

Re: Item No. 4

HALIFAX

Fiscal Sustainability Strategy

**Budget Committee
December 15th, 2020**

Outline

- **What is the Fiscal Sustainability Strategy?**
- **Current Policy State**
- **Why A Strategy is Needed?**
- **Recommended Policy Changes**

What is the Fiscal Sustainability Strategy?

Fiscal Sustainability is the ability to:

Provide and maintain existing programs without resorting to unplanned increases in rates or cuts in services.

The Fiscal Sustainability Strategy provides a speed limit on municipal spending and lays the foundation to achieve the long-term goals of the community and safeguard its future.

Current Policy State

Operating and Taxes – Consistent, sustainable growth. Taxes moderate. High dependence on tax revenues.

Debt – Low and declining debt.

Capital – Capacity to deliver \$150M per year. Insufficient funds for many aspirations.

Reserves – Solid balances but not tied to long-term objectives.

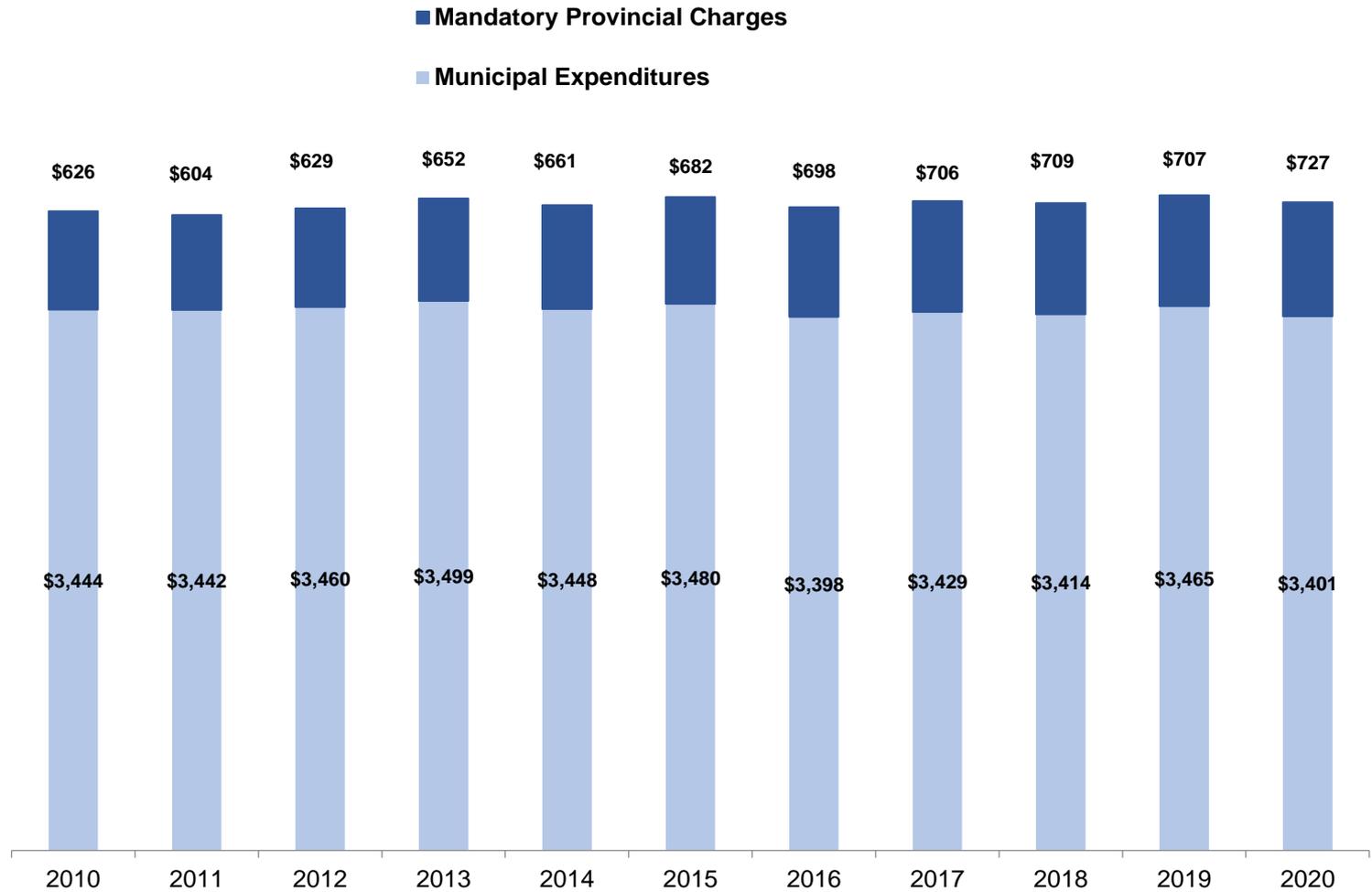


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HRM is a Strong Financial Position

- Key Indicators show that we are in a Strong Financial Position:
 - Trend in Expenditure Growth
 - Average Taxes per Single Family Home
 - Average Commercial Taxes per Square Foot
 - Debt Service Costs

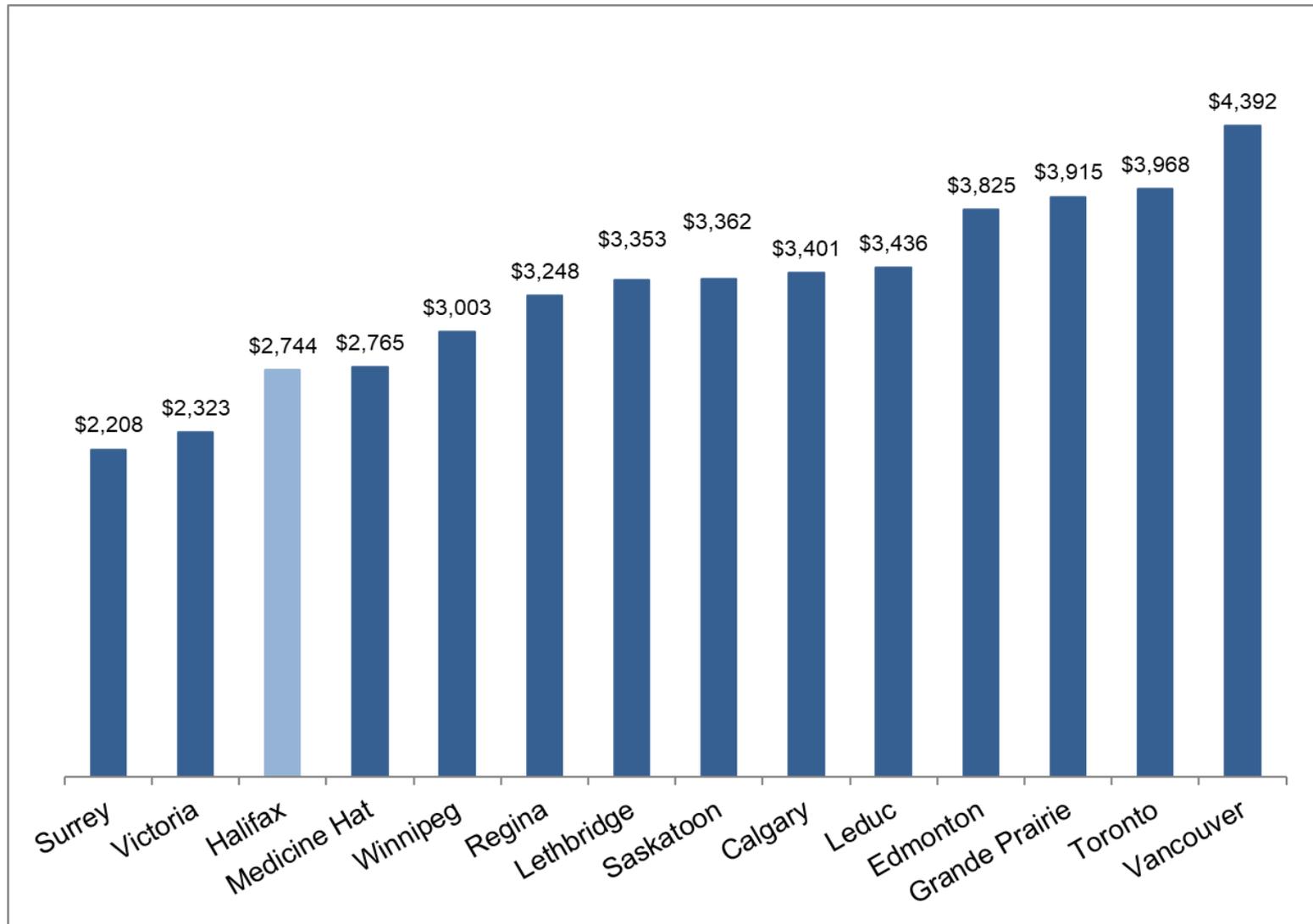
Current Policy State, Real Municipal Expenditures per Dwelling



