HALIFAX

P.O. Box 1749
Halifax, Nova Scotia
B3J 3A5 Canada

Item No. 2
Audit & Finance Standing Committee
May 15, 2019

TO:	Mayor Savage and Members of Halifax Regional Council
SUBMITTED BY:	Original Signed Bruce Fisher, Acting Director, Finance, Asset, Management & ICT
	Original Signed Jacques Dubé, Chief Administrative Officer
DATE:	March 13, 2019
SUBJECT:	Financial Condition Index Report 2018: Halifax Regional Municipality

INFORMATION REPORT

ORIGIN

Department of Municipal Affairs produces Financial Condition Index (FCI) reports for Nova Scotia Municipalities. This report summarizes the HRM FCI report and addresses highlighted issues.

Concern over fiscal health of Nova Scotia Municipalities, leading to greater emphasis of monitoring by Department of Municipal Affairs

LEGISLATIVE AUTHORITY

The Audit and Finance Standing Committee shall:
(f) Review, as required, any other policies, procedures, forecasts, reports or process as agreed to mutually by the CAO and the Committee.

BACKGROUND

The Financial Condition Index (FCI) began in 2002 as a joint project between the Province, the Nova Scotia Federation of Municipalities (NSFM), and the Association of Municipal Administrators, Nova Scotia (AMANS). The key priority was development of a monitoring system that evaluated fiscal health of municipalities. These indicators included measures of net financial position (balance sheet), annual cash flow, reserve balances, debt costs and budget accuracy.

DISCUSSION

Nova Scotia municipalities submit financial information returns (FIR) along with audited financial statements to the Province. FIR is the main tool used by Department of Municipal Affairs to collect statistical and financial information. Much of the FCI data is derived from the FIR report.

The FCI should not be thought of as a comprehensive evaluation of a municipality's financial or economic situation, rather it is one tool to provide a warning of problematic areas from a municipal finance perspective. Once identified, a deeper analysis can be sought of the specific areas highlighted by the FCIs. Comparing HRM's net financial position to smaller municipalities, however, is often less revealing than evaluating HRM's indicators over time, or within the context of HRM's own particular circumstances.

Since 2012, HRM's indicators have indicated a healthy fiscal position, characterized by relatively strong economic fundamentals and sound fiscal management. Overall, HRM scores low risk (green) on 10 of 13 indicators, indicating its sound fiscal policy, strong liquidity and a comparatively broad tax base among Nova Scotia municipalities. Its scores are strong on its tax effort, debt servicing levels, liquidity and budget accuracy. Overall this suggests relatively low taxation and debt levels combined with prudent budgets.

HRM has two medium scores. One is on deficits in the last five years (one deficit due to the Winter of 2015) and the second relates to operating reserves. (At 10.3%, HRM is considered a medium risk). It has one high risk score on "Combined Reserves". This measure requires a municipality to have 40% contribution rate for a low score. HRM's contribution is 22% which is significant. However, this measure doesn't consider the $35 million in Capital from Operating used to fund the capital budget. In addition, HRM is implementing an Enterprise Asset Management (EAM) system to ensure our asset condition is properly measured and that assets are well maintained. For these reasons, staff view the combined reserve indicator as a low priority concern.

Figure 1- *Summary of FCI Indicators*

Indicator	**Risk (Low, Medium, High)**
Reliance on Government Transfers	Low
Deficits in the Last 5 Years	Medium
Liquidity	Low
Combined Reserve	High
Uncollected Taxes	Low
5 Year Budget Accuracy	Low
Operating Reserves	Medium
Debt Service	Low
Outstanding Operating Debt	Low
Undepreciated Assets	Low
Reliance on a Single Business/Institution	Low
Three-Year Change in Tax Base	Low
Residential Tax Effort	Low

Overall, HRM's financial management practices are comparatively sound. A more exhaustive analysis of HRM fiscal position and outlook would require a review to larger peer cities (internationally) and/or a sub-sovereign credit rating agency to review HRM fundamentals.

FINANCIAL IMPLICATIONS

There are no budget implications from the conclusions summarized in this report. HRM's net fiscal position is robust relative to most regional and national comparators.

COMMUNITY ENGAGEMENT

N/A

ATTACHMENTS

Attachment 1: Halifax Regional Municipality Financial Condition Index (FCI) Report, for the year Ended March 31st, 2018

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.

