

Re: Item No. 3

# 2020/21 Budget

Standing Committee of the Whole on Budget

June 9, 2020

HALIFAX

# Current Environment

- **HRM Economy was in strong shape at start of 2020**
  - Above-trend population and GDP growth in line with fastest growing peer cities (Halifax Partnership, 2019)
  - Municipal finances in strong shape
    - moderate taxes, low debt and healthy reserves
- **Pandemic has caused public health crisis**
  - Led to world-wide recession that is significant
    - Restaurants, Tourism have significant impact
    - Impact on trading partners affects HRM
  - Uncertainty around depth and length of recession.
  - Risk of second COVID-19 wave.
- **Impact on Municipality**
  - Significant revenue declines, difficulty in paying taxes leads to liquidity issues
  - Some municipal services cannot be offered or have to change
  - Opportunities exist to come out of the crisis even stronger
    - Infrastructure Funding, Re-Focused Priorities



# Revised HRM Economic Outlook (Pre and Post COVID)

| Economic Variable    | 2019/20 | 2020/21<br>(March 24) | 2020/21<br>(June 9) | 2021/22 | 2022/23 |
|----------------------|---------|-----------------------|---------------------|---------|---------|
| Real GDP Growth      | 1.2%    | 1.8%                  | -5.9%               | 3.1%    | 1.8%    |
| Labour Income Growth | 2.3%    | 2.7%                  | -6.2%               | 5.5%    | 4.0%    |
| Inflation (CPI)      | 1.9%    | 2.2%                  | 1.0%                | 2.1%    | 2.2%    |
| Population (000s)    | 440     | 450                   | 450                 | 460     | 470     |
| Dwelling Units       | 200,320 | 202,624               | 202,624             | 202,464 | 204,706 |
| Percent Change       | 1.2%    | 1.2%                  | 0.0%                | -0.1%   | 1.1%    |

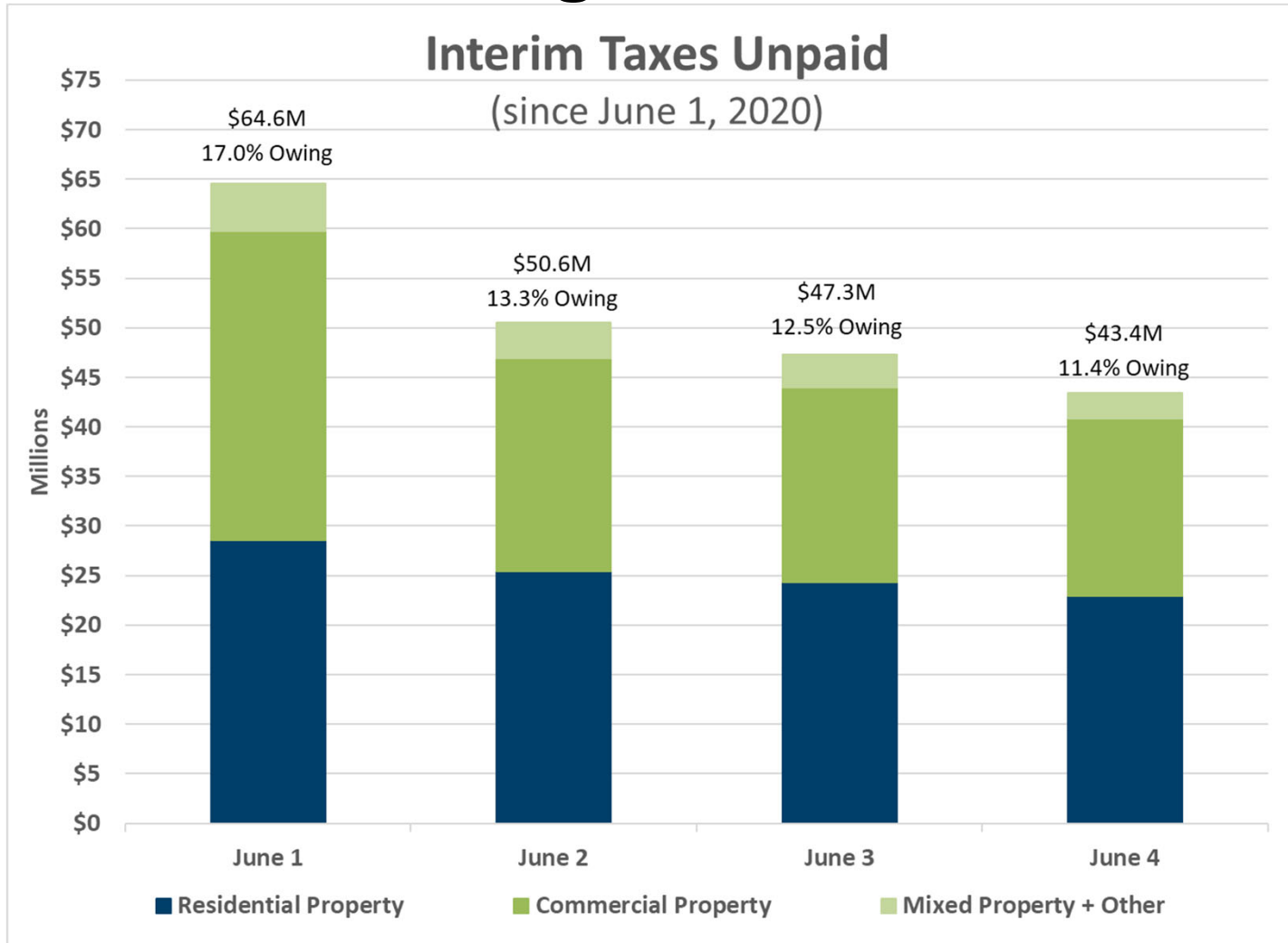
Source: Canmac Economics, 2019 and 2020 Custom Forecasts. Labour income was not available at the time of the March 24<sup>th</sup> forecast but has now been forecast using the March 24<sup>th</sup> assumptions.

