

2020/21 Fiscal Framework and Fiscal Services Budget

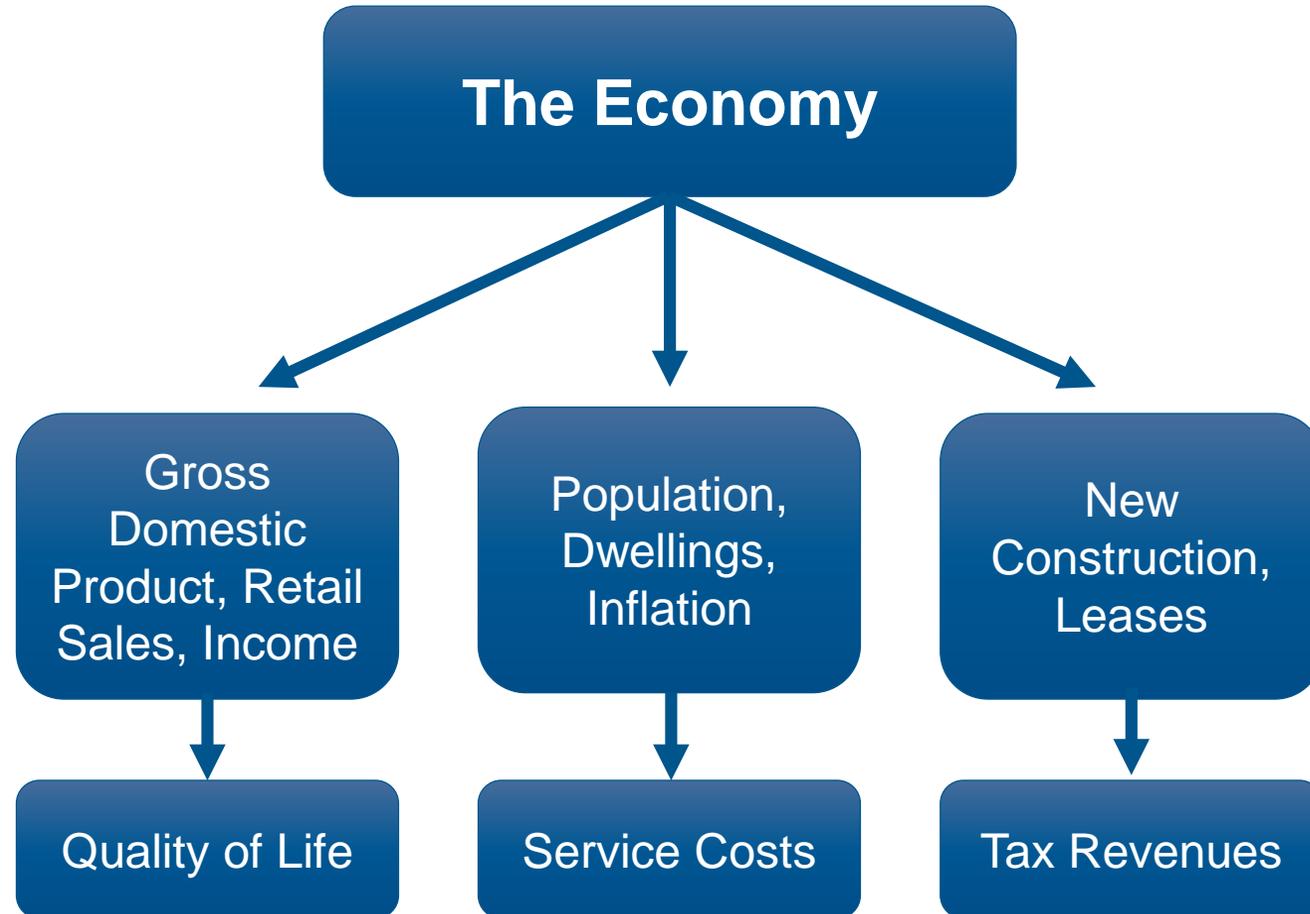
Standing Committee of the Whole on Budget

January 7, 2020

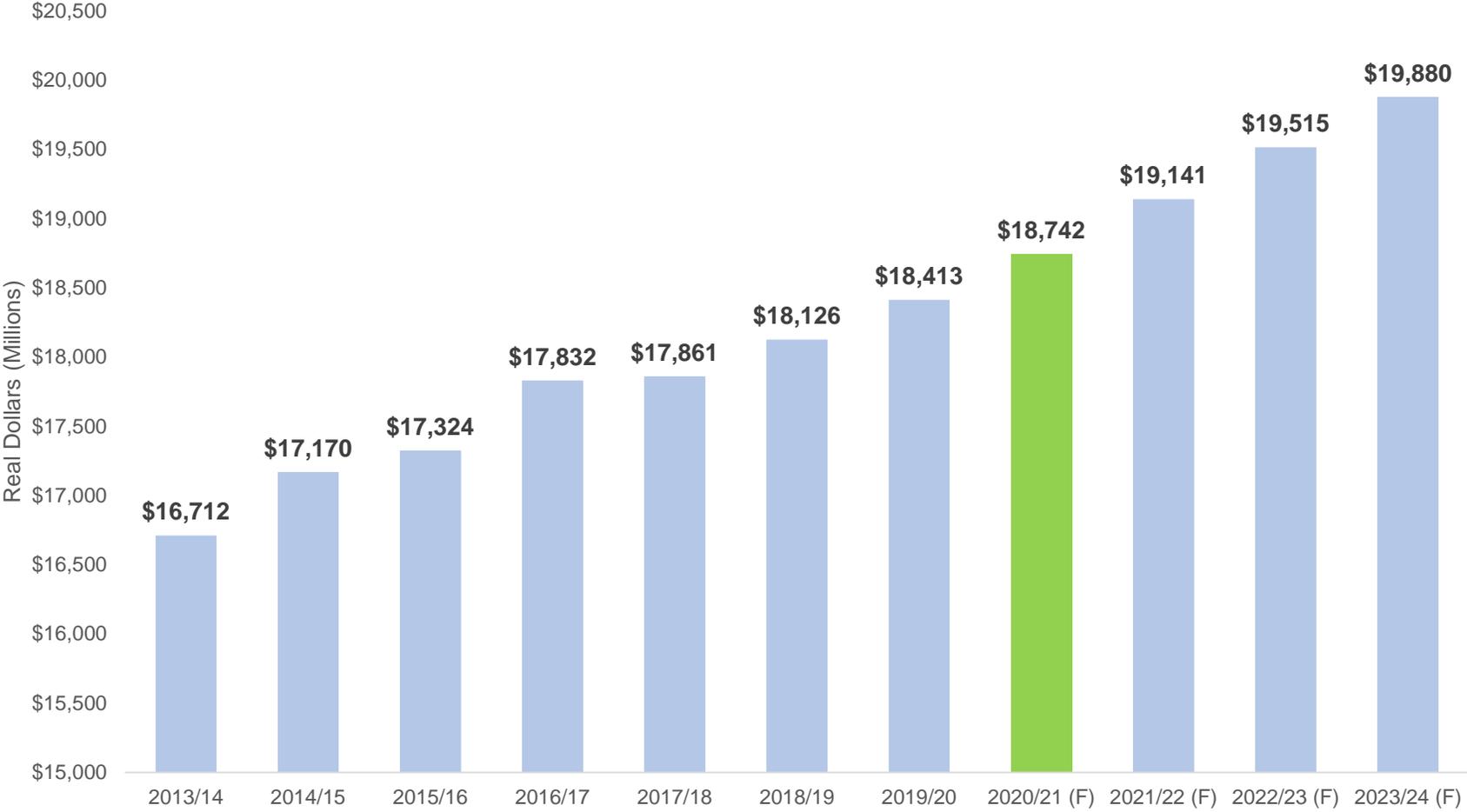
Outline

- **Economic Assumptions**
- **The Budget**
 - Operating
 - Debt
 - Reserves
- **Fiscal Budget**
- **Summary**
- **Recommendations**