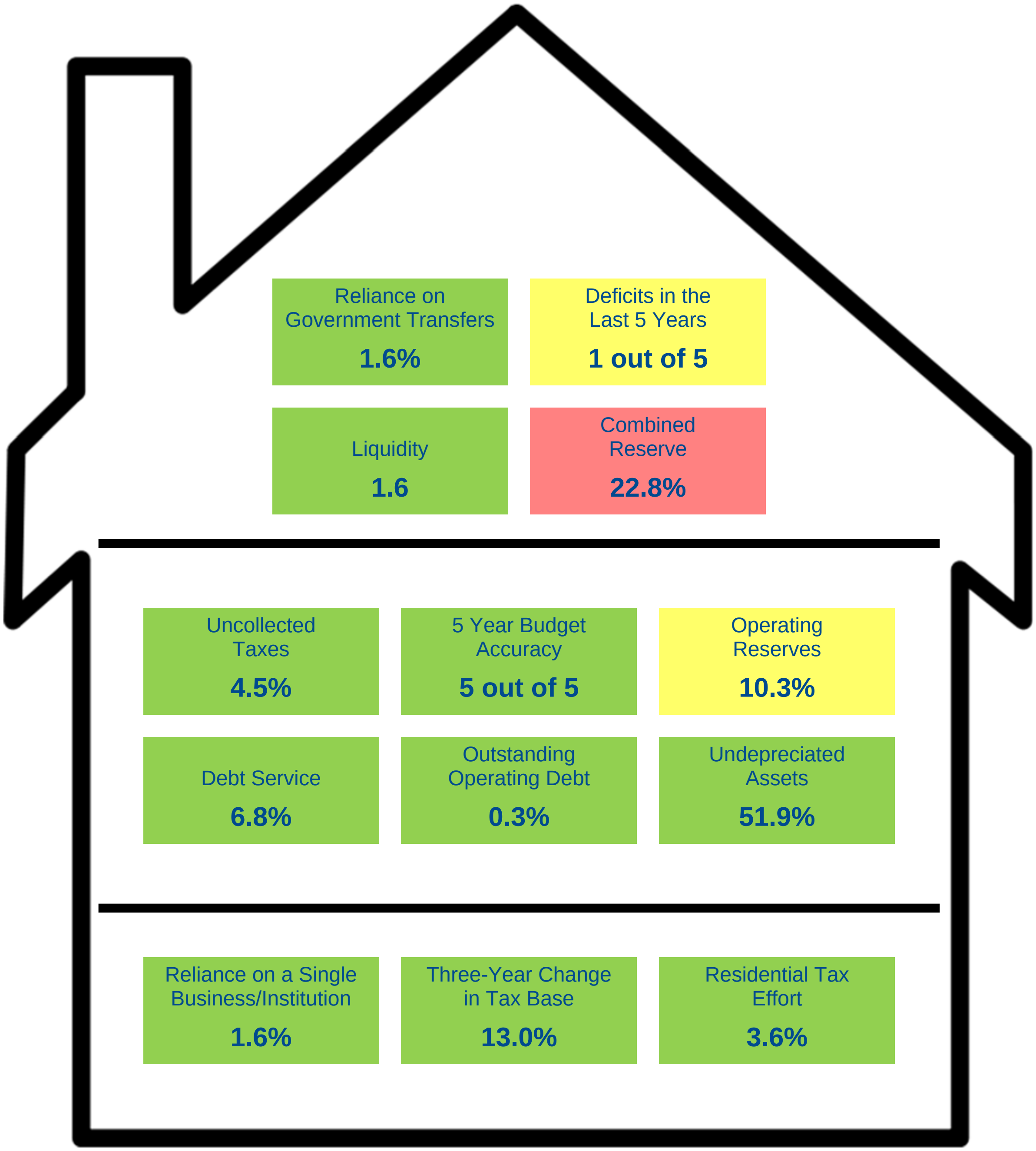
Report Prepared by: Kenzie McNeil, Senior Financial Consultant, 902.579.4129

ATTACHMENT 1

Financial Condition Indicators Graph

Reading the Graph

The House graphic presents Indicators scores and are colour coded to indicate overall risk level. (Low risk is green, moderate risk is yellow and high risk is red.) The graph allows users to graphically pinpoint priority areas for actions as well as areas of success.