Source: HRM

Current Policy State

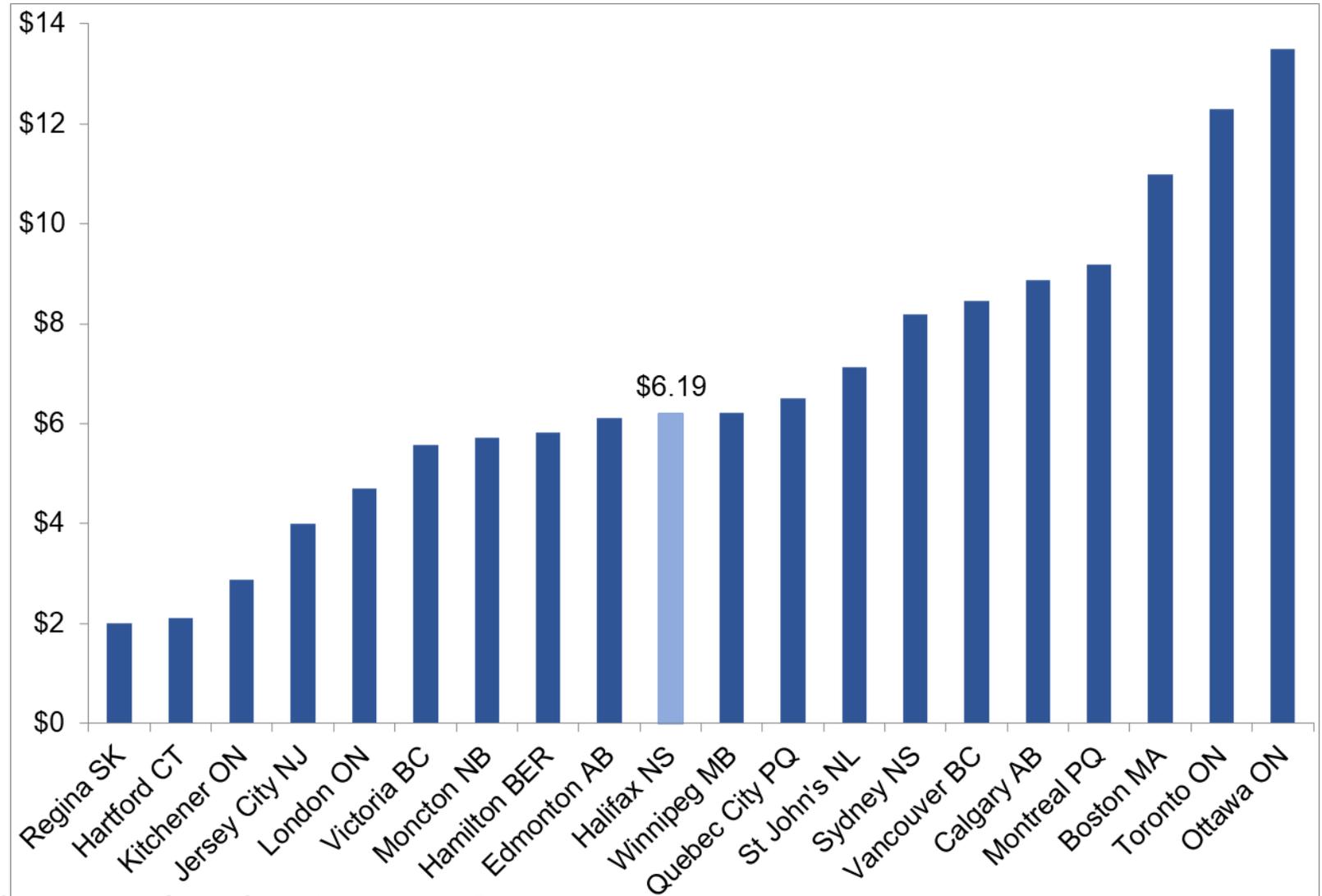
Average Tax per Single Family Home



Source: 2018 Residential Property Taxes and Utility