The Economy and HRM



Real GDP: Moderately Positive Outlook



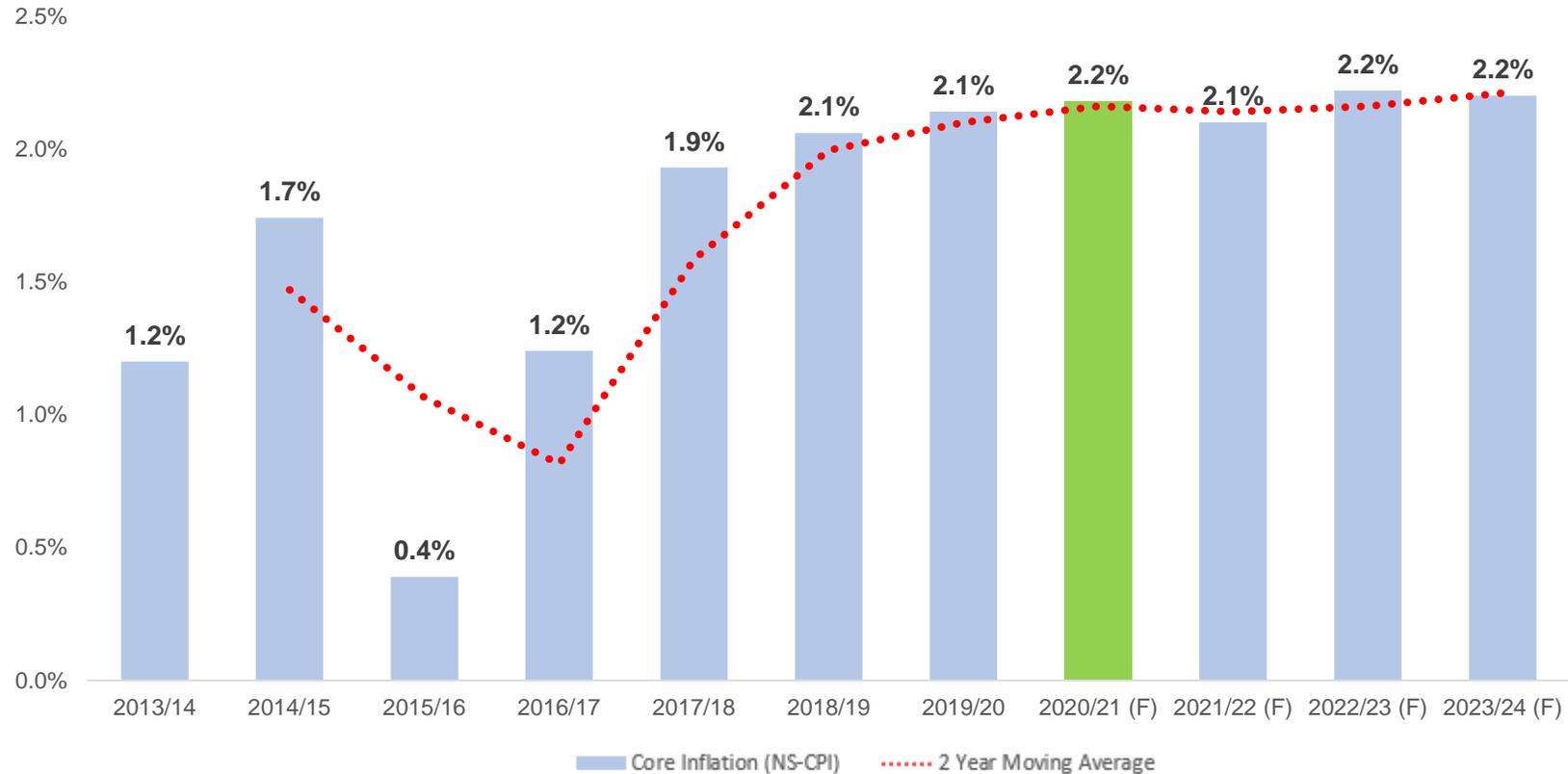
Source: Canmac Economics (HRM-Finance Economic Outlook, 2019-23)

Personal Income: Steady Growth



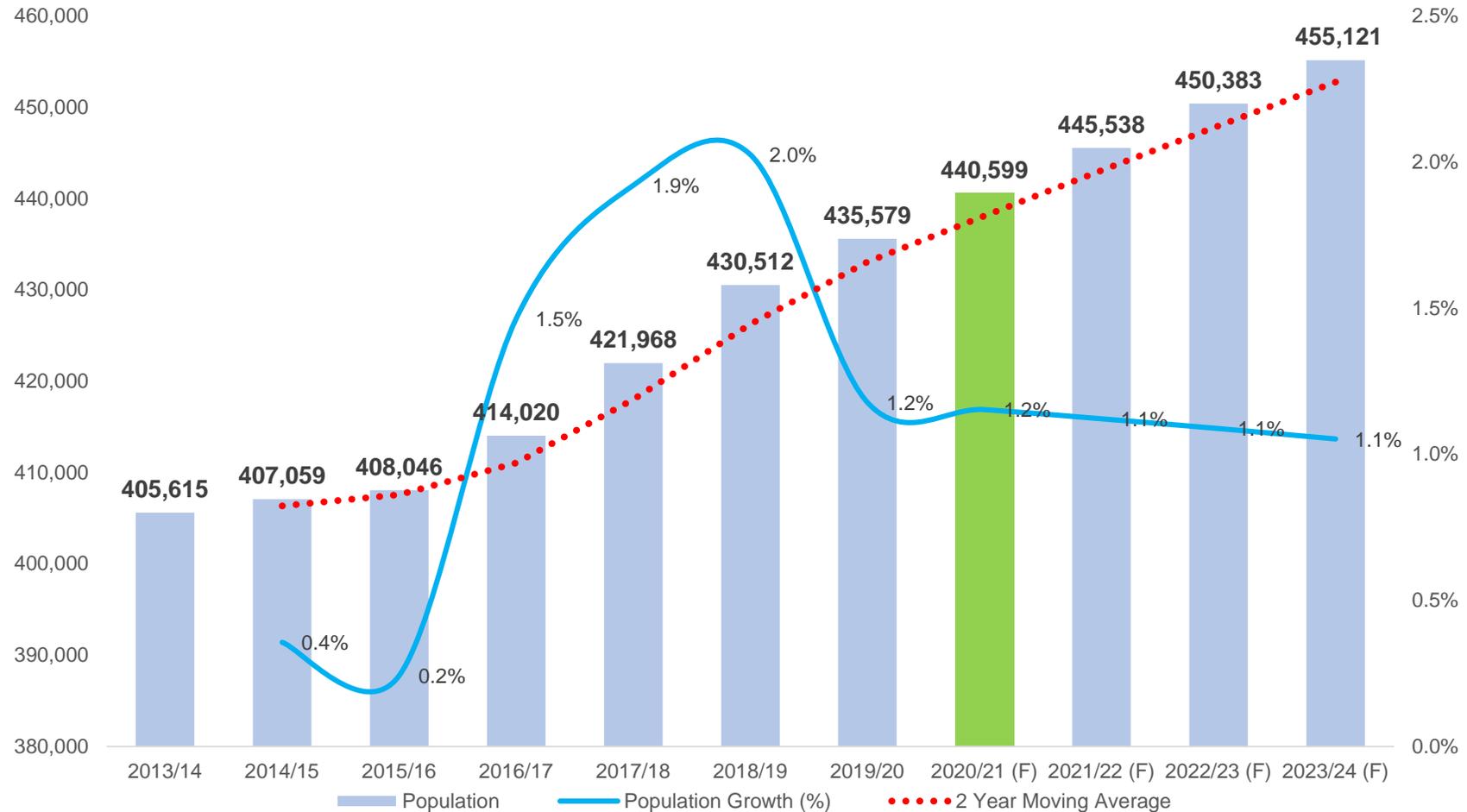
Source: Canmac Economics (HRM-Finance Economic Outlook, 2019-23)

Inflation Puts Continuous Pressure on Municipal Costs



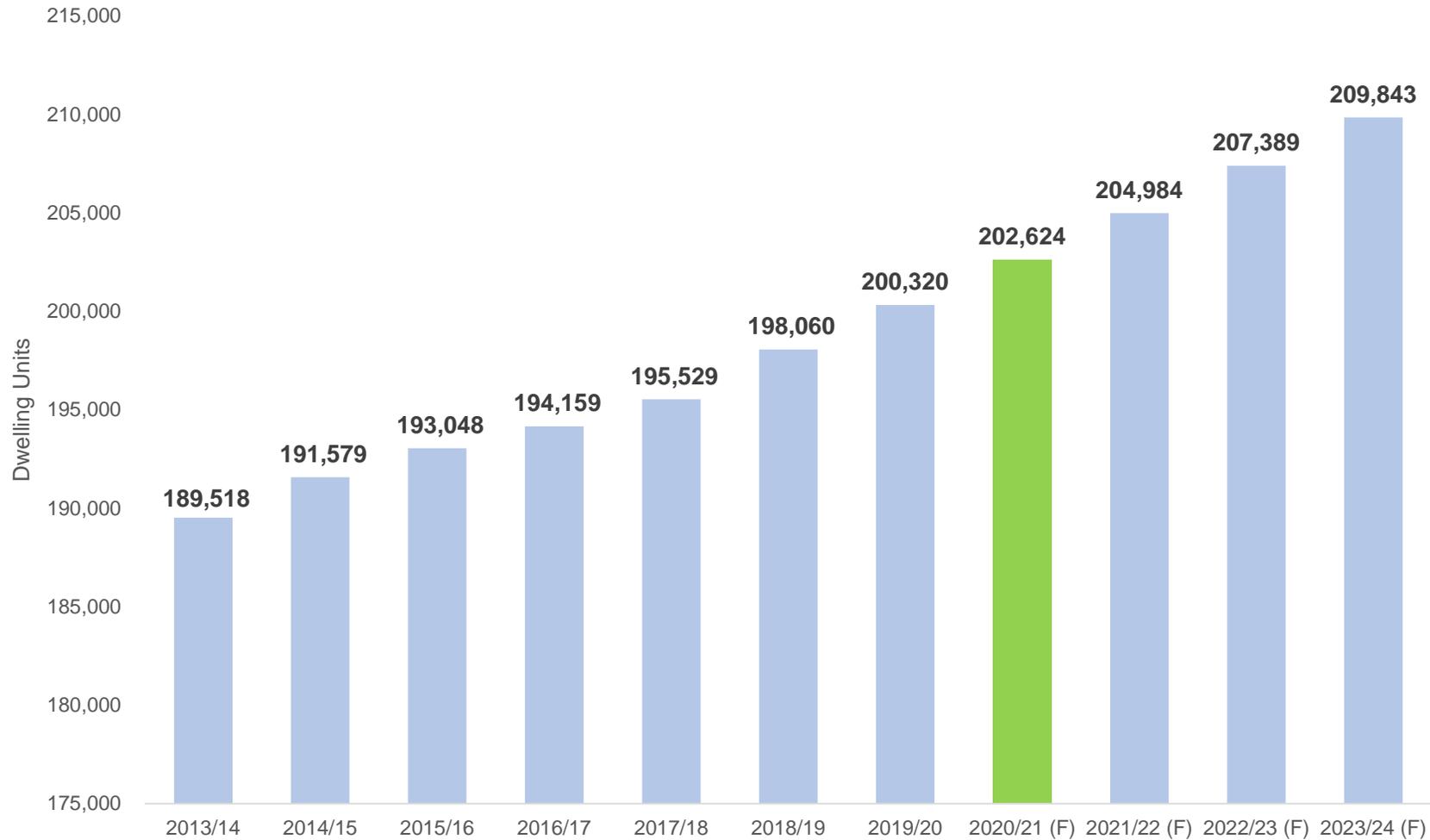
Source: Statistics Canada, Canmac Economics (HRM-Finance Economic Outlook, 2019-23)