# Economic Outlook

- **Halifax economy will shrink nearly 6 per cent during 2020,**
  - 2019 output levels nearly restored by Third Quarter 2021 (Canmac Economics).
- **NS unemployment is expected to remain above 12 per cent over the next year.**
  - This will deter consumer and housing demand. If Immigration stays at recent trend this will partly offset downside risks.
- **Inflation is expected to be low** into the future. Risk of deflation.
- **Single family home prices are expected to be soft** but not decline (CMHC).
  - Expected to moderate in medium-term
- **Construction demand is weakened**
  - supported by public investment but private investment is less clear.
- **Interest rates and bond yields have been steadily falling** and are expected to remain at zero or negative for the foreseeable future. (Bank of International Settlements (BIS), 2020)



# Taxes Outstanding



# Fiscal Approach

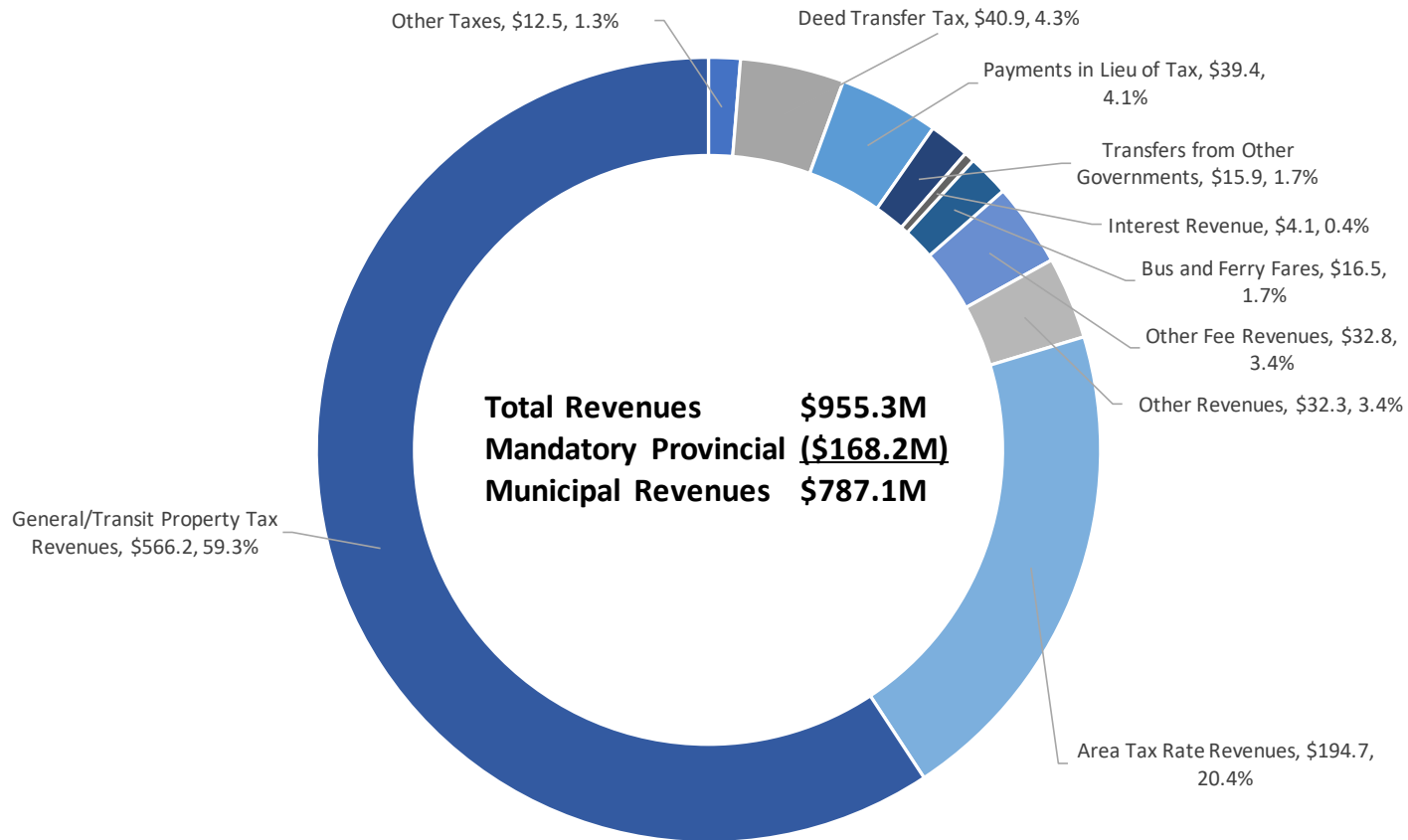
# Budget – Financial

- **Proposed Budget is prudent in nature**
  - Need to navigate around current and potential risks
  - Preserve capacity to show leadership on opportunities
- **Proposed approach allows for flexibility**
  - Reserves are still solid shape, Balance of \$207M
  - Debt and Debt Service Ratio remains low
  - Capital Plan is significant (\$208M)
    - Continuing to invest in the economy through capital investments
    - Mindful of possible infrastructure opportunities
  - Fiscal Contingency allows Regional Council to react
    - open up services faster, invest, or adjust to economic downturn

