

HALIFAX

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Item No. 3
Budget Committee
March 22, 2019

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

SUBMITTED BY: Original Signed by 

Jacques Dubé, Chief Administrative Officer

DATE: March 5, 2019

SUBJECT: Supplemental: Funding Options for Approved Budget Adjustment Items in
2019/20 Operating Budget

ORIGIN

On February 28, 2019 the Budget Committee considered the 2019/20 Budget Adjustment List in light of the CAO's recommendation:

That the Budget Committee direct the CAO to finalize the 2019/20 Proposed Budget and Business Plans as previously directed, including:

- i) A \$600,000 reduction in the 2019/20 Fiscal Services budget;
- ii) The use of an additional \$600,000 from the projected 2018/19 Halifax Transit budget surplus as a one-time change to fund costs of the Moving Forward Transit Plan, and;
- iii) any additional changes adopted by the Committee from the Budget Adjustment List.

The Committee deferred a decision on the main motion (together with the changes adopted from the Budget Adjustment List) pending receipt and consideration of a supplemental report regarding the feasibility of re-allocating surplus funds to reduce the tax rate.

LEGISLATIVE AUTHORITY

Pursuant to the 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 Motion of February 28th, 2019 be amended to provide for a recommended adjustment of 2.3% to the annual general tax and transit rates to fund the 2019-20 Budget, including items on the Budget Adjustment List.

BACKGROUND

On February 28, 2019 staff presented the Budget Adjustment list to Budget Committee. The result of the deliberation was an acceptance of \$3,704,100 options for a net impact of overs/unders of (\$2,174,500) this would result in an adjustment of 2.3% to the general annual tax rate or a proposed increase of \$43 to the average residential tax bill.

This adjustment of 2.3% will result in a 0.3% decrease to the tax rate over the 2018/19 tax rate. The Urban residential and transit tax rates will decline from 81.75 cents to 81.5 cents. The average home value has increased by 2.6%, resulting in an average tax bill that is 2.3% higher. (see Table 1 for a list of residential and commercial tax rates over the last five years).

Table One
Municipal Tax Rates

| | Residential | Commercial |
|---------|--------------------|-------------------|
| 2015-16 | 0.8200 | 2.8950 |
| 2016-17 | 0.8130 | 2.8320 |
| 2017-18 | 0.8130 | 2.8690 |
| 2018-19 | 0.8175 | 2.9255 |
| 2019-20 | 0.8150 | 2.9880 |

Note: Residential includes the Urban General Tax Rate and Transit Taxes; Commercial is the Urban General Tax rate.

Regional Council's approach has not been to keep the rate flat when assessment increases. In fact, a review of past tax rate changes and assessment cap increases shows that the rate has declined even while assessment increases. This is because a host of factors are considered in setting the tax rate including the average home value, inflation and the cost of existing and new municipal services. As the assessment cap declines there has been pressure to increase the tax rate to offset any revenue loss. Conversely, with assessment cap increases the rate is more likely to decline.

Table Two
Tax Rates and Provincial Assessment Cap

| | Tax Rate | Tax Rate Change | Assessment Cap |
|---------|-----------------|------------------------|-----------------------|
| 2015-16 | 0.8200 | 0.7% | 2.1% |
| 2016-17 | 0.8130 | -0.9% | 0.3% |
| 2017-18 | 0.8130 | 0.0% | 1.4% |
| 2018-19 | 0.8175 | 0.6% | 0.9% |
| 2019-20 | 0.8150 | -0.3% | 2.9% |

On February 20, 2019 staff presented the third quarter financial statements to the Audit and Finance Standing Committee. The projected operating surplus is \$15.2 million. The majority of the surplus is from an increase in the Deed Transfer Tax of \$10 million. The remaining increase is a combination of increased revenue in other areas and/or savings in Business Unit budgets. On February 1, 2019 Budget Committee

approved the use of \$11,607,000 of the proposed operating surplus be directed to fund the “B List” items on the 2019/20 capital budget (<https://www.halifax.ca/sites/default/files/documents/city-hall/regional-council/190201bc3.pdf>). In addition to restricting those funds as part of the Budget Adjustment exercise, staff identified an additional \$600,000 surplus in the Halifax Transit 2018/19 budget be directed toward the Budget Adjustment list. These decisions result in a remaining proposed operating surplus for 2018/19 of \$2,993,000 based on the third quarter results.

