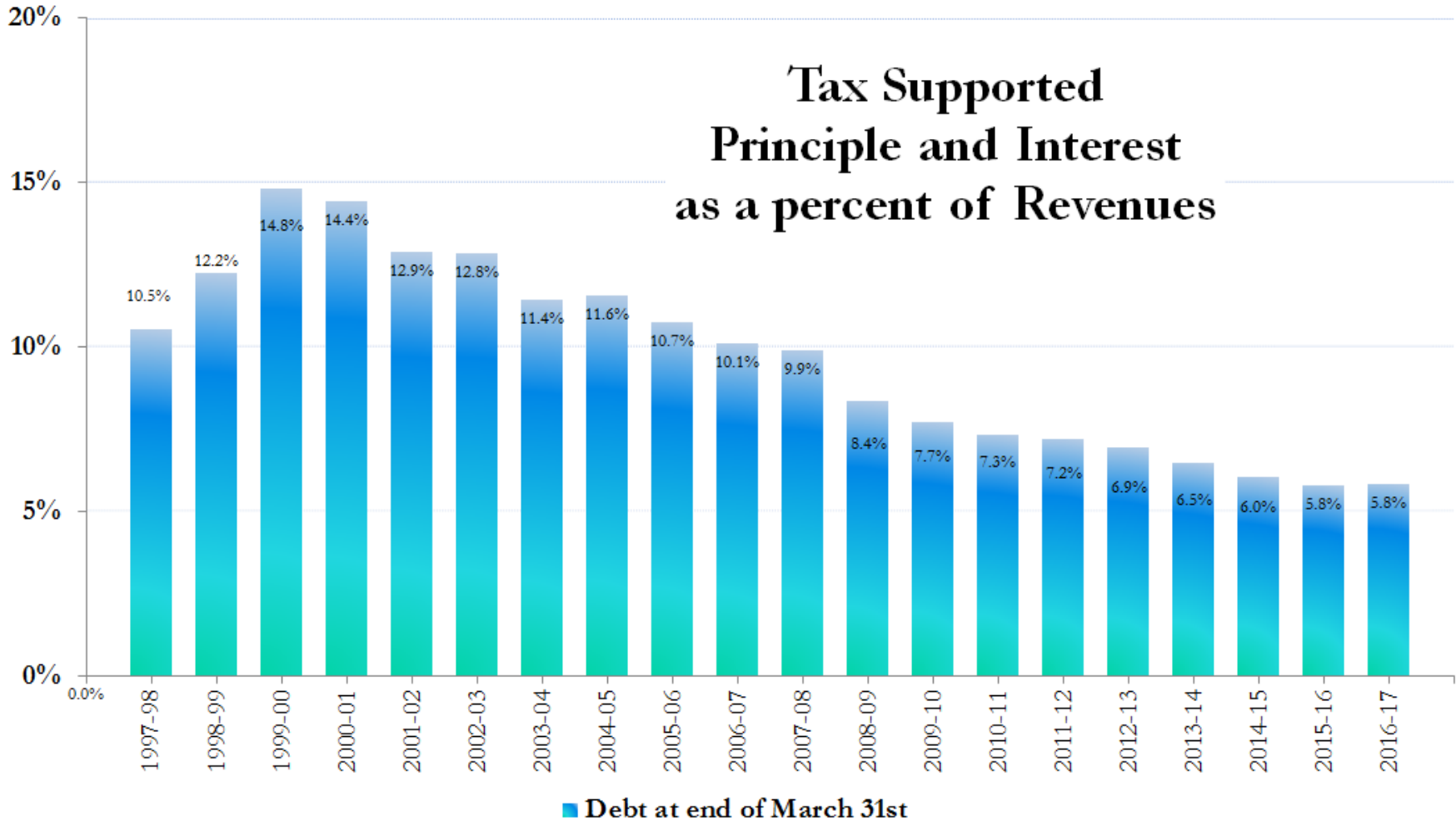
Tax Supported Debt

(\$ Millions)