Please refer to the "Detailed Results" pages for comparative information.

Detailed Results

FCI - Base Indicators

Indicator	2018	2017	+/-
3-year Change in Tax Base: This indicator measures how a municipality's tax base keeps pace with inflation.	13.0%	15.9%	-2.8%
Reliance on a Single Business or Institution: This indicator speaks to the municipality's reliance on one employer for a significant portion of their tax base. Over reliance on any source of revenue can represent a vulnerability.	1.6%	1.5%	0.1%
Residential Tax Effort: Residential tax effort is the average property tax burden per household in the municipality. This indicator speaks to the municipality's flexibility to increase taxes if additional revenue is required.	3.6%	3.5%	0.1%

Source: Financial Information Return (FIR) for the year ended March 31, 2018

Low Risk Moderate Risk High Risk

Detailed Results

FCI - Structure Indicators

Indicator	2018	2017	+/-
Uncollected Taxes: This indicator speaks to a municipality's success in collecting revenues owed. Failure to collect taxes can significantly impact actual revenue, cash flow, and thereby could hinder their ability to provide services.	4.5%	4.4%	0.1%
Budget Accuracy*: This indicator speaks to the municipality's success at projecting the revenue required to maintain a balanced operating budget.	5/5	5/5	0
Operating Reserves: This indicator speaks to whether the municipality is setting aside funds to address unforeseen circumstances.	10.3%	6.2%	4.1%
Debt Services: This indicator speaks to how much of municipal revenue is going towards paying off debt.	6.8%	7.3%	-0.5%
Outstanding Operating Debt: This measure calculates the municipality's borrowing limit per the MGA Section 84.	0.3%	0.4%	-0.1%
Undepreciated Assets: This indicator speaks to the age of the municipality's existing capital assets (in relation to useful life).	51.9%	53.1%	-1.1%

Source: Financial Information Return (FIR) for the year ended March 31, 2018

*Based on feedback from municipalities and further research, how to assess the budget accuracy risk has been enhanced for 2018. For details, please refer to Appendix I.

Low Risk Moderate Risk High Risk

Detailed Results

FCI - Roof (Key) Indicators

Indicator	2018	2017	+/-
Deficits in the Last 5 Years*: This indicator speaks to the number of the deficits a municipality experienced in the last 5 years. A high number of deficits may indicate a municipality is struggling to meet services. If there is a deficit, further investigation would be required to determine the size and cause of the deficit.	1/5	1/5	0
Liquidity: This indicator speaks to whether the municipality has enough cash to pay bills as they come due. This indicator can highlight any cash flow problems or signal concerns in other areas such as potential revenue collection.	1.6	1.2	0.4
Reliance on Government Transfers: This indicator speaks to municipality's reliance on transfers from other government(s).	1.6%	1.5%	0.2%
Combined Reserve:** This indicator speaks to whether the municipality is investing enough to keep pace with the aging of existing assets, and unforeseen circumstances.	22.8%	23.3%	-0.5%

Source: Financial Information Return (FIR) for the year ended March 31, 2018

Note: * Moderate Risk (Yellow) if one or more deficits in the last 5 years/ High Risk (Red) if one or more deficits in the last 2 years with one material deficit (0.5% of Total Operating Expense).

** The result may not reflect an impact of PSAB related liabilities (e.g. Pension Liabilities, Landfill Closure and Post Closure Liabilities, or Deferred Gas Tax Revenue) that are recorded only in the consolidated financial statements.