Ongoing Population Growth



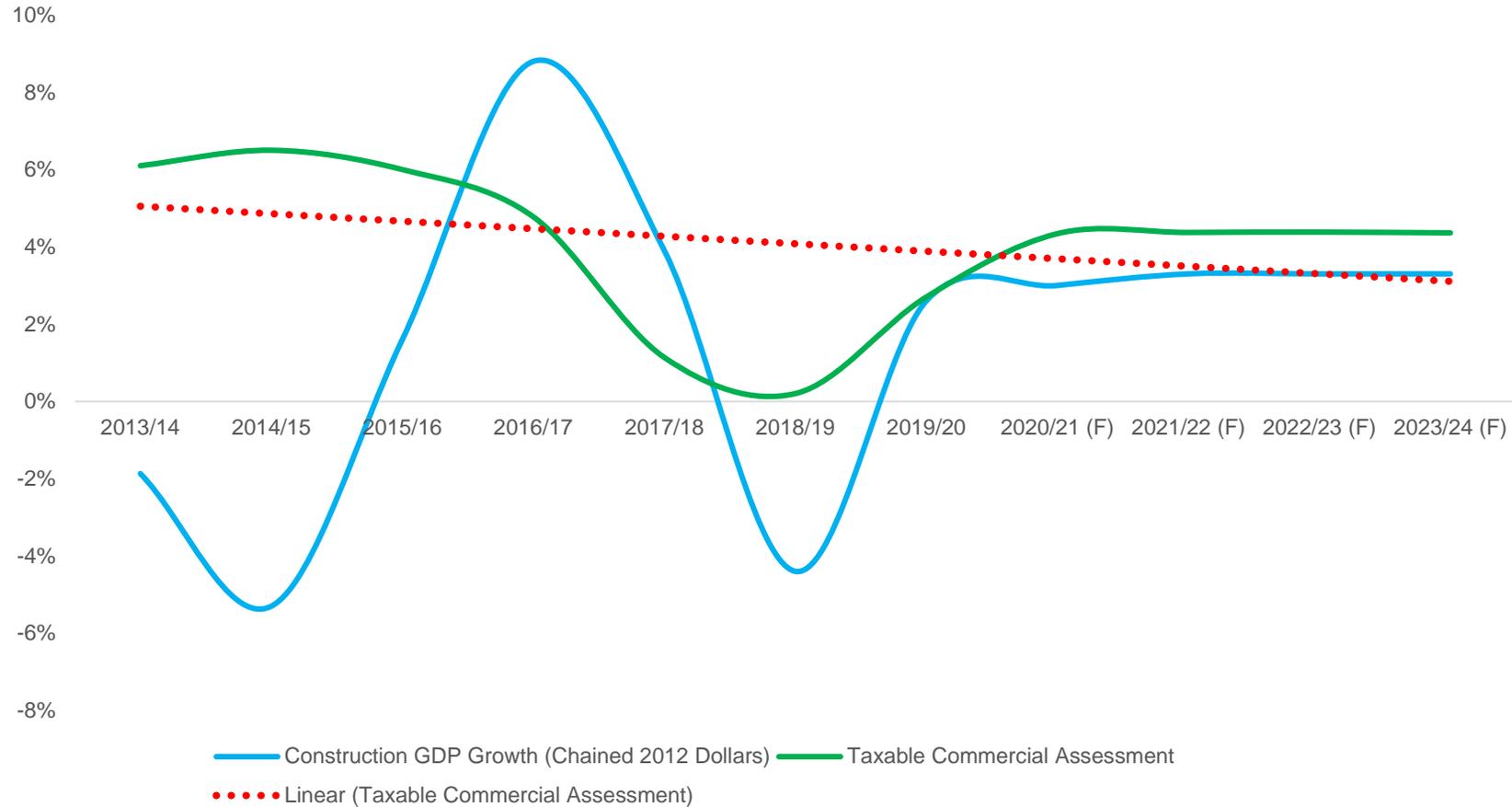
Source: Canmac Economics (HRM-Finance Economic Outlook, 2019-23)

New Dwelling Units lead to New Revenues and Increased Costs



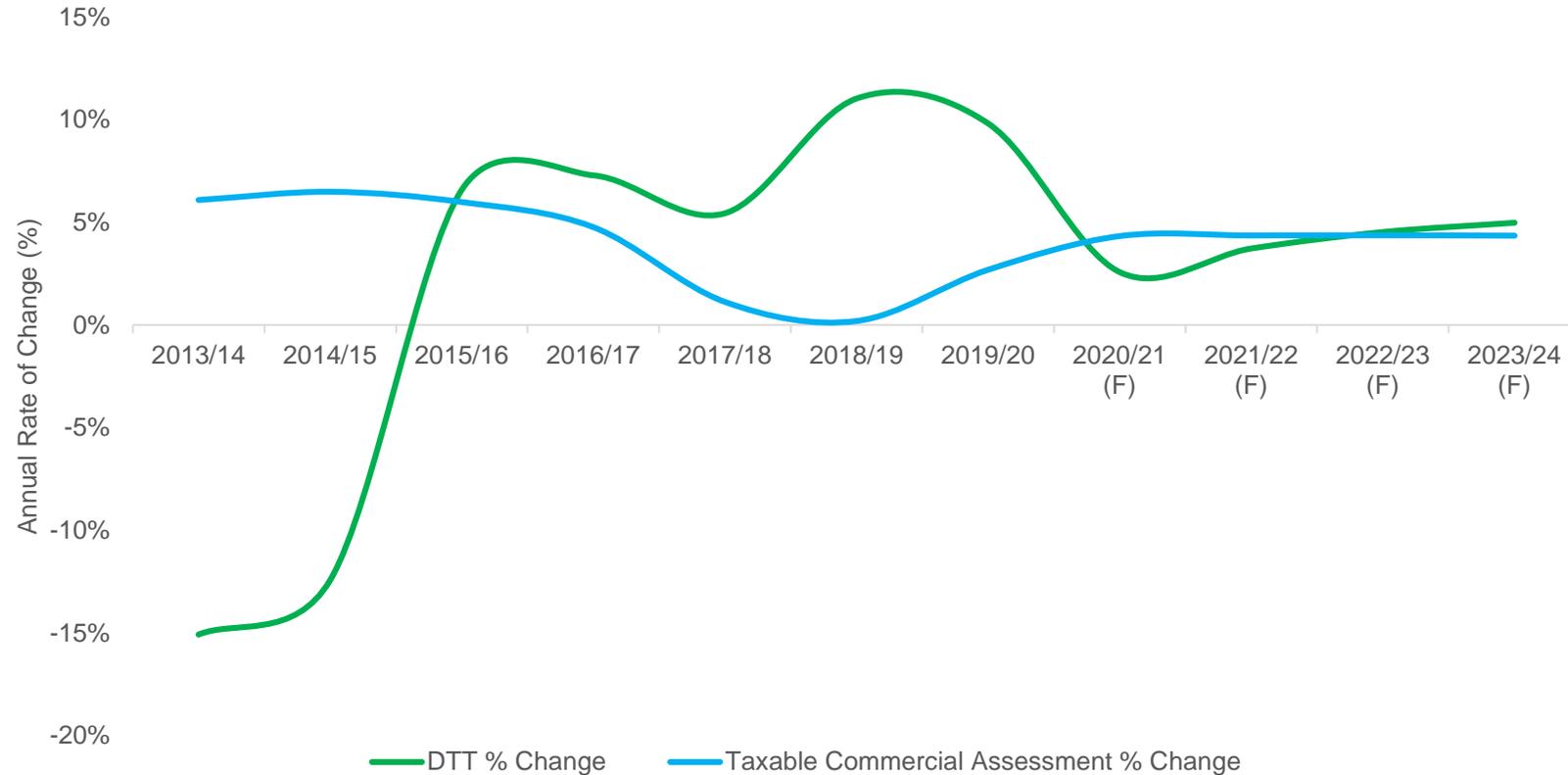
Source: Canmac Economics (HRM-Finance Economic Outlook, 2019-23)