# Operating and Capital Budgets



# 2020/21 Operating Revenue (\$M)

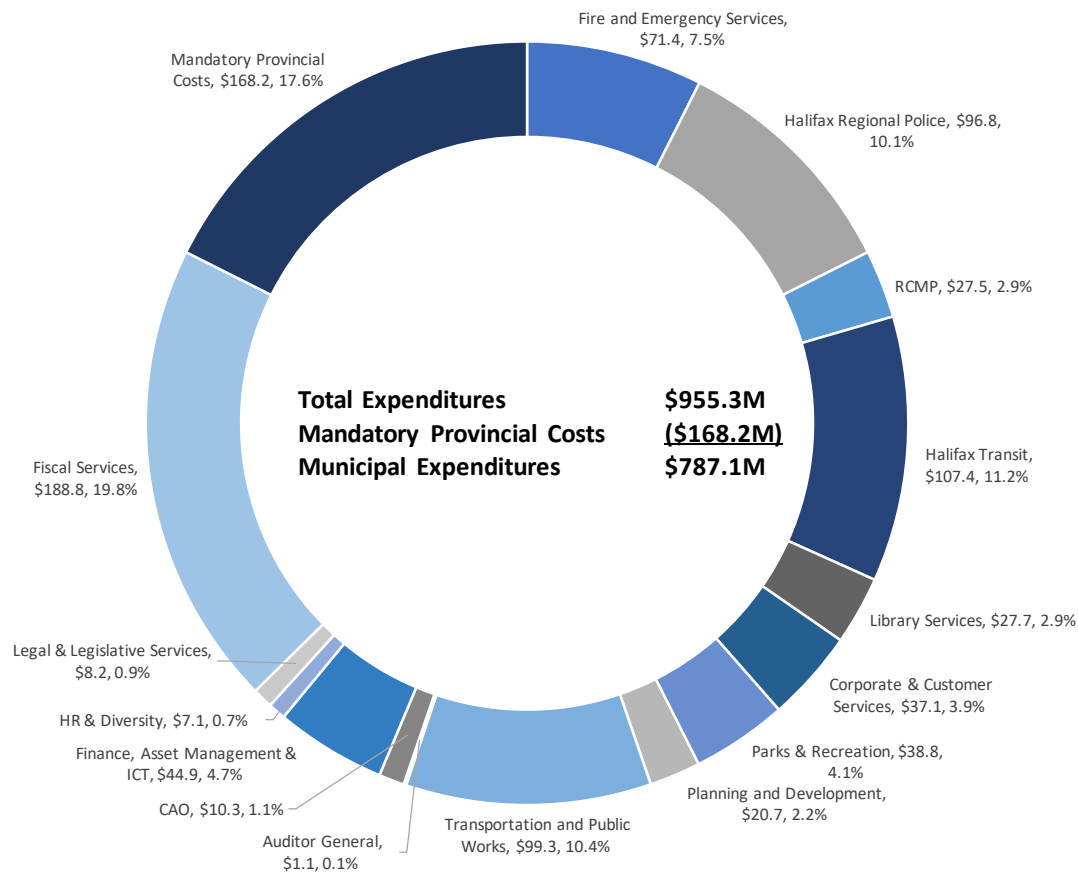


# Revenue by Category

| Revenue Budget (\$ Millions) | 2019-20<br>Approved | 2020/21<br>(March 24) | 2020/21<br>(June 9) | \$ change<br>19/20 vs 20/21 |
|------------------------------|---------------------|-----------------------|---------------------|-----------------------------|
| Residential Taxes            | \$259.3             | \$267.7               | \$267.7             | \$8.4                       |
| Commercial Taxes             | \$234.1             | \$238.1               | \$238.1             | \$4.0                       |
| Payment in Lieu of Taxes     | \$41.6              | \$39.4                | \$39.4              | (\$2.2)                     |
| Deed Transfer Tax            | \$39.0              | \$51.0                | \$40.9              | \$1.9                       |
| Transit Fares                | \$35.2              | \$36.1                | \$16.5              | (\$18.7)                    |
| Area Rate Revenues           | \$235.7             | \$244.3               | \$244.3             | \$8.6                       |
| Fee Revenue                  | \$41.8              | \$44.6                | \$44.6              | \$2.8                       |
| Other                        | \$69.0              | \$79.4                | \$63.8              | (\$5.2)                     |
| <b>Total Revenue</b>         | <b>\$955.7</b>      | <b>\$1,000.6</b>      | <b>\$955.3</b>      | <b>(\$0.4)</b>              |