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

Tax Supported Principle and Interest as a percent of Revenues



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

7. Reserves

- The Gross balance of Reserves is \$180.0m (as of September 30, 2016). The Net Available balance is projected to be \$95.3 million (as of March 31, 2017).
- HRM has 20 reserves, with Council approved business cases. There are three categories of reserves:
 - To offset **Risk**:
 - Net Available - \$14.9m (projected for March 31st, 2017)
 - Eg, Operating Stabilization
 - Eg, General Contingency
 - To save for Future **Obligations**:
 - Net Available - \$31.0m (projected for March 31st, 2017)
 - Eg, Landfill Closure/Post Closure
 - Eg, Building Recapitalization and Replacement
 - To provide for **Opportunity**:
 - Net Available - \$49.4m (projected for March 31st, 2017)
 - Eg, Strategic Capital Reserve,
 - Eg, Business/Industrial Parks Expansion
- Withdrawals from reserves must be approved by Council.

HRP – Reserves Funding

- On July 26, 2016, Regional Council approved the consolidation of 52 reserves to 20 reserves to improve flexibility, and reduce duplication and administration.
- Combined with the Operating Stabilization Reserve \$4,800,146:
 - Emergency/Extraordinary Investigation Reserve: \$1,041,129
 - Provincially Funded Police Officers and Facility Lease Reserve: \$3,534,198
 - DNA Cost Reserve: \$224,819
- Expected balance as of March 31/17 is \$10.5M after pending withdrawals of \$300K from HRP. DNA Cost reserve to be used to offset provincial invoice.
- The Police Officer On the Job Injury (Compensation) Reserve remains separate. Balance at December 31, 2016: \$1,865,352

Operations Stabilization Reserve Business Case – Type and Use

- Risk Reserve – all withdrawals subject to Council's approval.
- Used to fund unforeseen events – economic or emergency, and public safety or preventing service interruptions
- Sources/Uses of funds include year end position, and;
 - Variance between funds received/used for provincially funded police officers and interest
 - Costs for provincially funded police officers – salaries, benefits, facilities and equipment.

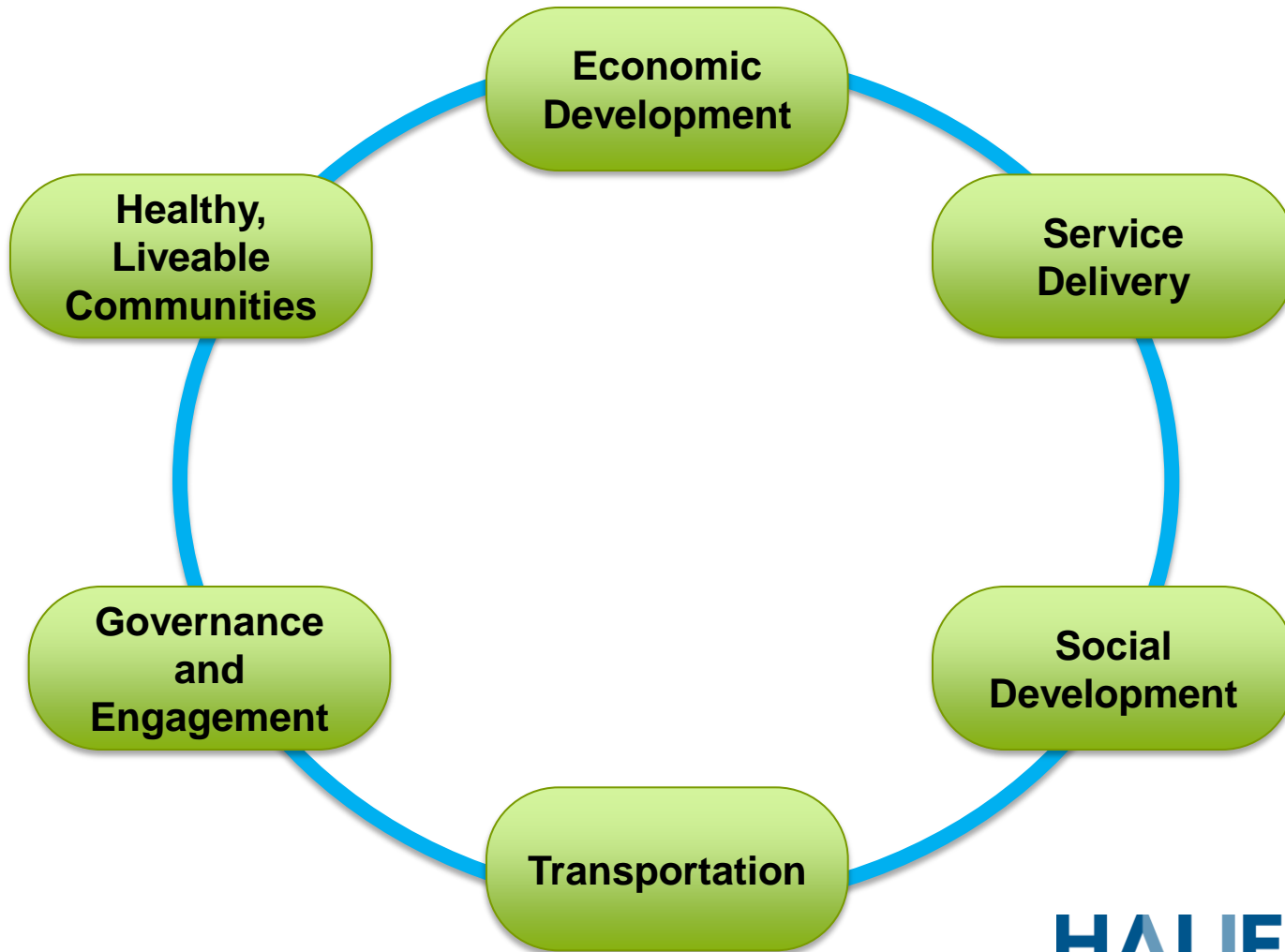
How Financial Tools Support Council's Key Decisions

