HALIFAX

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Item No. 3
Budget Committee
September 24, 2019

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

Original Signed by

SUBMITTED BY:
Jane Fraser, Director of Finance, Asset Management & ICT/CFO

Original Signed by

Jacques Dubé, Chief Administrative Officer

DATE: September 10, 2019

SUBJECT: Capital Funding Framework

ORIGIN

May 21, 2019 Halifax Regional Council Item 15.1.2 motion: THAT Halifax Regional Council direct the Chief Administrative Officer to schedule Budget Committee meetings, as outlined in the Discussion section of the staff report dated April 24, 2019, to provide guidance for the 2020/21, 2021/22, and 2022/23 capital budget deliberations.

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 Budget Committee direct the Chief Administrative Officer to develop a funding framework for the long-term capital plan that considers the principles and considerations in the report and to return for approval to the Budget Committee for development of the 2021-22 budget.

BACKGROUND

In 2017/18 HRM began to deliver multi-year budgets in response to Regional Council's 2016 request for staff to take a broader view of underlying assumptions and the capacity to undertake service enhancements. In 2018/19 HRM began to integrate enterprise asset management practices into the capital planning process to continue efforts to meet Council's request for a more predictable, strategic and sustainable approach to infrastructure investment and service delivery.

Within this report, staff present a framework for a consistent and stable application of the various financial tools available to fund capital investment. Direction provided by Council to-date in support of transforming the capital budget into a long-term strategic plan demands a review of the fiscal framework to ensure that adequate funding will be available for prioritized infrastructure projects.

DISCUSSION

The move to extend the horizon for fully funded full lifecycle infrastructure planning is based in the need for certainty, to enable confidence in service delivery to the community and good fiscal management. The ability to proactively mitigate risk of infrastructure failure and be able to meet a continuously evolving world in services and technology is best met with a longer-term broad view. This view includes routine maintenance, as well as, larger lifecycle milestones which provide an opportunity for decisions to be integrated with changing business strategies. The broader horizon provides planning for commitments as well as the areas for opportunities, and what requirements are needed to prepare for them all.

The fiscal framework for capital investment should differentiate between two classifications of projects:

1. Core business projects is the work Halifax Regional Municipality (HRM) needs to carry out on existing infrastructure on a routine basis to maintain expected service delivery to the community. These are commonly referred to as asset renewal projects.

2. Growth projects fall into two categories; those that are being driven by growth in the community, and transformative projects that are non-routine construction, maintenance, and replacement infrastructure projects which significantly change service to the community.

The annual capital budget is funded by various sources, regularly including: annual municipal tax revenues (capital-from-operating), reserves, tax-supported debt funding, annual federal Gas Tax Fund, other provincial or federal infrastructure programs (such as Public Transit Infrastructure Fund (PTIF), Green Infrastructure Fund, and Communities, Culture & Recreation Fund), various one-time cost sharing agreements, and to a lesser degree area rates, local improvement charges (LICs) and pavement impact charges (PICs).

Fiscal Year Budget	Capital-from-Operating	Federal Gas Tax Fund	Debt Financing	Reserve Funding	Cost Sharing, Area Rates, LICs, PICs	Federal/ Provincial Infrastructure Programs	Total Capital Budget
2019/20	37,005,000	25,123,000	27,109,000	65,244,950	1,327,000	8,160,000	163,968,950
2018/19	36,200,000	26,500,000	26,566,000	31,640,300	2,443,500	2,000,000	125,349,800
2017/18	36,930,000	25,300,000	28,300,000	59,227,000	3,369,000	34,143,000	187,269,000
2016/17	41,280,000	29,000,000	29,045,000	93,749,000	1,610,000	3,250,000	197,934,000
2015/16	47,241,000	20,214,000	28,778,000	35,971,000	1,712,500	1,887,500	135,804,000
2014/15	47,812,000	25,300,000	32,632,000	36,331,000	519,000	1,600,000	144,194,000
2013/14	47,154,000	25,150,000	30,390,000	47,802,000	13,085,000	1,461,500	165,042,500

Note: An additional $26,500,000 was received as one-time supplemental Gas Tax funding for 2019/20 after the HRM budget was approved.

Within the previous seven-year period, capital-from-operating and Gas Tax funds have accounted for an average of 45% of the total annual capital budget. Due to the significant and stable long-term nature with a broad scope for application of these funding sources, staff recommend that these sources to first fund core business projects, which are primarily asset renewal projects. This is additionally supported by the defined requirements of the federal Gas Tax Fund: "provides predictable, long-term funding for communities…to help build and revitalize their public infrastructure that supports national objectives of productivity and economic growth, a clean environment and strong cities and communities." Regional Council provided direction in July 2019 for staff to prepare annual capital budgets with asset renewal investment comprising 70%-80% of the total budget. Therefore, the funding framework will need to identify how to increase these two primary funding sources or define how the remaining renewal investment should be funded.

Transformative projects would normally exceed annual budget capacity and therefore drive the need to explore opportunities for cost sharing with external partners including provincial or federal programs, within existing reserve accounts, or debt financing. These other funding sources have the potential to fluctuate and have a more short-term nature with prescriptive scope and unpredictable availability. The defined eight-year term of the PTIF federal program supports this approach in its defined objective to 'build new urban transit networks and service extensions'.

External funding sources which have limited terms, limited balances, finite criteria (limitations), or specific merit-based eligibility across the rest of country for projects which are non-routine and cannot be engaged by the municipality with short notice. Long-term planning is essential for taking advantage of these opportunities and having adequate line of sight into constraints or impacts of alternative sources. Additional timing is required, sometimes a significant amount, within the project preparation phase for arranging these external funding sources. Resources are required for partnership coordination efforts and constrained by the agreement's prescribed criteria.