Commercial Assessment Lags Construction



Source: Statistics Canada, Canmac Economics (HRM-Finance Economic Outlook, 2019-23)

Deed Transfer Tax is More Sensitive to Economic Change than is Commercial Assessment



Sources: HRM Finance, Canmac Economics (HRM-Finance Economic Outlook, 2019-23)

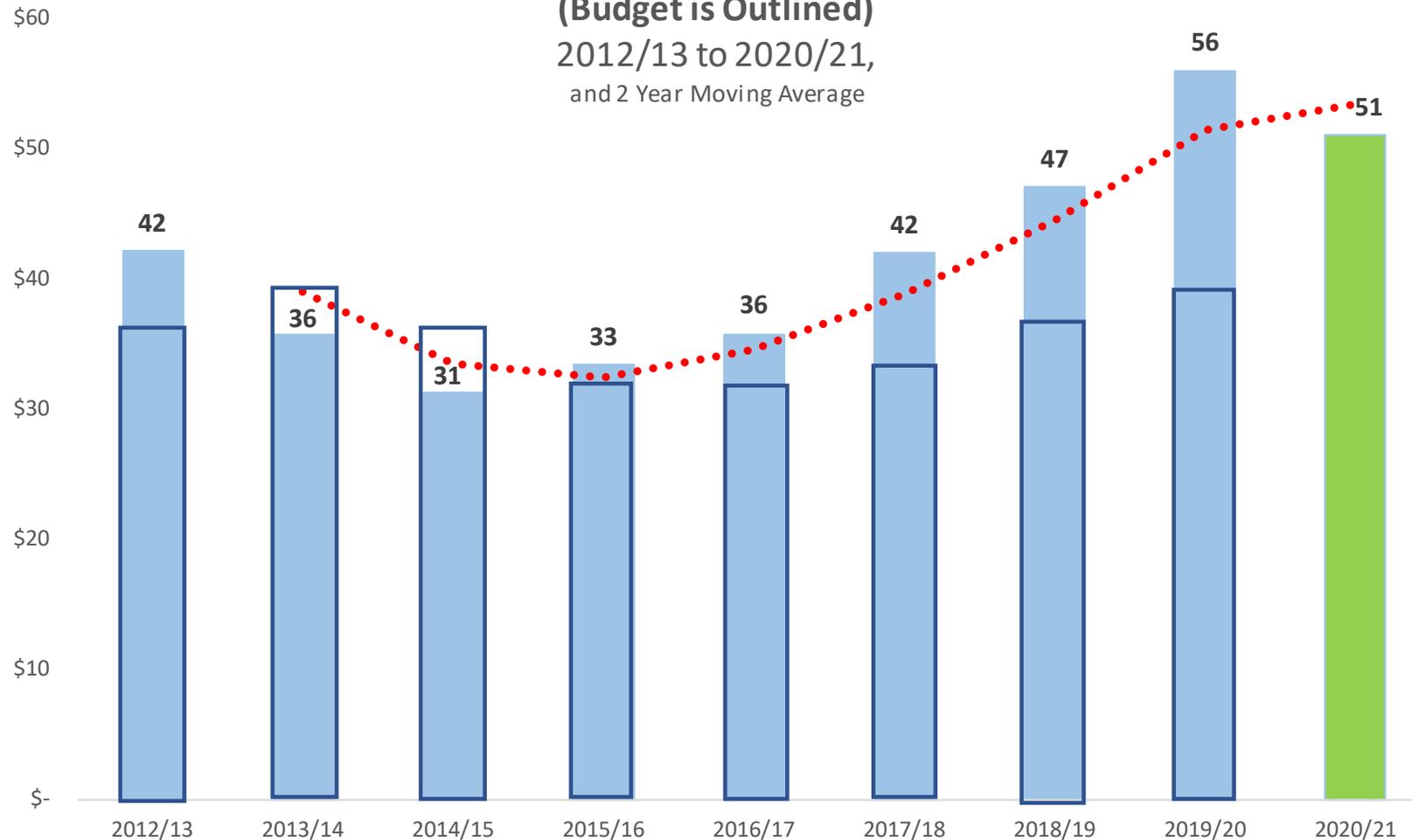
Deed Transfer Tax

Deed Transfer Tax Actuals (\$M)

(Budget is Outlined)

2012/13 to 2020/21,

and 2 Year Moving Average



Source: HRM Actuals & Projections

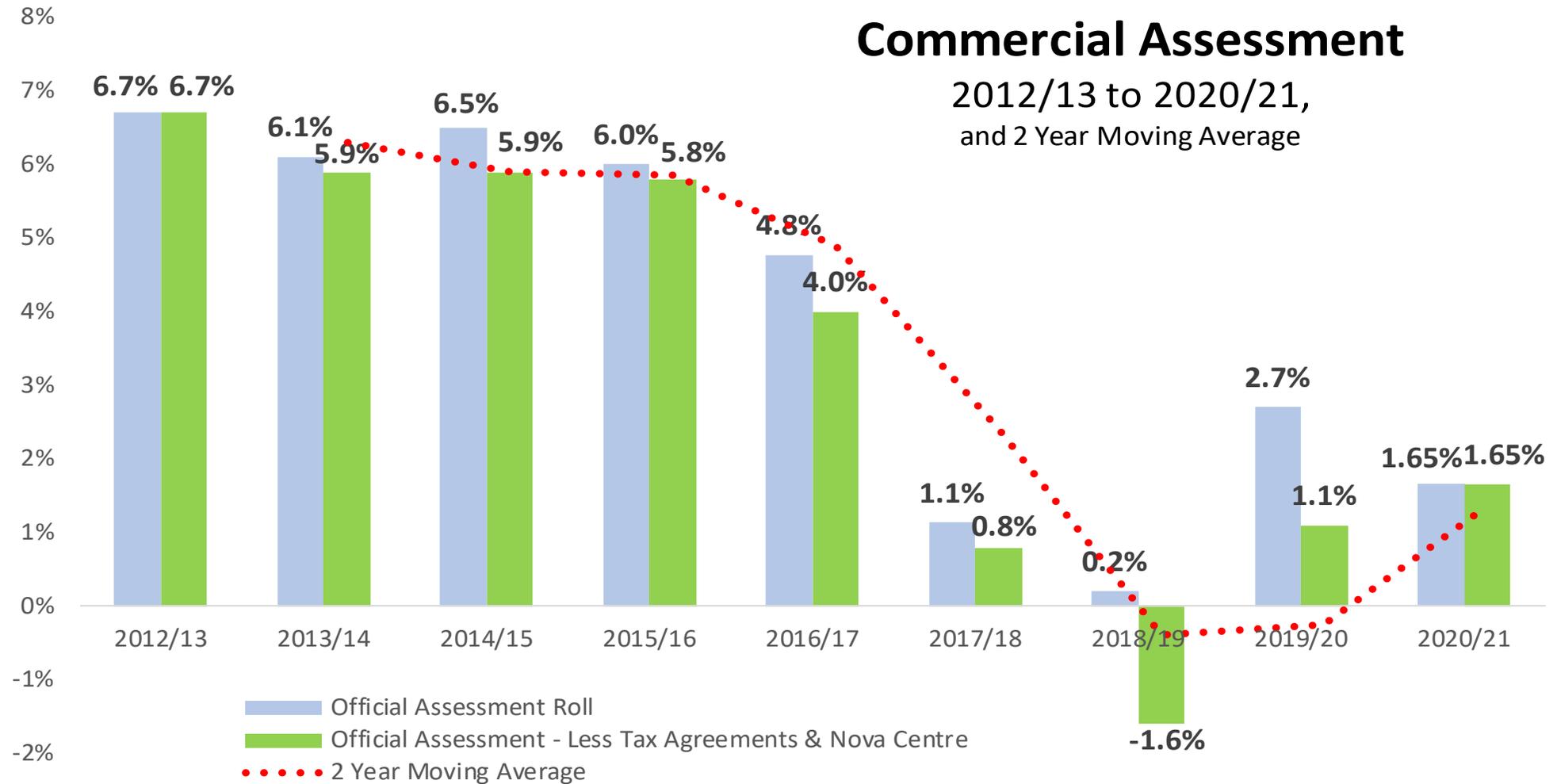
Economic Assumptions Remain Relatively Strong