DISCUSSION

When responding to the request from the Budget Committee to look at funding some of the items on the Budget Adjustment list from surplus staff did a review of revenue accounts as well as a robust review of business units actual expenditures and projected the year end position. Based on that review it has been determined that there may be an additional \$5.0 to \$5.5 million in operating surplus for 2018/19, leading to a total surplus of as much as \$8.5 million. The increase in surplus is being driven primarily by positive changes in TPW, Planning and Development and Transit, as well as other business units. These increases are offset somewhat by softening revenues in deed transfer tax. This surplus could be used to provide a temporary one-time reduction in taxes, or it could go to alternative uses. The best use for one-time money is to use it for one-time costs. Another option is to place it into reserves, possibly to be used to augment the 2020-21 capital budget.

Prudent fiscal planning would recommend against the use of one-time surplus funding to fund annual “or base” items in the operating budget. When reviewing the items submitted on the over list the majority of the items that have been approved by the Budget Committee have a multiyear impact (see attachment 1). These items will be added to the base budget of the business unit and will require ongoing funding in future years. In many cases the costs will actually increase year over year, further impacting future tax room.

Amounts required from surplus should Council wish to further reduce the budget are as follows:

Table Three
Funds Required to Lower Average Tax Bill

| Average Tax Bill Changes | Funds Required to Lower Taxes | Average Tax Bill Change (Residential) | Average Tax Bill Change (Commercial) |
|---------------------------------|--------------------------------------|--|---|
| 1.9% Tax Increase | -\$1,940,000 | 36 | 790 |
| 2.0% Tax Increase | -\$1,400,000 | 39 | 830 |
| 2.1% Tax Increase | -\$900,000 | 41 | 860 |
| 2.2% Tax Increase | -\$350,000 | 43 | 900 |
| 2.3% Tax Increase | \$0 | 43 | 950 |

In the BAL Planning and Development received approval to hire 7 Term Compliance Officer positions and 1Term Supervisor position for parking enforcement for a onetime cost of \$596,000. This is one of the few budget adjustment items that was approved and is not a reoccurring or multiyear item. Planning and Development had indicated that the funding for these positions, as well as others, would be coming from increased revenue of \$1.75m from parking tickets and planning application fees. All but \$400,000 of this was a one-time increase that will not be repeated in 2020-21. There is also some short-term risk to the revenue numbers, any decrease in revenue would result in a budget pressure for Planning and Development.

To ensure the budget remains sustainable, all ongoing costs should have long-term funding. Sustainability makes it easier for Regional Council to maintain or alter current services in the future without making

additional taxation or program changes. That means that one-time costs and savings should be matched with one-time funding sources such as reserves or surplus. Year Two of the current BAL has additional pressures that come from the full year cost of the Moving Forward Together Plan and the 24/7 Fall River Fire service. In addition, the one-time Planning and Development Fee revenues will not be repeated, leaving a \$1.35m decline. While these factors place additional pressure on Year Two of the Budget, other factors are offsetting those increases.

FINANCIAL IMPLICATIONS

Funding the Budget Adjustment list as passed on February 28, 2019 will result in a decrease in the Urban General and Transit Tax rates from 81.75 cents to 81.5 cents. This decline is offset by an increase in the average residential assessment of 2.6%. The combined impact of the assessment increase and the rate decline is a 2.3% increase in the average tax bill.

| Residential | Average Taxable Value | Rate (Urban) | Bill (Rate X Value) | Change in Average Tax Bill from 2018-19 (\$) | Change in Average Tax Bill (%) |
|-------------|-----------------------|--------------|---------------------|--|--------------------------------|
| 2018-19 | \$ 235,292 | \$0.8175 | \$1,924 | - | - |
| 2019-20 | \$ 241,390 | \$0.815 | \$1,967 | \$43 | 2.3% |

RISK CONSIDERATION

There is minimal risk in the recommendation contained in this report. If Budget Committee directs the CAO to use some of the proposed 2018/19 operating surplus as a funding source for items on Budget Adjustment List there is a risk that the surplus at year end will not be sufficient to offset the full cost of all items. This risk is minimal.

Prudent fiscal policy would recommend against using one-time funding, such as an operating surplus, to fund on-going annual expenditures. If the Budget Committee wished to use some of the proposed operating surplus to offset the impact on the tax rate the use of the surplus should be restricted to non-reoccurring items, such as the hiring of temporary staff in Planning and Development or placing funds in the capital reserve to be used to fund projects in the 2020/21 capital budget.

COMMUNITY ENGAGEMENT

The annual budget deliberations by Committee of the Whole is open to the public. The results from the Citizen Survey completed in September 2018, provided additional information on current priorities and expectations as did the results from the 2019 Budget Allocator.

ENVIRONMENTAL IMPLICATIONS

N/A

ALTERNATIVES

1. The Budget Committee could choose to amend the Motion of February 28th, 2019 to provide for the use of \$596,000 in funding from the forecasted 2018/19 operating surplus and further approve an adjustment of 2.2% to the annual general tax and transit rates to fund the 2019-20 Budget, including items on the Budget Adjustment List as approved on February 28, 2019.