Numbers may not add due to rounding

# 2020/21 Operating Expenditures (\$ M)

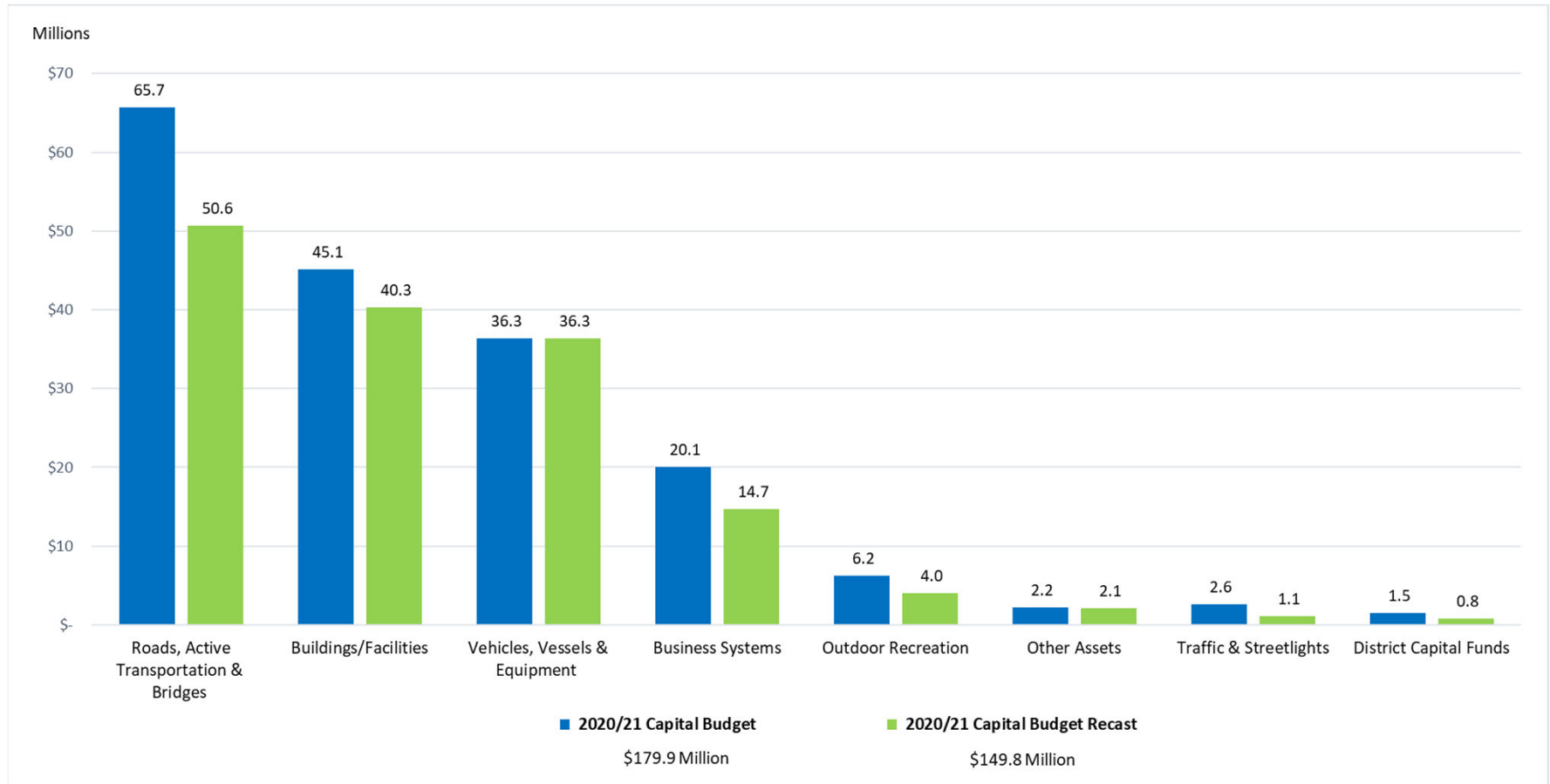


# Spending by Category

| Expenditures (\$ Millions)  | 2019-20<br>Approved | 2020/21<br>(March 24) | 2020/21<br>(June 9) | \$ change<br>19/20 vs 20/21 |
|---|---------------------|-----------------------|---------------------|-----------------------------|
| Compensation and Benefits   | \$403.2             | \$421.2               | \$405.2             | \$2.0                       |
| External Services   | \$118.0             | \$127.1               | \$121.8             | \$3.8                       |
| Vehicle Expense   | \$29.4              | \$27.8                | \$22.7              | (\$6.7)                     |
| Building Costs  | \$19.3              | \$20.7                | \$17.1              | (\$2.2)                     |
| Other Expenses (Materials, Office,<br>Communications, Other Goods/Services) | \$57.1              | \$60.3                | \$62.3              | \$5.2                       |
| Debt Service  | \$46.5              | \$45.2                | \$44.5              | (\$2.0)                     |
| Fiscal (Transfers, Cap from Operating, Insurance,<br>Other)                 | \$120.2             | \$130.1               | \$113.5             | (\$6.7)                     |
| <b>Total Municipal Expenditures</b>   | <b>\$793.7</b>      | <b>\$832.4</b>        | <b>\$787.1</b>      | <b>(\$6.6)</b>              |