	Current Year	Year 1	Year 2	Year 3	Year 4
	2019/20	2020/21 (F)	2021/22 (F)	2022/23 (F)	2023/24 (F)
Real GDP Growth (%)	1.60%	1.80%	2.10%	2.00%	1.90%
Personal Income- Per Capita Change	2.80%	2.70%	2.70%	2.60%	2.60%
Population	435,579	440,599	445,538	450,383	455,121
Percent Change	1.20%	1.20%	1.10%	1.10%	1.10%
Dwelling Units	200,320	202,624	204,984	207,389	209,843
Percent Change	1.10%	1.20%	1.20%	1.20%	1.20%
Inflation- CPI Core	2.10%	2.20%	2.10%	2.20%	2.20%
Office Space - Occupied (Sq.Ft.)	11,609	11,899	12,173	12,473	12,693
Percent Change	2.50%	2.50%	2.30%	2.20%	2.10%

Source: Canmac Economics (HRM-Finance Economic Outlook, 2019-23)

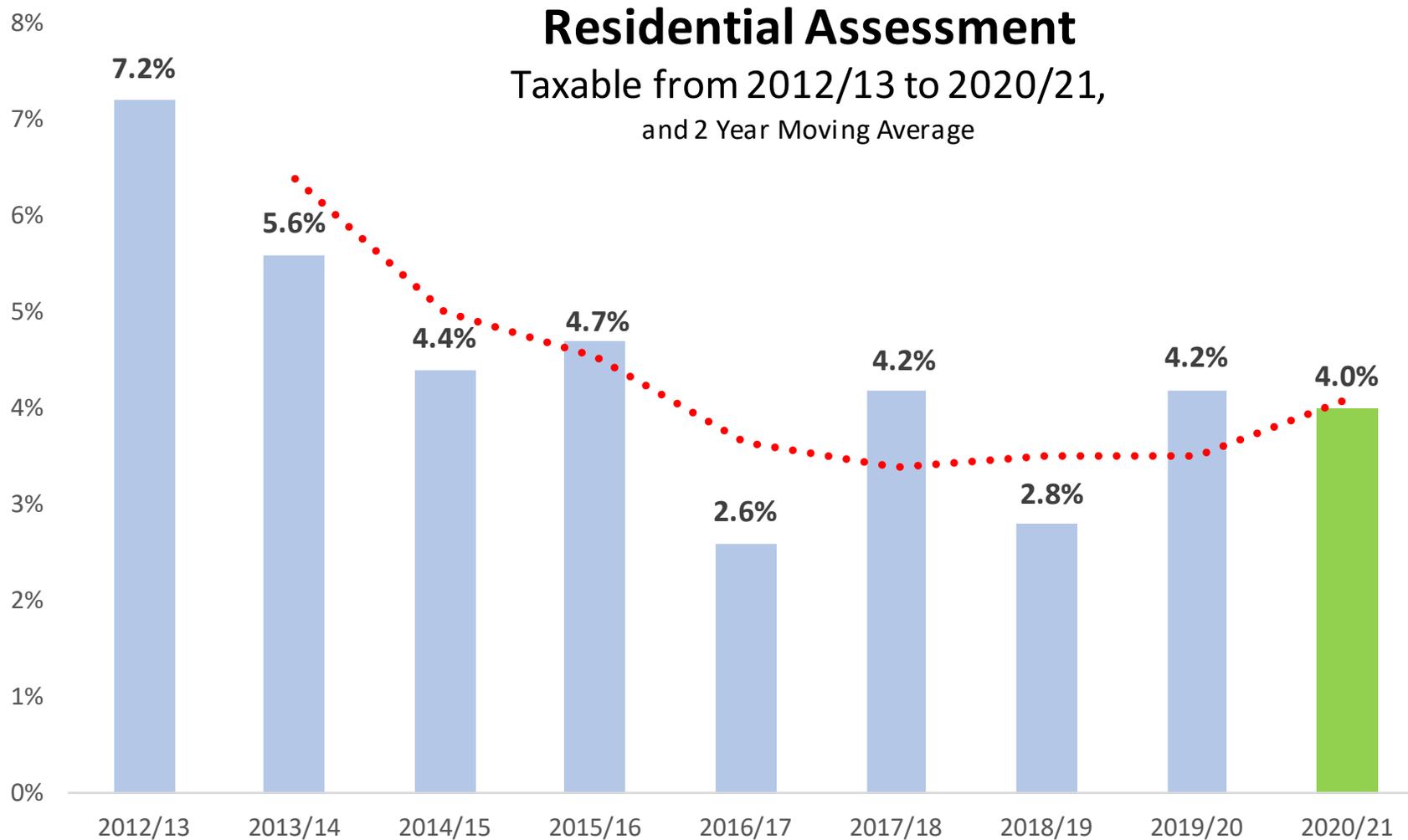
Commercial Assessment

2012/13 to 2020/21,
and 2 Year Moving Average



Note: Tax Agreement Revenues are not based on General Tax Rates

Sources: 2012/13 to 2019/20: Property Valuation Services Corporation (PVSC); 2020/21 are HRM estimates



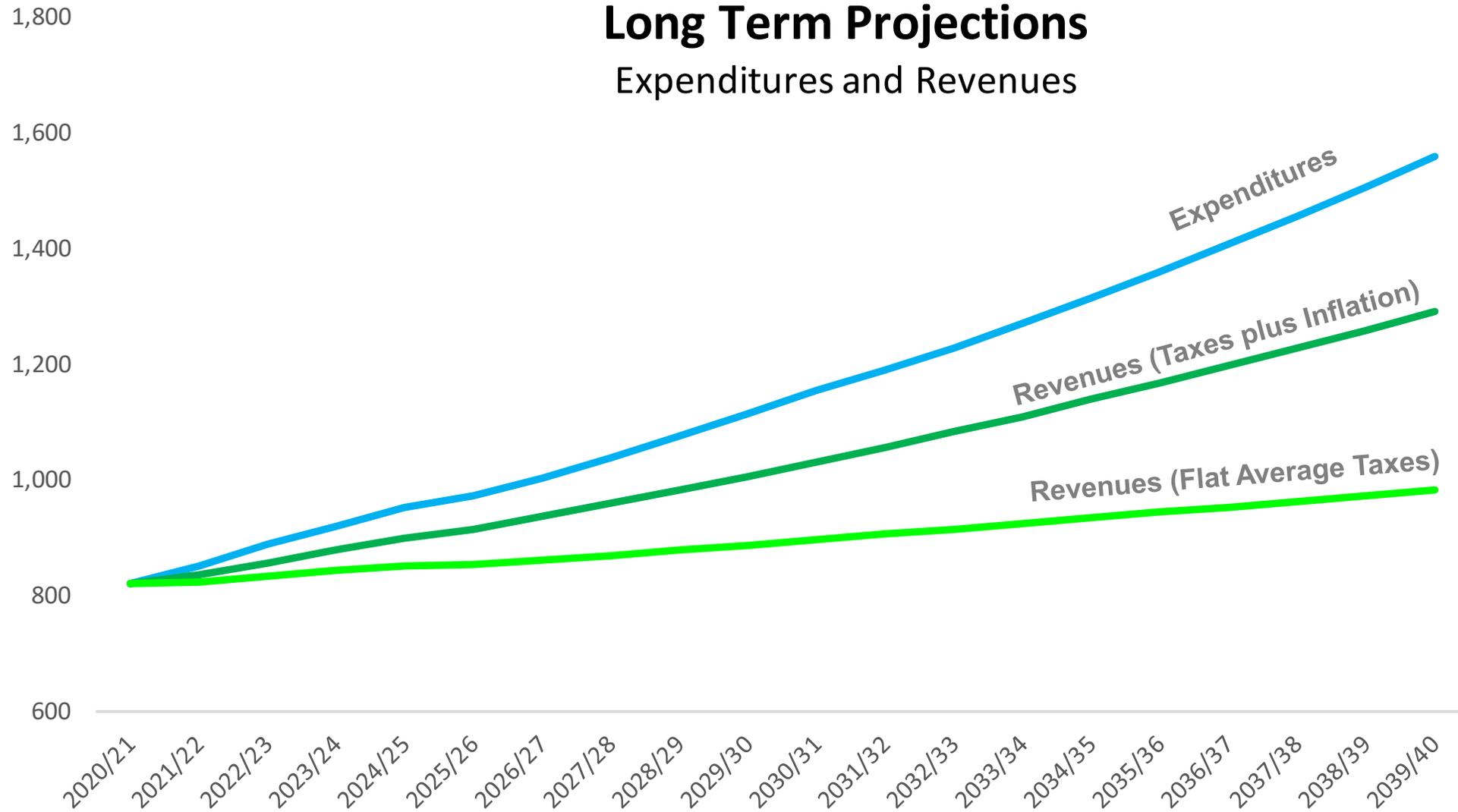
Sources: 2012/13 to 2019/20: Property Valuation Services Corporation (PVSC); 2020/21: HRM estimates

Assessment - Estimated Change for 2020/21

<i>\$ Billions</i>	2019/20	2020/21	Change	Change %
Residential	\$39.2	\$40.8	\$1.6	4.0%
Resource	0.3	0.3	0.0	0.0%
Commercial	8.5	8.6	0.1	1.65%
Total	\$48.0	\$49.7	\$1.7	3.6%