Scenario C – Balancing by reducing existing costs, enhancing services and increasing the tax rate (matched to inflation and then declining)

	Base Year 2016-17	Year 4 2020-21	
Operating Budget Gap (Millions)	\$0.0	\$0.0	
Average Property Tax Bill	\$1,835	\$1,938	← Average Property Tax Bill up by 5.6%
Property Tax Revenues	\$517m	\$566m	
<u>Existing</u> and <u>New</u> Homes and Businesses	516.5	536.4	
Tax Increase/Decrease	0.0	30.0	
Services provided	\$452m	\$477m	← Services up by \$25m
Existing Services (net cost)	452.2	460.1	
New or Expanded Services	0.0	17.0	
Fiscal Items	\$64m	\$89m	
Net Capital Budget (Millions)	\$100.0	\$97.1	← Capital down by \$3m
Debt (Millions)	\$250.9	\$230.6	
Reserves (Millions)	\$95.3	\$109.8	

Recommendations for Sustainability

Alignment with Council Priorities






Recommended Preliminary Fiscal Direction – Scenario C

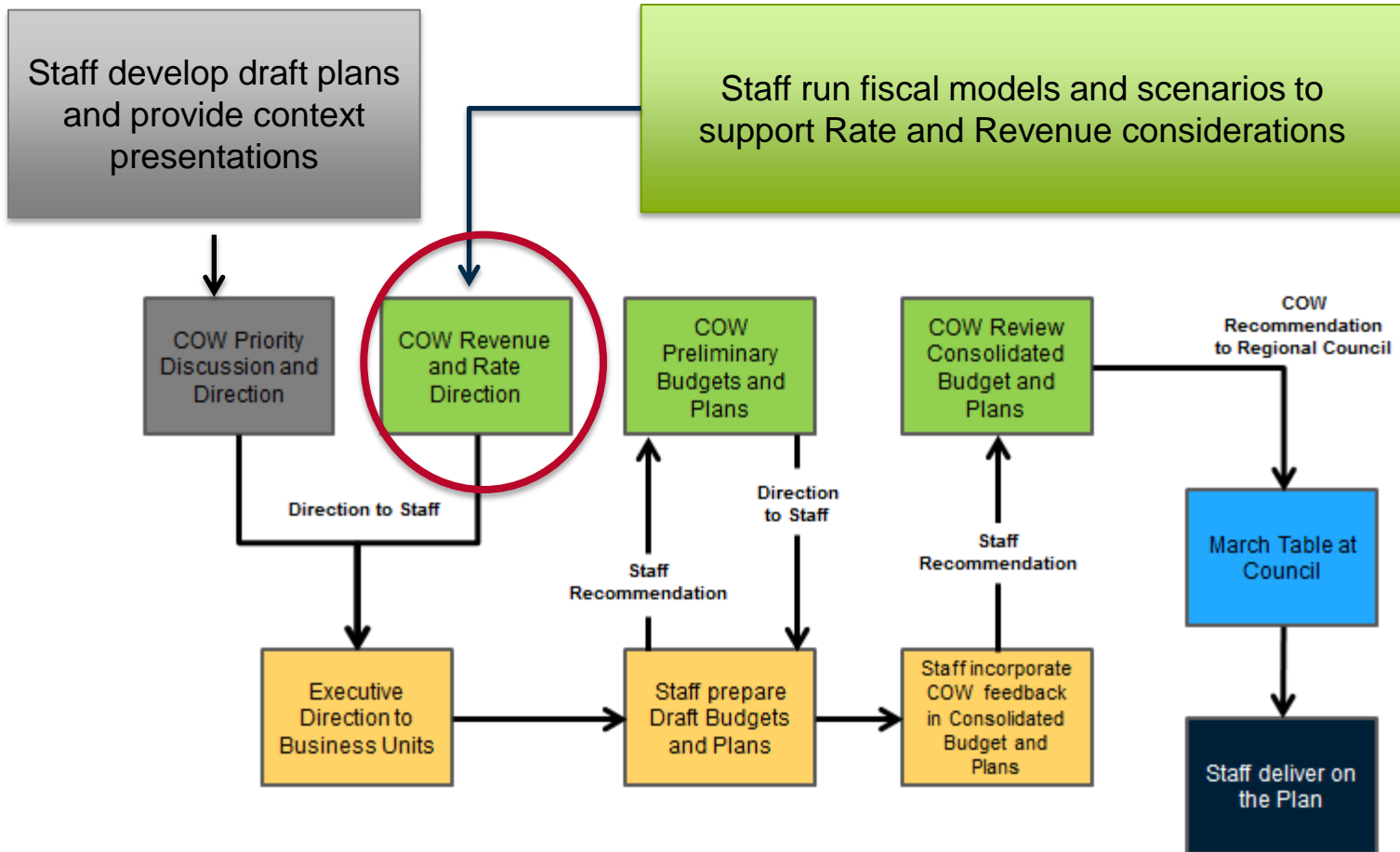
	Year 1 2017-18	Year 2 2018-19	Year 3 2019-20	Year 4 2020-21
Operating Budget Gap (Millions)	\$0.0	\$0.0	\$0.0	\$0.0
Average Property Tax Bill	\$1,868	\$1,898	\$1,923	\$1,938
Percent Change	1.8%	1.6%	1.3%	0.8%