Numbers may not add due to rounding

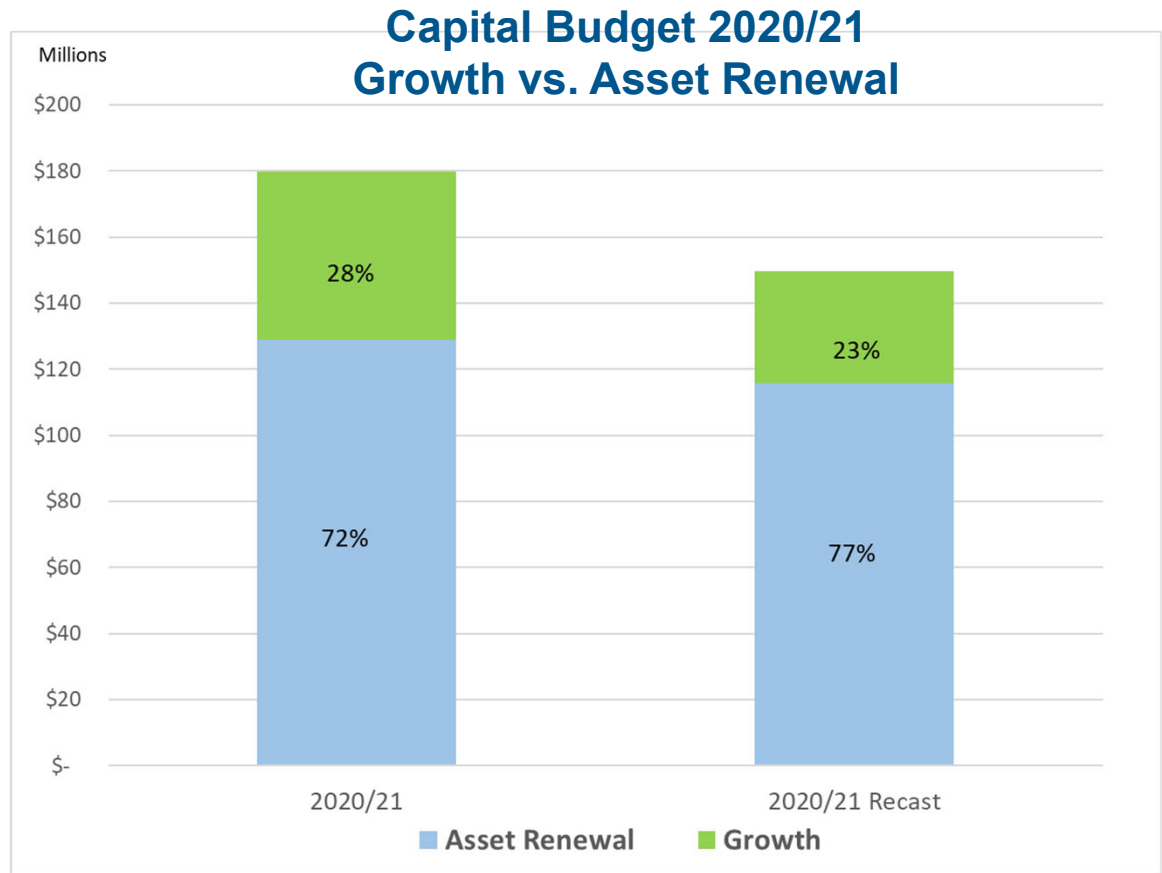
# Infrastructure Investment Comparison March 24 to June 9