Long Term Projections

Expenditures and Revenues



Sources: HRM estimates

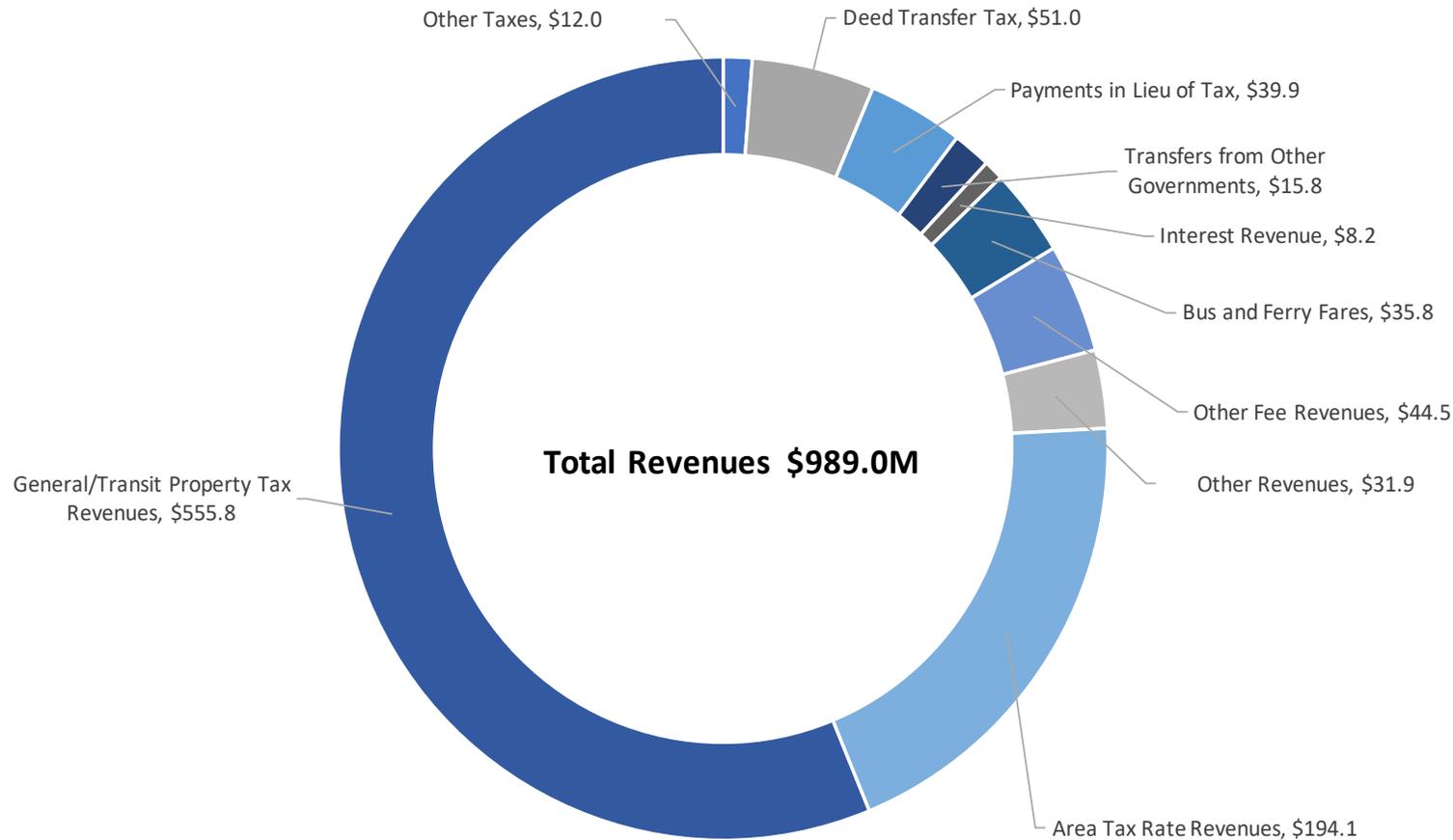
Commercial Assessment Growth and the Economy: Key Takeaways

ECONOMIC ASSUMPTIONS

- Unlike Provincial and Federal revenues (income & sales tax), **property tax tends to lag economic activity.** However, economic fundamentals largely determine property values. It is a **stable** revenue source.
- Assessment growth tends to be strongest during periods of low vacancy, or prolonged economic expansion.
- Due to changing nature of economy (service-oriented), square footage demand will dampen in the long-run.
- HRM economy will support growing commercial assessment **over the medium term.**

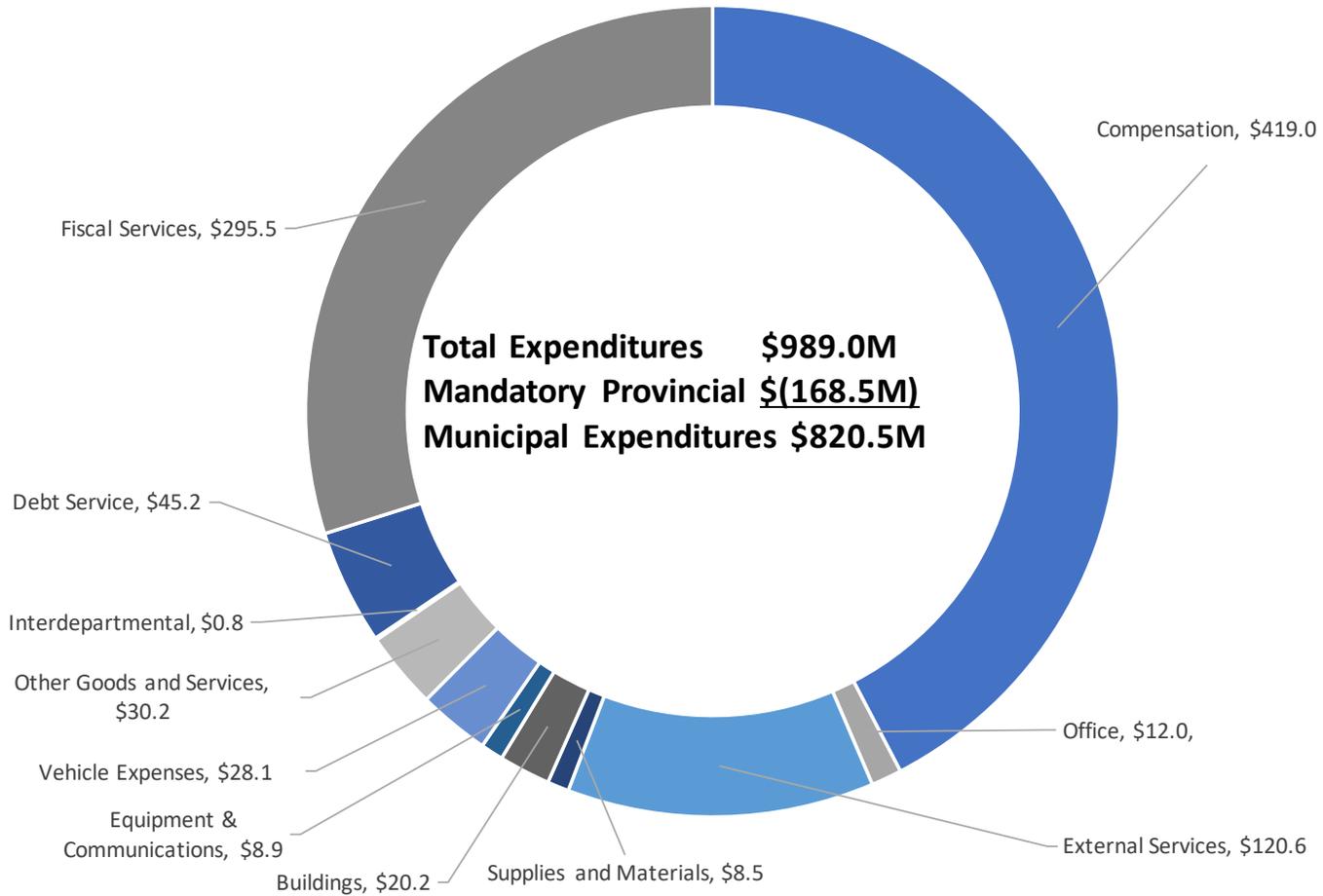
Operating Budget

Overview of Revenues (\$M)



Revenue %'s	
Other Taxes	1.2%
Deed Transfer Tax	5.2%
Payments in Lieu of Tax	4.0%
Transfers from Other Governments	1.6%
Interest Revenue	0.8%
Bus and Ferry Fares	3.6%
Other Fee Revenues	4.5%
Other Revenues	3.2%
Area Tax Rate Revenues	19.6%
General/Transit Property Tax Revenues	56.2%

Overview of Expenditures (\$M)



Expenditures %'s	
Compensation	42.4%
Office	1.2%
External Services	12.2%
Supplies and Materials	0.9%
Buildings	2.0%
Equipment & Communications	0.9%
Vehicle Expenses	2.8%
Other Goods and Services	3.1%
Interdepartmental	0.1%
Debt Service	4.6%
Fiscal Services	29.9%

Compensation is a Significant Cost Driver

OPERATING BUDGET

- Compensation is 50% of Municipal expenditures. Compensation meets or exceeds inflation rate.
- HRM has seven collective agreements:
 - ATU – 2.75%
 - NSUPE – 2.0%
 - IAFF – rising to 97% of Constable
- New positions and step increases contribute to wage costs.
- Pension costs remain substantial.

