

# HALIFAX

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**Item No. 12.1.5**  
**Audit & Finance Standing Committee**  
**October 5, 2016**

**TO:** Chair and Members of Audit & Finance Standing Committee

**SUBMITTED BY:** Original Signed  
Jacques Dubé, Chief Administrative Officer

Original Signed

Amanda Whitewood, Director, Finance and Information, Communication & Technology/CFO

**DATE:** September 28, 2016

**SUBJECT:** Allocation of Unplanned Revenue to Reserves

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## **ORIGIN**

On September 6, 2016, Council approved a settlement with the Federal Government concerning a long standing dispute over payment in lieu of taxes due for the Citadel. At the meeting, Council directed "staff to report back to Audit and Finance on options and recommendations for allocating the funds related to this settlement to reserves at the later of the December 7, 2016 meeting or when Attachment 1 is declassified, and that Audit and Finance make a recommendation to Regional Council on such allocation in accordance with *Financial Reserves Administrative Order*".

## **LEGISLATIVE AUTHORITY**

Halifax Charter, section 93(1) - The Council shall make estimates of the sums that are required by the Municipality for the fiscal year; Halifax Charter, section 79(1) - Specifies areas that the Council may expend money required by the Municipality; Halifax Charter, section 35(2)(d)(i) - The CAO can only authorize budgeted expenditures or within the amount determined by Council by policy; Halifax Charter, section 120(6) - The Municipality may maintain other reserve funds for such purposes as the Council may determine. Council approved Administrative Order 2014-015-ADM to govern reserves and approved revised business cases for 20 reserves on September 20, 2016. No reserve funds will be expended without the CAO's recommendation and Council approval.

## **RECOMMENDATION**

It is recommended that the Audit and Finance Standing Committee recommend to Council that the amount of \$18,024,000 be allocated to the Opportunity Reserve - Strategic Capital Reserve, Q606.

**BACKGROUND**

On September 6, 2016, Council reviewed and approved a settlement agreement with the Federal Government concerning a long standing dispute concerning the Payment in Lieu of Taxes (PILT) related to the Citadel.

Council directed staff to report back to Audit and Finance Standing Committee on options and recommendations for allocating the funds related to this settlement to reserves.

**DISCUSSION**

The settlement has resulted in a one-time improvement in our financial position in the 2016/17 fiscal year of \$18,024,000. This improvement provides Council with many opportunities ranging from allocating all of the \$18,024,000 to our operating accounts to fund initiatives or projects, to allocating the full amount to reserves. It is also possible to choose a combination of these options, keeping in mind that any allocation to improve service levels within the operating budget will likely cause the need to increase tax revenues in coming years. The funding is not recurring and is therefore not an ideal match for recurring operating costs.

In providing advice to the Audit and Finance Standing Committee, our starting point was to review the reserves to determine if any of the 20 reserves approved by Council on September 20, 2016 were significantly underfunded. While we have not completed the detailed cash flow analysis or determined the minimum and maximum balances for each reserve, we do know that the March 31, 2017 balance is projected to decline by 45% from the opening balance. This was reported to Audit and Finance and Council at year end and at the Q1 report and is based on Council-approved withdrawals and planned deposits.

**Summary of All 20 Reserves by Reserve Type:**

Reserves	Opening Balance as of April 1, 2016	Transfers Into Reserve	Transfers Out of Reserve	Current Balance as of August 31, 2016	Pending Revenue (contribution and or interest)	Pending Expenditures	Projected Available Balance March 31, 2017
Risk Reserve	17,697,627	76,696	(1,213,000)	16,561,323	95,604	(903,845)	15,753,082
Obligation Reserve	73,137,220	6,645,628	(9,771,289)	70,011,559	13,085,698	(49,388,496)	33,708,761
Opportunity Reserve	105,830,937	20,694,066	(18,879,733)	107,645,270	67,378,550	(115,929,507)	59,094,313
<b>Total Reserves</b>	<b>196,665,784</b>	<b>27,416,390</b>	<b>(29,864,022)</b>	<b>194,218,152</b>	<b>80,559,852</b>	<b>(166,221,848)</b>	<b>108,556,156</b>
					<b>Change from opening balance</b>		<b>-45%</b>

The Opportunity Reserve - Strategic Capital Reserve, Q606, is one of 6 reserves included above in the Opportunity Reserves Category.

The Opportunity Reserve - Strategic Capital Reserve, Q606 will have continued and significant pressure for the foreseeable future as Council delivers on their priorities to grow the Municipality. This reserve is to provide funding for large capital projects that are strategic in nature and to allow the Municipality to take advantage of leveraging funds from other levels of government and external agencies.

**Budget Summary, Opportunity Reserve – Strategic Capital Reserve, Q606**

Balance in Reserve, August 31, 2016	\$ 47,535,610
Pending Contributions to March 31, 2017, as at August 31, 2016	\$ 33,068,107
Commitments to March 31, 2017, as at August 31, 2016*	<u>\$(52,390,360)</u>
Projected Net Available Balance, March 31, 2017	\$ 28,213,357
<u>Contribution per recommendation</u>	<u>\$ 18,024,000</u>
Adjusted Net Available Balance, March 31, 2017	\$ 46,237,357

\* Commitments are primarily \$16.7m for Downtown Streetscapes, \$5.7m for Dartmouth Sportsplex

Renewal, \$22.0m for the Dartmouth Multi-pad, \$2.9m for Cogswell Interchange, a \$2m contribution to the Discovery Centre, \$2.4m for various strategic studies, including the centre plan, the road network model, the integrated mobility plan, and other planning studies and a further \$0.7m for other miscellaneous items.

Some of the main projects that have currently been outlined as strategic to be funded from this reserve are as follows:

- 1) Long-term Arena Strategy
- 2) Dartmouth Sportsplex Renewal
- 3) Police Station
- 4) Cogswell Street Interchange
- 5) Fire Services Training Facility
- 6) Stadium
- 7) Library Facilities Plan
- 8) Performing Arts Centre
- 9) Commuter Rail/Fast Ferry

The costs of these projects are significant. If the settlement funds are placed in this reserve, it will improve Council's ability to fund these projects, reduce the amount of debt financing required, and reduce the impact on the operating budget going forward.

As another option, Audit and Finance could recommend that all or a portion of the funds be allocated to the Obligation Reserve – Capital Fund Reserve, Q526. The purpose of this reserve is to provide funding for capital projects as identified in the annual budget process. Placing the funds in this reserve could allow the Municipality to increase the amount spent on capital projects, or reduce the amount of debt financing required and reduce the impact on the operating budget going forward.

It is rare that the Municipality receives such a significant one-time inflow without restrictions. Normally large significant inflows come as part of infrastructure type programs which have restriction on how the funds can be used and usually with very tight deadlines for completing projects. While it is possible to allocate the funds in multiple directions, staff are recommending to the Audit and Finance Committee that the funds be targeted to an Opportunity Reserve – the Strategic Capital Reserve that funds long-term projects Council has identified as strategic to the Municipality.

### **FINANCIAL IMPLICATIONS**

The Citadel settlement has resulted in a one-time improvement in the financial position of the Municipality of \$18,024,000.

### **RISK CONSIDERATION**

There are no significant risks associated with the recommendations in the report. The risks considered rate Low. It should be noted that there is a risk of transferring funds to the operating accounts to fund projects or initiatives as this is not a sustainable source of funding.

### **COMMUNITY ENGAGEMENT**

None required.

### **ENVIRONMENTAL IMPLICATIONS**

None.

### **ALTERNATIVES**

As outlined in the report, the alternatives considered range from allocating the full amount of the