In 2015/16, the Municipality also began to collect a one-cent on the general tax rate annually for Potential Strategic projects as described in the May 26, 2014 report 'Strategic Capital Funding Strategy' presented at Regional Council July 29, 2014 http://legacycontent.halifax.ca/council/agendasc/documents/140729ca1121iv.pdf. Annually, this represents approximately $5 million in tax revenue that is added to account Q606 – Strategic Capital Reserve. Based on the level of transformative projects Council directs to be included in the long-term capital plan, they may choose to increase the amount being directed into this reserve account to further support those initiatives for a growing city.

Alternatively, another financial tool to be considered during the development of the capital funding framework is Capital Cost Contributions (CCCs). CCCs are defined as a one-time infrastructure charge, levied on developers to cover the cost of growth-related share of infrastructure that is needed to support development in a new area. In 2014 the Provincial government expanded the types of services on which HRM could levy a CCC. Staff within Planning & Development are working on a report to explore increasing the breadth of services and it is expected to be before Regional Council before the end of the fiscal year. Presently, HRM charges developers CCC fees for infrastructure that is within or alongside greenfield development areas. These include wastewater, stormwater and transportation services (there are regional charges for solid waste). Given the current growth factors within the municipality and the densification targets defined within the Regional Plan, it is prudent to review the effectiveness of the CCC fee in supporting the cost of growth.

Reliable funding for core business is important for asset managers being able to create cost-effective long-term asset lifecycle plans.

Planning for transformative projects enables the business to be best prepared in understanding Regional Council's direction, obtain community input for design, etc. and understand business requirements and timing required to on-ramp resources, buy land, and other project readiness activities so that opportunities for funding can be sustainably sourced and taken advantage of when the timing arises.

As guidance, staff intend to build a Capital Funding Framework using the following five broad principles:

1) Ongoing capital renewal projects require ongoing sources of funding that are stable and predictable. This would include capital from operating, gas tax and other formulaic transfers of funds from senior levels of government. It may also include revisions to the targets for growing capital from operating levels (in the operating budget).

2) Growth projects should be funded through additional and new sources of funding such as debt, new revenues, federal/provincial funding, capital cost contributions, reserves and partnerships. As a municipality that is now experiencing much faster growth than in the past, debt targets may need to be revised to reflect the strong economic and demographic growth that is now happening.

3) Transformative projects require new and significant sources of funds either from the municipality, senior levels of government or partnerships. This may include new or expanded revenue sources, higher debt outside the debt targets, different ownership and delivery models or higher levels of taxation. As with all growth projects, there is a strong need to demonstrate viability including stable funds to operate, maintain and eventually replace or upgrade such assets.

4) Where possible, all projects need to demonstrate a clear connection to services and to broad outcomes and risks such as the economic, social and environmental.

5) The broad capital framework should be fully integrated into a broader vision for the municipality including a long-term operating plan and a vision. It should also balance:
    a. Residents and businesses ability to pay taxes and revenues, including especially low-income individuals, against the benefits of capital spending;
    b. The needs and costs of existing taxpayers and future generations;
    c. The economic cost and impact of higher capital funding;
    d. The appropriateness of using municipal taxation versus more specific municipal user fees, charges and other revenues.

It is critical to have the ability to make sure that the areas in which we are investing is optimal, if we are to achieve sustainability. Establishing a framework and strategy for infrastructure investment should drive broader corporate decisions such as, 'should we be looking at longer term leases for municipal office space instead of owning buildings?'. It will support the work required to assess asset rationalization, which is the practice to determine what assets should remain in the municipal inventory and what levels of service can we support with revenue levels?

FINANCIAL IMPLICATIONS

Once the capital funding framework is developed and returned to Budget Committee, the impacts and implications will be detailed. In general, by establishing a framework to support the transition to a long-term capital plan, there will be greater visibility of potential opportunities or constraints, allowing for improved planning and delivery.

RISK CONSIDERATION

Implementing a longer-term strategic capital plan will mitigate the enterprise risk associated with owning and maintaining HRM's large infrastructure inventory. Risk is now formally evaluated for each capital project annually, as part of the capital prioritization framework.
By not proceeding with a review of the current municipal financial strategy and the development of a capital

funding framework to provide inter-generational guidance for infrastructure investment, there is a risk of inadequate available funding for supporting council's priorities, not being prepared to take advantage of cost sharing or funding programs' opportunities when they arise, and not being able to support a predictive, resilient and sustainable infrastructure model.

COMMUNITY ENGAGEMENT

Halifax Regional Council meetings are open to public attendance, and a live webcast is provided of the meeting. The agenda, reports, minutes, and meeting video are posted on Halifax.ca.

'Shape your Budget' surveys are currently available to the residents of Halifax until September 30, 2019. (https://www.shapeyourcityhalifax.ca/syb) By providing your opinion on the municipal services you receive, staff will also receive valuable insight towards the infrastructure planning required to support those services.

ENVIRONMENTAL IMPLICATIONS

There are no environmental implications directly associated with the recommendation of this report. A more strategic capital plan should allow for greater consideration of environmental resiliency in municipal infrastructure.

ALTERNATIVES

1. Budget Committee can recommend against making any changes to the Multi-Year Financial Strategy or creating a capital funding framework.

2. Budget Committee can recommend an alternative approach for staff to incorporate into the development of a capital funding framework.

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.

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