Compensation as a per cent of 2019/20 Gross Expenditures	
Business Unit	%
Fire	96%
Police	93%
Office of the Auditor General	91%
CAO	90%
Human Resources & Diversity & Inclusion	89%
Planning & Development	82%
Library	73%
Halifax Transit	68%
Finance, Asset Management & ICT	59%
Parks & Recreation	54%
Legal Services	53%
Corporate & Customer Service	45%
Transportation & Public Works	23%

Goods, Services & Contracts

OPERATING BUDGET

- HRM maintains significant contracts in a number of areas such as winter works, solid waste and the RCMP.
- In addition, it purchases a wide variety of goods and services ranging from road salt to janitorial services. It also operates an extensive vehicle fleet and owns a large number of buildings.
- Contract increases are as high as 10% while other inflation averages around 2.2%.

Ongoing Pressures

Pressures (\$M)

Compensation	\$14.8
Capital from Operating	8.5
Inflation - Goods & Services	4.1
Inflation - Contracts	3.2
Other Pressures	<u>3.9</u>
Total	\$34.5

Budget Savings

OPERATING BUDGET

- Fuel and Debt savings are equal to 0.9% on the average tax bill.
 - Fuel Prices will most likely stabilize or rise modestly.
 - Debt costs will rise due to higher debt being approved.
- The higher revenues from Deed Transfer Tax would offset the higher Capital from Operating.

Savings (\$M)

Fee Revenues	-\$1.0
Fuel Prices (Gas)	-1.4
Efficiencies & Reductions	-4.0
Debt & Reserves	-4.2
Deed Transfer Tax	<u>-12.0</u>
Total	-\$22.5

Implications for 2020/21 Taxation

OPERATING BUDGET

- Final assessment roll in January 2020.
 - Staff have estimated current impacts based on econometric modelling and discussions with Property Valuation Services Corporation (PVSC).
- The estimated shortfall in 2020/21 is \$12M.
 - Estimates are that \$4m in additional revenues will come from growth (new properties and commercial building permits).
 - That leaves an \$8m shortfall. The Gap can be closed through a 1.5 per cent increase in the average tax bill – slight change to the tax rate.
 - Due to savings from fuel and debt costs, this increase is below the projected inflation rate of 2.2 per cent and likely not sustainable in the longer term.
- In the longer term, cost pressures will outpace assessment growth.

Slight Change to Residential Tax Rate on Average Home

	Approved 2019/20	Proposed 2020/21	
Assessment	242,400	245,800	
Tax Rate	0.815%	0.816%	
Tax Bill \$	\$1,976	\$2,006	
Increase \$		\$30	
Increase %		1.5%	

Slight Change to Tax Rate

\$30 Increase

Note: based on the estimated average single family home and the Urban General, Local Transit and Regional Transportation Tax Rates. Tax Rate will be adjusted to achieve a 1.5% tax bill increase. The tax rate should change only slightly, depending on the Final Tax Roll (received in December 2019).

Commercial Tax on Average Business

	Approved 2019/20	Proposed 2020/21	
Assessment (M)	1.425	1.440	
Tax Rate	2.988%	3.004%	Slight increase in Tax Rate
Tax Bill	\$42,600	\$43,243	\$643 Increase
Increase \$		\$643	
Increase %		1.5%	

Note: based on the estimated average commercial property and the Urban General Tax Rate. Tax Rate will be adjusted to achieve a 1.5% tax bill increase. The tax rate should change only slightly, depending on the Final Tax Roll (received in December 2019).

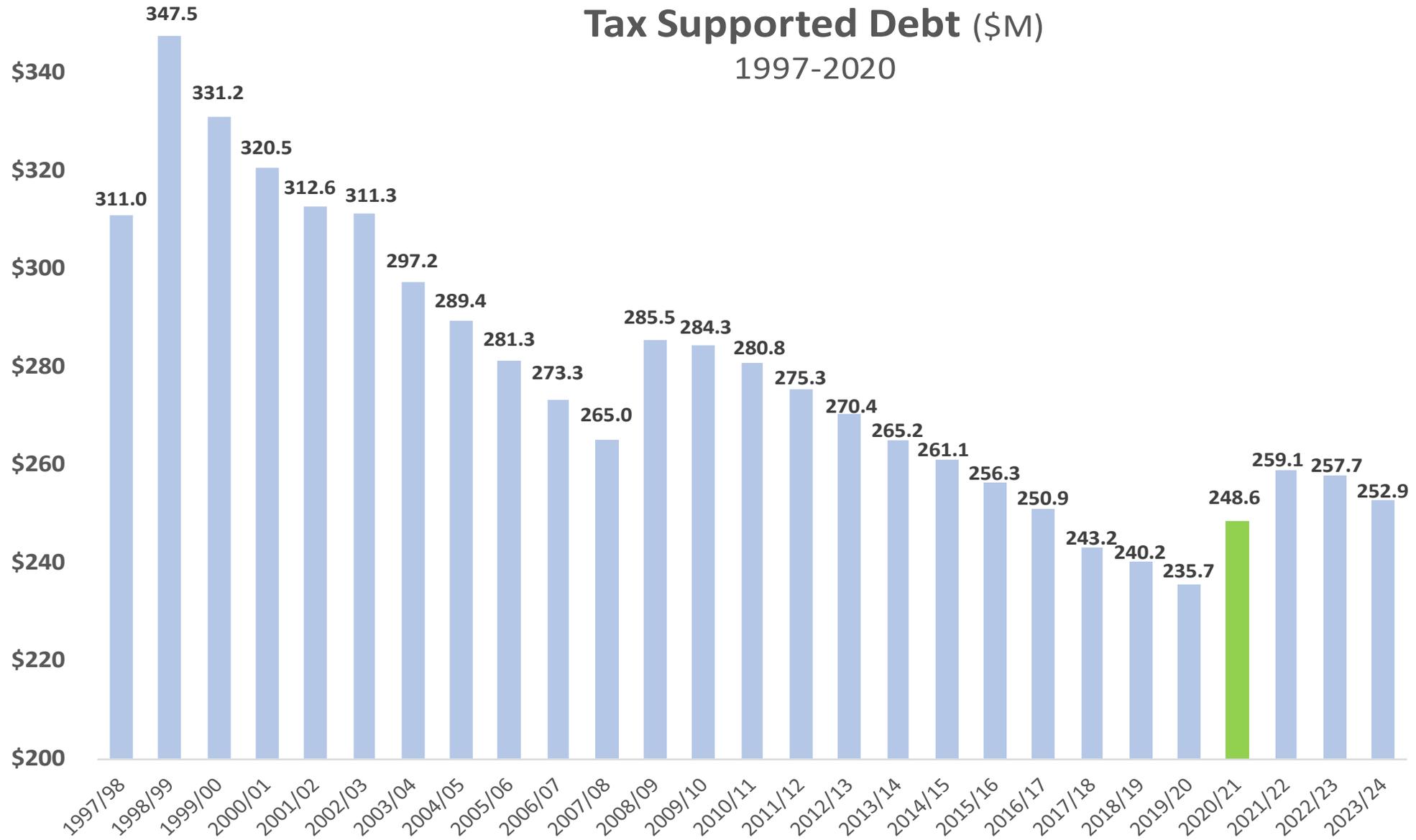
Key Conclusions on Assessment

- Not all economic activity will produce higher property tax assessment.
 - based on “bricks and mortar”
 - growth tends to lag economic activity.
- Growing but not quite as strong as in 2019/20:
 - Commercial – 1.65%
 - Residential – 4.0%
- Growth in costs outpacing assessment growth

Debt

Tax Supported Debt (\$M)

1997-2020



Note: As of end of year. Includes all authorized debt.