Low Risk Moderate Risk High Risk

Appendix I - FCI Thresholds

FCI - Base Indicators

Low Risk | Moderate Risk | High Risk

Indicator Name / Rationale	Thresholds	Interpretations
3-year Change in Tax Base This indicator illustrates the growth in property assessment. Municipalities rely heavily on the property tax to fund services; therefore, healthy growth in property tax is important to a municipality's financial position. If growth in assessments does not keep pace with inflation, it is a sign that the municipality may have trouble maintaining the current service levels without raising the tax rate.	(Low Risk) Equal or Greater than Consumer Price Index (CPI) rate - **4.4% for 2018 year.** (Moderate Risk) Less than CPI (High Risk) Negative Growth	◆ A percentage lower than the CPI rate indicates property assessments are growing slower than the inflation. ◆ A percentage higher than the CPI rate indicates property assessments are growing faster than the inflation. ◆ A negative percentage indicates a decreasein assessment value, which usually indicatesserious economic concerns in the region, eitherbecause of the loss of a major employer orpersistent economic and demographic decline.
Reliance on a Single Business or Institution This indicator shows how much a municipality’s tax base depends on a single commercial or institutional account. Government Finance Officers Association (GFOA) recommends that municipalities are aware of any reliance on a single industry or employer when making financial plans including budgeting and establishing reserves.	(Low Risk) Less than 10% (Moderate Risk) 10% to 15% (High Risk) Greater than 15%	◆ A low percentage indicates that the municipality may not rely on a single business or institution for a large part of its tax revenue. ◆ A high percentage indicates that the municipality may have a greater reliance on a single business or institution for its tax revenue. Often a large tax account will be a key part of the local economy, so a major operational change or business closure can have a significant impact on the municipality and the community’s economic health.
Residential Tax Effort This indicator shows how much of a household's income is required to pay the average tax bill. This indicator combines two other indicators: residential tax burden and median household income to provide a comparison for relative tax burden rather than simply comparing property tax rates. Measures of tax burden and effort are important so that council can assess the affordability of taxes in relation to service levels when setting a municipality's budget.	(Low Risk) Less than 4% (Moderate Risk) 4% to 6% (High Risk) Greater than 6%	◆ A lower result suggests the municipality may have more flexibility to increase the tax rate. ◆ A higher result suggests that the municipality may have less flexibility to increase the tax rate, if additional revenue is required.

Appendix I - FCI Thresholds

FCI - Structure Indicators

Low Risk | Moderate Risk | High Risk

Indicator Name / Rationale	Thresholds	Interpretations
Uncollected Taxes This indicator measures how much of current and previous years' taxes were not collected at year end, compared to the current taxes billed. Failure to collect taxes can significantly impact actual revenue, cash flow, and thereby could hinder their ability to provide services. The potential lost or delayed tax revenue could threaten the financial health of the municipality.	Low Risk: Less than 10% Moderate Risk: 10% to 15% High Risk: Greater than 15%	◆ A low percentage indicates the municipality is managing tax revenue collection. ◆ A high percentage may indicate the municipality is having trouble monitoring and collecting overdue tax accounts.
Budget Accuracy It is important that municipalities can accurately project revenues and expenditures. Difficulty projecting revenues and expenditures may lead to future deficits, and can make longer term budgeting decisions and strategic planning challenging.	Low Risk: For the last 5 years, expenditures budget vs. actual variance is within +/-5%; or expenditures and revenue variances are within +/-5% of each other. Moderate Risk: Four of the last five years, expenditures budget vs. actual variance is within +/-5%; or expenditures and revenue variances are within +/-5% of each other. High Risk: Less than 4 of the last 5 years, expenditures budget vs. actual variance is within +/-5%; or expenditures and revenue variances are within +/-5% of each other.	◆ Low risk (green) indicates the municipality had greater success in maintaining a balanced operating budget. ◆ High risk (red) indicates the municipality did not consistently maintain a balanced operating budget.
Operating Reserves This indicator shows the total value of funds held in operating reserves compared to a single year's operating budget. Reserves can play an important role in prudent budget planning.	Low Risk: Greater than 20% Moderate Risk: 10% to 20% High Risk: Less than 10%	◆ A high percentage indicates more funds are held in operating reserves, which indicates higher flexibility to address unexpected events in the future. ◆ A low percentage indicates less flexibility to address unexpected events in the future, which could put the municipality in a deficit position.