Charges Survey, City of Calgary

Current Policy State

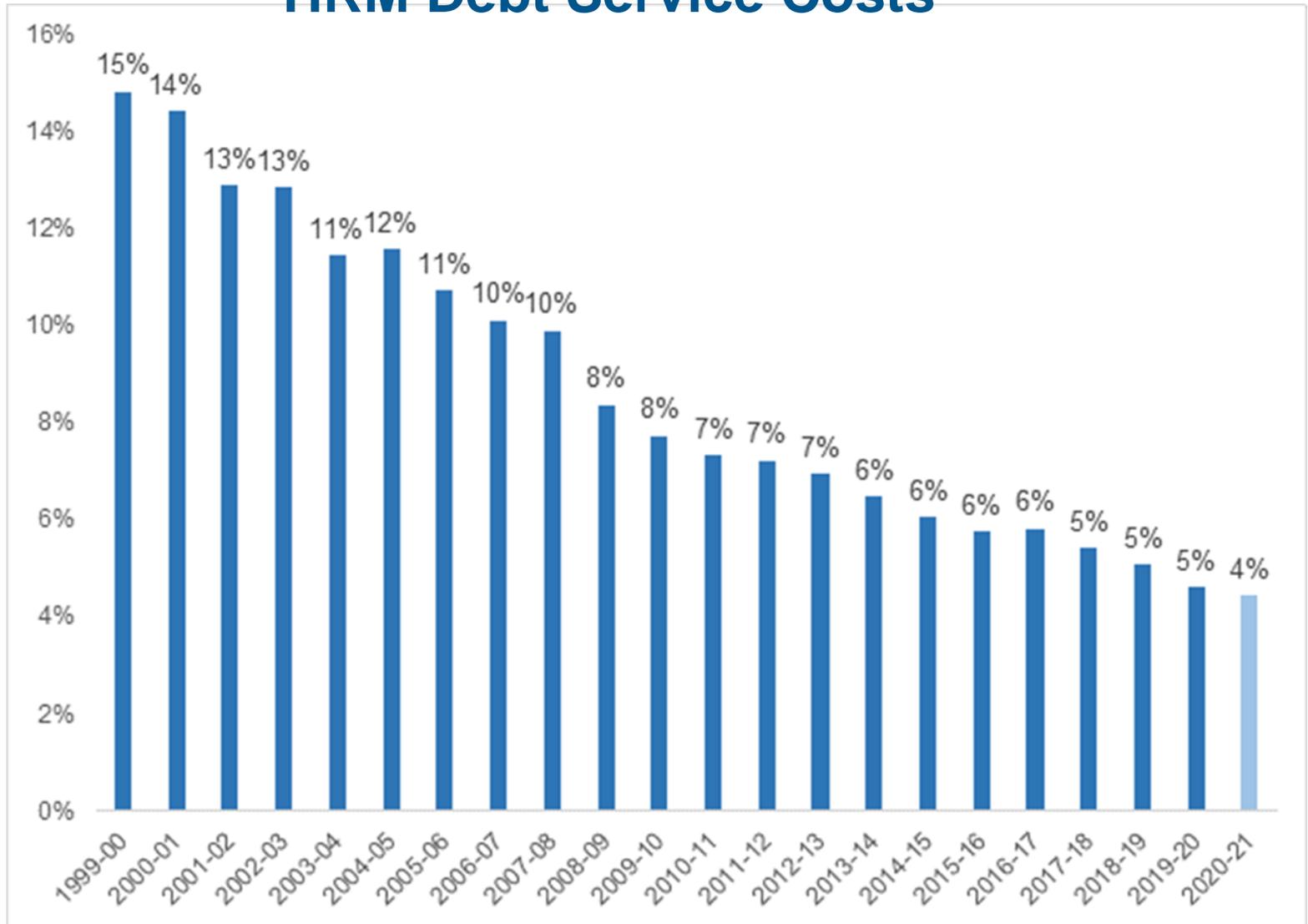
Average Annual Property Taxes Per Square Foot, Class A Office Space (2015)