This alternative would, in effect, use funding from the forecasted operating surplus to fund Planning and Developments term positions: 7 Term Compliance Officer I positions and 1 Term Supervisor position for parking enforcement and would result in a \$43 increase to the average residential tax bill.

2. The Budget Committee could choose to amend the Motion of February 28th, 2019 to provide for the use of \$1.94 million in funding from the forecasted 2018/19 operating surplus and further approve an adjustment of 1.9% to the annual general tax and transit rates to fund the 2019-20 Budget, including items on the Budget Adjustment List as approved on February 28, 2019.

This alternative would result in a \$36 increase in the average residential tax bill and is not recommended by staff.

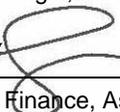
ATTACHMENTS

Attachment 1: List of approved Budget Adjustments for 2019/20 and 2020-21

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 Financial Policy & Planning, 902.490.4493

Report Approved by: Original Signed by 
John Traves, Director, Legal, Insurance and Risk Management Services 902.490.4219

Report Approved by: Original Signed by 
Jane Fraser, Director, Finance, Asset Management & ICT/CFO, 902.490.4630

Attachment 1 Final Balance List_Feb28,2019

List of Approved Budget Adjustments for 2019-20 and 2020-21

| Tracking ID | Business Unit | Over/Under | Date Added | Option Description | 19/20 Amount | 19/20 Rate Impact | 19/20 Ave Bill Impact | 20/21 Amount |
|-------------|-----------------|------------|-------------|--|----------------|-------------------|-----------------------|--------------|
| 1 | Legal | Over | 18-Jan-2019 | Discontinue Articled Clerk Program | \$ 113,900 | \$ 0.0002 | \$ 0.41 | \$ 114,500 |
| 3 | Legal | Over | 18-Jan-2019 | New FTE – Admin Assistant (GREA) | \$ 76,700 | \$ 0.0001 | \$ 0.27 | \$ 77,500 |
| 4 | Legal | Over | 18-Jan-2019 | Work with community partners to develop social development measures for social policy lens and public safety goals | \$ 40,000 | \$ 0.0001 | \$ 0.14 | \$ 40,000 |
| 5 | HR | Over | 18-Jan-2019 | New FTE - Conflict Resolution/Respectful Workplace Specialist | \$ 100,000 | \$ 0.0001 | \$ 0.36 | \$ 100,000 |
| 6 | FIT | Over | 18-Jan-2019 | ICT – Partnership with VOLTA would not be achievable/ No significant effects to service | \$ 125,000 | \$ 0.0002 | \$ 0.45 | \$ 125,000 |
| 7 | FIT | Under | 18-Jan-2019 | Increase facility rental revenue | \$ (50,000) | \$ (0.0001) | \$ (0.18) | \$ (50,000) |
| 8 | FIT | Under | 18-Jan-2019 | Increase recovery from external parties | \$ (75,000) | \$ (0.0001) | \$ (0.27) | \$ (75,000) |
| 10 | TPW | Over | 30-Jan-2019 | Senior Snow Program - Continue to provide service, right size budget | \$ 100,000 | \$ 0.0001 | \$ 0.36 | \$ 200,000 |
| 11 | TPW | Over | 30-Jan-2019 | Tree Planting / Pruning (UFMP) | \$ 200,000 | \$ 0.0003 | \$ 0.72 | \$ 200,000 |
| 12 | TPW | Over | 30-Jan-2019 | Winter Works Road Salt/Sand (continue to under fund): Reduce year round street maintenance | \$ 712,500 | \$ 0.0011 | \$ 2.55 | \$ 252,500 |
| 13 | Transit | Over | 30-Jan-2019 | Moving Forward Together Plan Reduced Expected Service Changes – Eliminate Group B | \$ 679,000 | \$ 0.0010 | \$ 2.43 | \$ 2,037,000 |
| 14 | Other | Over | 11-Dec-2018 | One-time capital contribution in the amount of \$1,000,000 to the YMCA of Greater Halifax/Dartmouth towards the purchase of a replacement YMCA facility. *Will be funded from reserve*. | \$ 1,000,000 | | | \$ - |
| 18b | P&R | Over | 6-Feb-2019 | Trail Maintenance Funding | \$ 20,000 | \$ - | \$ 0.07 | \$ 20,000 |
| 18c | P&R | Over | 6-Feb-2019 | Parks Materials | \$ 10,000 | \$ - | \$ 0.04 | \$ 10,000 |