FCI - Structure Indicators (continued)

● Low Risk ● Moderate Risk ● High Risk

Indicator Name / Rationale	Thresholds	Interpretations
Debt Service Municipalities are not allowed to incur debt because of operating deficits, but they can borrow funds to purchase/construct capital assets. The debt service result provides an indication of how much of a municipality's revenue is devoted to debt repayment. Own source revenue is used instead of total revenue to allow analysis of only the revenue within council's control.	● Less than 10% (Low Risk) ● 10% to 15% (Moderate Risk) ● Greater than 15% (High Risk)	◆ A low number may indicate that the municipality has deferred capital projects to keep the debt load low. This may also indicate that the municipality has prudent financial debt management. ◆ A high number may indicate the municipality has borrowed a large amount of debt. This could limit its ability to borrow in the future, and paying the debt expense will tie up operating revenue. However, it is important to note that a municipality with an aggressive debt repayment schedule will have a higher debt service indicator due to the larger principal payments.
Outstanding Operating Debt This measure calculates the municipality's borrowing limit per the MGA Section 84. A municipality may borrow to cover the annual current expenditures of the municipality that has been authorized by the council, but their borrowing can not exceed 50% of the combined total of the taxes levied and government transfers.	● Less than 25% (Low Risk) ● 25% to 50% (Moderate Risk) ● Greater than 50% (High Risk)	◆ A low percentage may indicate that a municipality is covering the annual current expenditures without a high reliance on borrowing. ◆ A high percentage may indicate that a municipality has a high debt load relative to their revenue base.
Undepreciated Assets This indicator provides an estimate of the useful life left in the municipality's capital assets. Municipalities across Canada are facing significant infrastructure challenges. Therefore, it is important to keep informed of the age and condition of its capital assets to ensure they are making timely and appropriate investments.	● More than 50% (Low Risk) ● 35% to 50% (Moderate Risk) ● Less than 35% (High Risk)	◆ A lower percentage indicates older infrastructure. It does not necessarily indicate the condition of the assets. Some older assets still could be in a good working condition. ◆ A higher percentage indicates newer infrastructure.

Appendix I - FCI Thresholds

FCI - Roof (Key) Indicators

Low Risk | Moderate Risk | High Risk

<table>
<tr><th>Indicator Name / Rationale</th><th>Thresholds</th><th>Interpretations</th></tr>
<tr><td rowspan="3">Deficits in the Last 5 Years

Deficits are an important indication of financial health for municipalities. All municipalities are required to prepare balanced operating budgets. Any operatng deficits incurred are required to be repaid in the following budget year.</td><td>None in the last 5 years</td><td rowspan="3">◆ Several deficits in a 5-year period may indicate financial difficulty. However, results should be interpreted in context; unpredictable events beyond the control of a municipality can significantly affect its budgeted revenues or expenditures. Further investigation is required to determine the size and cause of any deficit.</td></tr>
<tr><td>One or more in the last 5 years</td></tr>
<tr><td>One or more in the last 2 years with one material (0.5% of total operating expenses)</td></tr>
<tr><td rowspan="3">Liquidity

Liquidity is a key short-term financial performance indicator. Low liquidity can indicate a cash flow problem, and may indicate concern in other areas such as revenue collection.</td><td>Greater than 1.5</td><td rowspan="3">◆ A liquidity below 1.0 indicates that the municipality has less cash and assets that are easily converted to cash on hand than the amount required to pay current obligations.

◆ A municipality with an exceptionally high liquidity may be better served by investing in instruments that will earn interest revenue.</td></tr>
<tr><td>1 to 1.5</td></tr>
<tr><td>Less than 1</td></tr>
<tr><td rowspan="3">Reliance on Government Transfers

This indicator measures how much of total revenues come from government transfers. This assesses a municipality's level of independence in making decisions.</td><td>Less than 15%</td><td rowspan="3">◆ A low indicator may indicate higher self sufficiency; therefore, might provide council increased autonomy in making decisions.

◆ A high score may indicate a higher dependency on government transfers which could limit councils' autonomy in making decisions.</td></tr>
<tr><td>15% to 20%</td></tr>
<tr><td>Greater than 20%</td></tr>
<tr><td rowspan="3">Combined Reserves

This indicator provides the total value of funds aside for planned future needs (e.g. capital projects), to smooth expenses (e.g. winter road maintenance reserve) or for the unexpected expenses.</td><td>More than 40%</td><td rowspan="3">◆ A low percentage may indicate the municipality has limit flexibility to offset unexpected losses or increases in expenses.

◆ A high percentage would indicate that a municipality is setting aside money for future needs.</td></tr>
<tr><td>30% to 40%</td></tr>
<tr><td>Less than 30%</td></tr>
</table>