# 2020/21 Investment in Capital

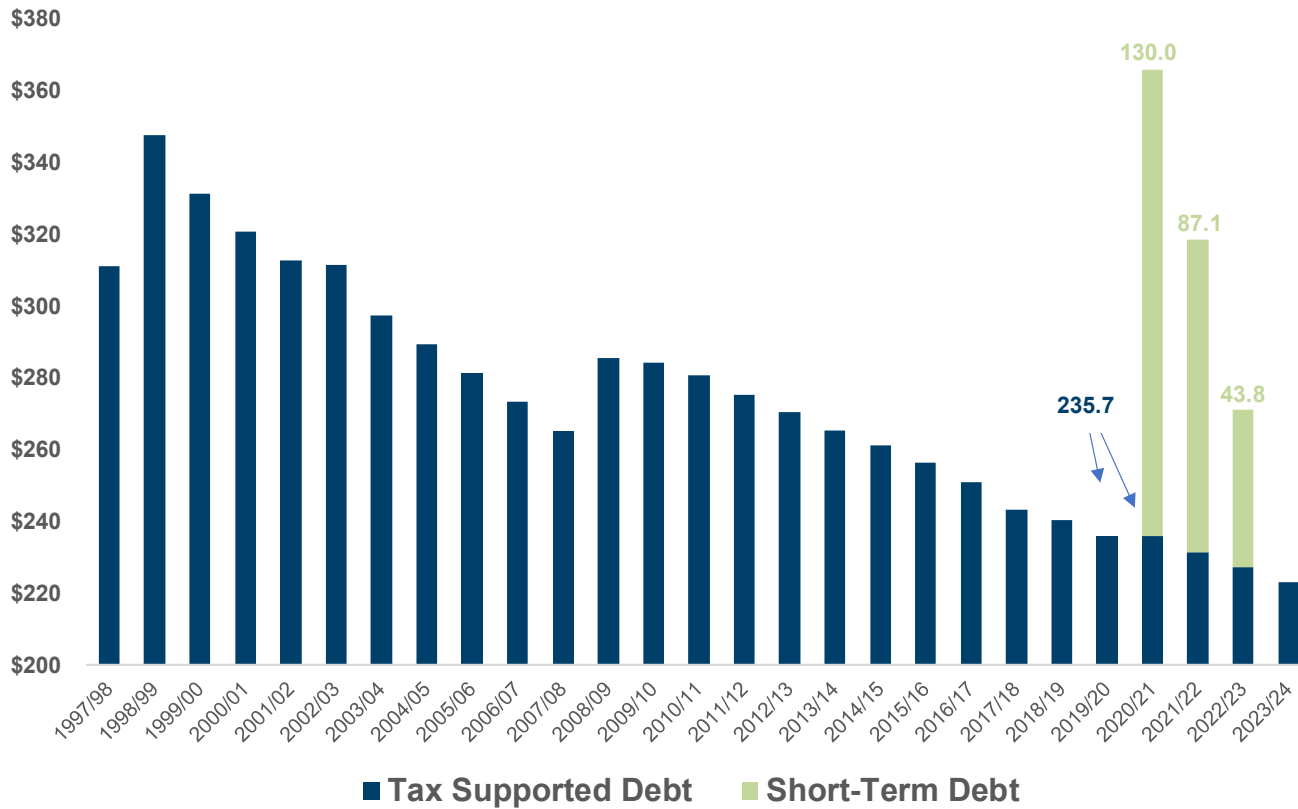
## Key Council Priority Investments:

- Annual Road Network Programs \$35M
- Additional Streetscaping & Complete Streets Corridors +\$8M
- Active Transportation Network Expansion +\$7M
- Introduction of HaliFACT 2050 \$1M in addition to annual Energy Efficiency program \$1M



# Debt, Reserves and Taxes

# Taxable and Short-term Debt



- Lower debt servicing costs allows for spending flexibility
- Well-positioned to fund infrastructure into the future
- Short term borrowing does not impact the debt service ratio