| 19 | P&R | Over | 6-Feb-2019 | Net Change MDF Subsidy - Increased requests - Reallocation to P&R Budget - Enable board-operated facilities to continue providing recreation programming - Will also require a \$884,000 transfer from Fiscal | \$ 164,000 | \$ 0.0002 | \$ 0.59 | \$ 164,000 |
| 20 | P&R | Over | 6-Feb-2019 | Public Safety Initiatives Build Community Mobilization Team capacity | \$ 45,000 | \$ 0.0001 | \$ 0.16 | \$ 60,000 |
| 22 | P&R | Over | 6-Feb-2019 | Arts Halifax Funding Enable increased support to Arts organizations | \$ 75,000 | \$ 0.0001 | \$ 0.27 | \$ 75,000 |
| 25 | P&D | Over | 6-Feb-2019 | Current Planning: 2 Permanent Planner II positions * Impact – Planning applications processed within service standard, increased revenue | \$ 180,000 | \$ 0.0003 | \$ 0.64 | \$ 180,000 |
| 26 | P&D | Over | 6-Feb-2019 | Regional Planning: 2 Permanent Planner III positions * Impact – Completion of Centre Plan, implement Green Network Plan. | \$ 192,000 | \$ 0.0003 | \$ 0.69 | \$ 192,000 |
| 27 | P&D | Over | 6-Feb-2019 | Director's Office: 1 Term Report Controller position * Impact - Address backlog of outstanding reports to Council. | \$ 80,000 | \$ 0.0001 | \$ 0.29 | \$ 80,000 |
| 28 | P&D | Over | 6-Feb-2019 | Infrastructure Planning: 1 Permanent Transportation Demand Management Coordinator position | \$ 100,000 | \$ 0.0001 | \$ 0.36 | \$ 100,000 |
| 29 | P&D | Over | 6-Feb-2019 | Buildings & Compliance: 7 Term Compliance Officer I positions + 1Term Supervisor * (Parking Enforcement) Impact – Improved service delivery, increased revenue anticipated. | \$ 596,000 | \$ 0.0009 | \$ 2.13 | \$ - |
| 31 | P&D | Over | 6-Feb-2019 | Water Quality Monitoring Program | \$ 150,000 | \$ 0.0002 | \$ 0.54 | \$ 150,000 |
| 32 | P&D | Over | 6-Feb-2019 | Rural Transit Funding | \$ 220,000 | \$ 0.0003 | \$ 0.79 | \$ 300,000 |
| 33 | P&D | Under | 6-Feb-2019 | Anticipated Revenue Increases (Parking Tickets and Planning Applications) | \$ (1,750,000) | \$ (0.0026) | \$ (6.26) | \$ (400,000) |
| 35 | Legal | Over | 13-Nov-2018 | Navigator Program | \$ 90,000 | \$ 0.0001 | \$ 0.32 | \$ 60,000 |
| 36 | Libraries | Over | 8-Feb-2019 | Reduction of 4-8 FTE staff positions Due to the high proportion of the Library's budget spent on staffing and a limited ability to reduce fixed costs elsewhere in the budget, a reduction of 4-8 FTE staff positions would be required. The hope would be to achieve this through retirement and attrition. As staff are essential to service delivery, the Library Board and Library leadership would need to re-examine services offered, delivery models and hours. Service impact: The community would have reduced access to: information services and learning programs, free public use computers and WiFi, programs and spaces that improve literacy, digital literacy and promote social inclusion for all. | \$ 350,000 | \$ 0.0005 | \$ 1.25 | \$ 350,000 |
| 39 | Fire | Over | 8-Feb-2019 | Station 45 (Fall River) additional 10 firefighters to increase service delivery to 24/7 from E Platoon (10.5h M-F). | \$ 363,000 | \$ 0.0005 | \$ 1.30 | \$ 725,000 |
| 40 | Fire | Over | 8-Feb-2019 | Reverse reductions to services as required to meet 1.9% target | \$ 997,000 | \$ 0.0015 | \$ 3.57 | \$ 997,000 |
| 42 | Fiscal /Transit | Under | 22-Feb-2019 | 2018/19 Transit Surplus | \$ (600,000) | \$ (0.0009) | \$ (2.15) | \$ - |
| 43 | Fiscal | Under | 22-Feb-2019 | Revisions to Fiscal | \$ (600,000) | \$ (0.0009) | \$ (2.15) | \$ - |

| | | | | |
|---------------------------------|---------------------|-----------------|-----------------|---------------------|
| TOTAL OF ALL ADJUSTMENTS | \$ 3,704,100 | \$ 0.815 | \$ 43.00 | \$ 6,084,500 |
|---------------------------------|---------------------|-----------------|-----------------|---------------------|