Source: Altus Group Study for HRM, 2015

Current Policy State

HRM Debt Service Costs



Source: Tax Supported Debt/Municipal Expenditures, HRM

Why a Strategy is Needed?

- HRM has entered a new phase of economic growth that is more rapid and dynamic.
- Growth brings with it increased service demands for infrastructure, both typical and transformational.
- Public expectations are very high for services such as active transportation, transit, parks and the environment,
- Council approved a series of large City Building initiatives, the funding needs to be identified.
- Without change, HRM is at risk of falling behind in fiscal sustainability.

Recommended Policy Changes

The following steps should be taken:

- Develop a **credible long-term financial plan** that includes a one-year budget, a three-year outlook and plan based on Regional Council's strategic vision.
- Develop a **Tax and Revenue Strategy** that establishes guiding principles for user fees and property taxes.
- Develop **Strategic Initiative Reserves** for projects that are tied to an approved Council strategy that will lead to a discernable increase in the general tax rate or require special funding.

Strategic Initiative Fund Example

(2 cents on Residential and Commercial Tax Rates)

Example of a Strategic Initiative Reserve

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Years 5-13</u>
<u>Project Costs:</u>					
HRM Share			115,000,000		
Federal/Provincial Cost Sharing			<u>115,000,000</u>		
			230,000,000		
<u>Strategic Initiative Reserve:</u>					
Reserve Contribution (Taxes)	9,900,000	9,900,000	9,900,000	9,900,000	88,764,500
Principal and Interest on \$115M Debt	-	-	-	(14,141,000)	(115,997,000)
Interest	-	99,000	199,000	300,000	1,175,500
Balance in Account	9,900,000	19,899,000	29,998,000	26,057,000	-

Other Actions

The following steps should be taken:

- **Service-based budgeting** The intent is that HRM will budget and report, **not by business unit, but by service.** This requires major changes in costing and reporting. Targeted for 2023/24.
- Actively seek new financing opportunities such as the **FCM Green Fund and the Canada Infrastructure Bank.** This will require approval from the provincial government.
- Update research on **settlement patterns**, so HRM can better understand current and future costs and revenues, as they relate to built form and specific areas of growth in HRM.

Status-Quo Not An Option

The medium-term risks to not adopting this strategy are concrete:

- Transformational and city-building **initiatives will be harder to plan and implement** without a fiscal framework to do so.
- Incremental progress through appropriations in the annual budget process is **insufficient** to address major Regional Council priorities beyond one-year.

Recommendation

It is recommended that Budget Committee direct the CAO to:

1. Develop, “Strategic Initiative” Reserves, as part of the 2021/22 budget process, for projects that are tied to an approved Council strategy and are significant enough to lead to a discernable increase in the tax rate or special funding that is outside the normal budget process. This should include any required changes to debt and reserve policies and should be eligible to be funded through dedicated tax levies.
2. Starting with the 2021/22 budget and replacing the two-year detailed budget, develop a long-term Financial Plan, focused on sustainability, that includes a one-year Budget, a three-year outlook and a long-term plan based on Council’s Strategic Vision that supports the operating, capital and reserve budgets and allows the Municipality to meet its long-term goals.
3. For the 2022/23 budget, provide a Tax and Fee Revenue Strategy to Budget Committee that will establish guiding principles for user fees and property taxes.