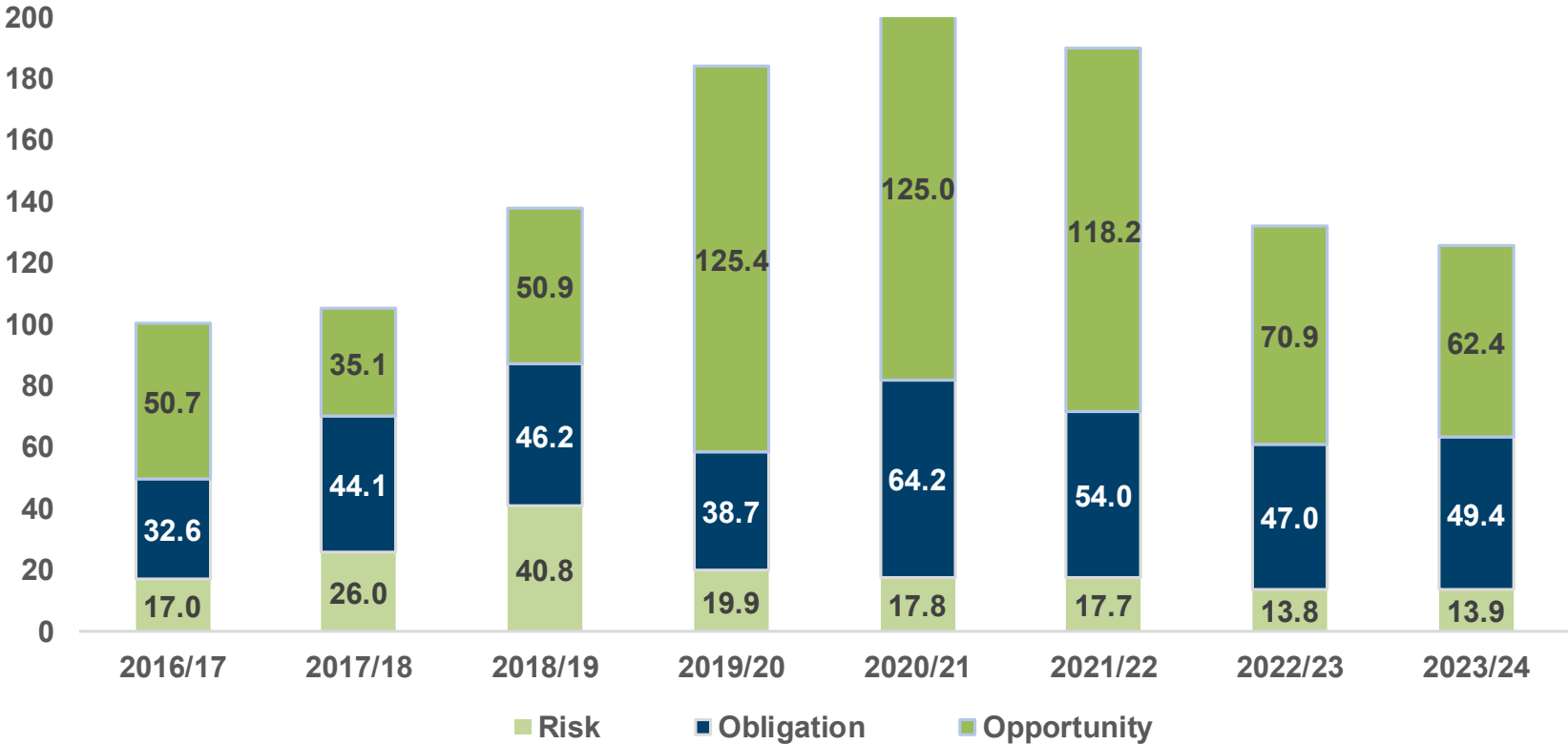
# Reserves Are Important Tool Going Forward

- **Three main categories of municipal reserves:**
  - Risk – **\$17.8M**
  - Obligations – **\$64.2M**
  - Opportunities – **\$125.0M**
- **Municipal reserve balances are relatively robust**
  - Expected balance of **\$207.0M** as of March 31, 2021
- **Reserves provide for Flexibility, Balance**
  - Partial Payment for Short-Term Debt placed in Reserves (\$22.1M)
  - Reserve Contribution of \$12.8M re-directed to Capital Fund Reserve

# Net Reserve Balances by Type of Reserve (\$M)

After Budget Commitments

2016/17 to 2023/24



## **2020/21 Average Residential Taxes**

- The average single family homes rose 1.4% in value.
  - The Residential tax rates did not change.
  - The Average Residential tax bill rose \$27 per home, or 1.4% based on increased assessment.
- The average commercial property rose 1.0% in value.
  - The Commercial tax rate increased 0.4%.
  - The Average Commercial tax bill rose \$585, or 1.4%, with 1.0% of that based on increased assessment.

# Financial Strategy for Resilience

- **Prudence**

- Reduced expenditures below 2019/20 levels
- Short-term loan \$130M helps preserve liquidity
- No additional long-term debt

- **Flexibility**

- Deferred due date on taxes
- Lowered late-payment interest rate to help taxpayers

- **Balance and Stability**

- Financial Contingency can be used for risks and/or opportunities
- Healthy reserve balances (\$207M) available
- Debt and Debt servicing costs remain low,
- Can borrow more for liquidity or to promote infrastructure