Property Tax Revenues	\$531m	\$545m	\$557m	\$566m
<u>Existing</u> and <u>New</u> Homes and Businesses	521.9	526.7	531.3	536.4
Tax Increase/Decrease	9.0	17.9	25.4	30.0
Services provided	\$462m	\$468m	\$473m	\$477m
Existing Services (net cost)	456.5	458.0	459.2	460.1
New or Expanded Services	5.3	9.7	13.9	17.0
Fiscal Items	\$69m	\$77m	\$84m	\$89m
Net Capital Budget (Millions)	\$97.2	\$97.2	\$97.0	\$97.1
Debt (Millions)	\$245.8	\$240.7	\$235.6	\$230.6
Reserves (Millions)	\$118.3	\$117.1	\$114.4	\$109.8

Average Assessment and Tax Rates

Preliminary Estimates

	2015-16	2016-17	Year 1 2017-18	
Average Assessment (Single Family Home)	223,700	225,700	231,800	
* Urban Tax Rate	0.820%	0.813%	0.807%	
Average Tax Bill	\$1,835	\$1,835	\$1,868	 \$33 or 1.8%

Budget Development Process



Recommendation

- It is recommended that staff develop the multi-year operating budgets for 2017-2018 and 2018-2019 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;
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 - appropriate reserve balances that allow for risk mitigation, future obligations and opportunities;
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