Debt Policy

- **Debt is simply a financial tool**
 - The most important measure is your debt service ratio – how much are you spending of your budget to pay interest and principal payments.
 - HRM's debt service ratio is 4.9%
 - PNS recommends a debt service ratio of less than 15%
- **Debt Strategy**
 - To be developed as part of the long term capital funding model
 - Guiding principals:
 - Asset Renewal funded from pay as you go through Capital from Operating, Gas Tax or Reserves
 - Use Debt for Growth projects and/or large regional projects, take advantage of merit based federal cost sharing programs

Reserves

Reserve Purposes

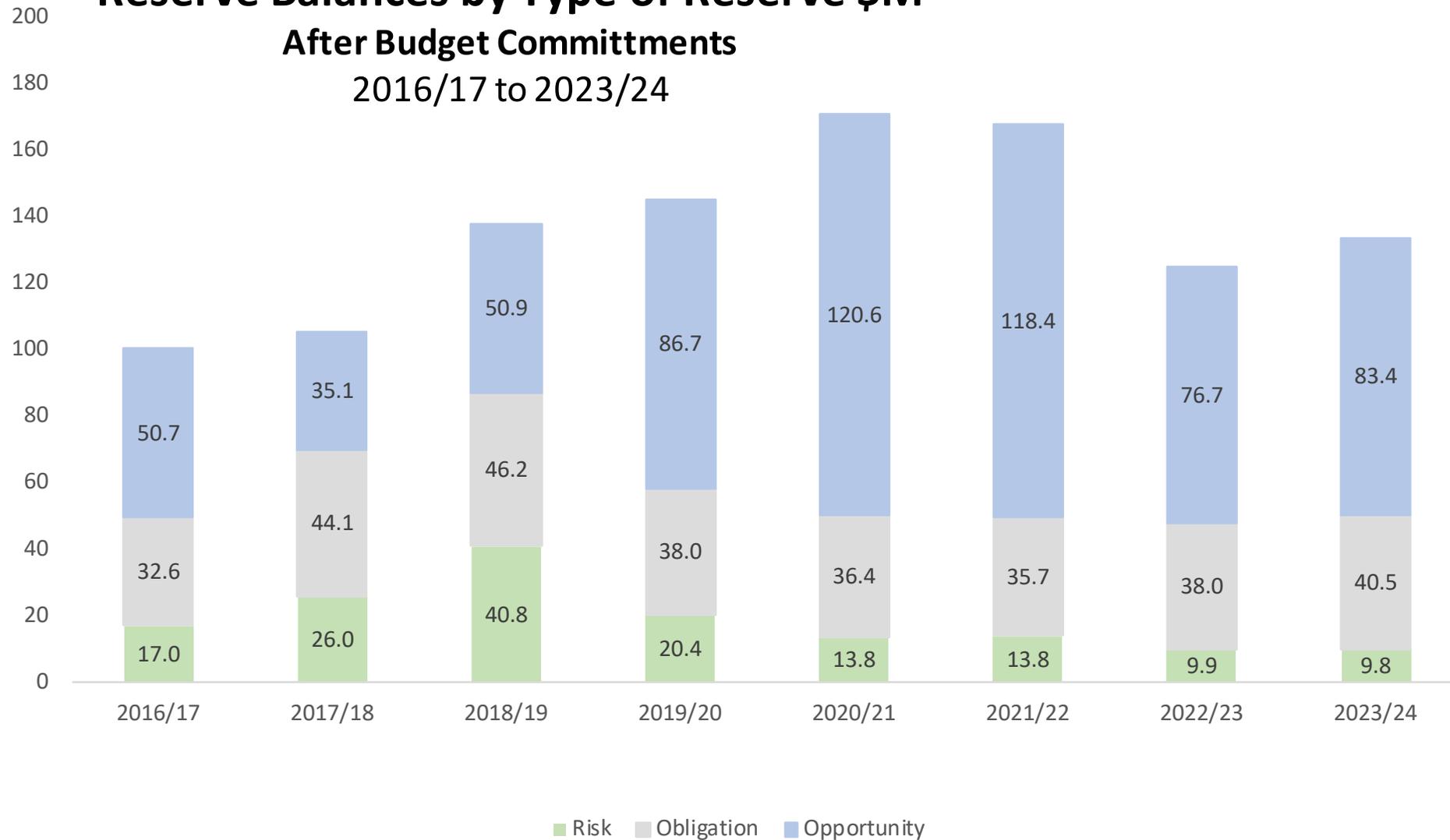
HRM has 20 reserves, with Council approved business cases. Reserves exist to fulfill three basic purposes:

- Risk reserves - for emergencies or for variations in the budget such as snow clearing.
- Obligation reserves - to fund specific events, often numerous years in the future. For example, landfill closure, Halifax Convention Center or central library recapitalization.
- Opportunity reserves – for flexibility. Typical uses would be leveraging funds or paying HRM's portion of cost-shared infrastructure projects.

Reserve Balances by Type of Reserve \$M

After Budget Commitments

2016/17 to 2023/24



Note: As of end of year. Actual amounts for 2016/17 to 2018/19. Other years are projections (2019/20) or estimates (2020/21+).

Fiscal Services Budget

What is Fiscal Services?

Organization wide costs and revenues that are not fully allocated to Business Units including:

- Property and Other Taxes
- Non-departmental Revenues
- Private Roads, other Area Rates
- Debt Charges
- Capital from Operating
- Reserves
- Provincial Mandatory Costs
- Supplementary Education
- Contingencies for Compensation
- Intern Program, Other Compensation costs
- Grants and Tax Relief
- Valuation Allowance
- Insurance

Presentation Changes in 2020/21

OPERATING BUDGET

- Debt Charges and Capital from Operating will now be budgeted for in Fiscal Services.
 - TPW, Parks and Rec, Fire had debt charges in 2019/20.
 - Transit had both Debt Charges and Cap from Operating in 2019/20.
- Commercial Property Tax Revenues will now all be in Fiscal Services
 - Transit had commercial property taxes in 2019/20.

FISCAL SERVICES BUDGET

- OVERVIEW

Expenditures	2018/19	2019/20	2019/20	2020/21		
	Actual	Budget	Projections	Budget	Δ 19/20 Budget	Δ %
Compensation and Benefits	\$ 5,457,209	\$ 9,909,800	\$ 10,309,800	\$ 13,785,600	\$ 3,875,800	39.1
Office	12,178	30,200	30,200	27,800	(2,400)	(7.9)
External Services	1,135,759	4,162,100	4,822,600	1,768,600	(2,393,500)	(57.5)
Supplies	4,267	6,700	11,700	6,100	(600)	(9.0)
Supplies	-	-	5,000	-	-	-
Building Costs	486,655	538,000	583,000	621,200	83,200	15.5
Equipment & Communications	10,554	66,100	121,100	31,300	(34,800)	(52.6)
Vehicle Expense	4,557	42,900	15,000	42,900	-	-
Other Goods & Services	2,205,847	7,250,300	7,871,900	8,628,100	1,377,800	19.0
Interdepartmental	725,850	527,600	527,600	979,600	452,000	85.7
Debt Service	41,293,731	39,364,800	39,317,400	45,158,500	5,793,700	14.7
Other Fiscal	282,267,514	264,770,300	268,933,800	282,628,300	17,858,000	6.7
Total Expenditures	333,604,119	326,668,800	332,549,100	353,678,000	27,009,200	8.3

Note: Tables are for fiscal services, not the entire organization. Includes amounts transferred from Business Unit into Fiscal Services for Commercial Taxation Revenues.

FISCAL SERVICES BUDGET

- **OVERVIEW**

Revenues	2018/19	2019/20	2019/20	2020/21		
	Actual	Budget	Projections	Budget	Δ 19/20 Budget	Δ %
Tax Revenue	\$(442,922,671)	\$(458,983,800)	\$(462,996,800)	\$(508,497,000)	\$ (49,513,200)	10.8
Deed Transfer Tax	(46,097,297)	(39,000,000)	(53,000,000)	(51,000,000)	(12,000,000)	30.8
Area Rate Revenue	(181,593,912)	(185,568,200)	(185,568,200)	(191,604,900)	(6,036,700)	3.3
Tax Agreements	(11,394,876)	(11,491,300)	(11,884,300)	(11,926,300)	(435,000)	3.8
Payments in Lieu of taxes	(37,936,686)	(41,452,700)	(39,717,900)	(39,710,900)	1,741,800	(4.2)
Transfers from other Govts	(3,456,192)	(3,730,000)	(3,622,500)	(3,770,000)	(40,000)	1.1
Interest Revenue	(8,847,443)	(8,205,700)	(9,500,000)	(8,202,600)	3,100	-
Fee Revenues	(4,860,765)	(4,600,000)	(4,900,000)	(5,500,000)	(900,000)	19.6
Other Revenue	(19,078,107)	(18,209,900)	(18,542,500)	(18,081,500)	128,400	(0.7)
Total Revenues	(756,187,948)	(771,241,600)	(789,732,200)	(838,293,200)	(67,051,600)	8.7
Net Total	\$(422,583,829)	\$(444,572,800)	\$(457,183,100)	\$(484,615,200)	\$ (40,042,400)	9.0

Note: Tables are for fiscal services, not the entire organization. Includes amounts transferred from Business Units into Fiscal Services for debt charges.

Conclusions

OPERATING BUDGET

- Economic growth is strong and robust
 - Population, income, GDP are consistently rising
 - Inflation holding steady, expected to be 2.2%
- Operating Budget
 - Pressure on Compensation, Contracts, Goods and Services
 - Debt and Fuel provide savings
 - Deed Transfer Tax rising \$12M, offsets Cap from Operating
- To Balance
 - Average tax bills rise 1.5 per cent or \$30 per home, commercial average tax bill increases \$643

Recommendation

OPERATING BUDGET

- It is recommended that Halifax Regional Council
 - direct staff to develop the 2020/21 Budget according to Council's approved priorities and fiscal direction, including setting the average property tax bill for residential homes and commercial properties at a 1.5% increase; and,
 - approve the preliminary Fiscal Services budget and business plan as attached.

