Re: Item No. 5

2021/22 Fiscal Framework

Committee of the Whole of Budget

January 13, 2021

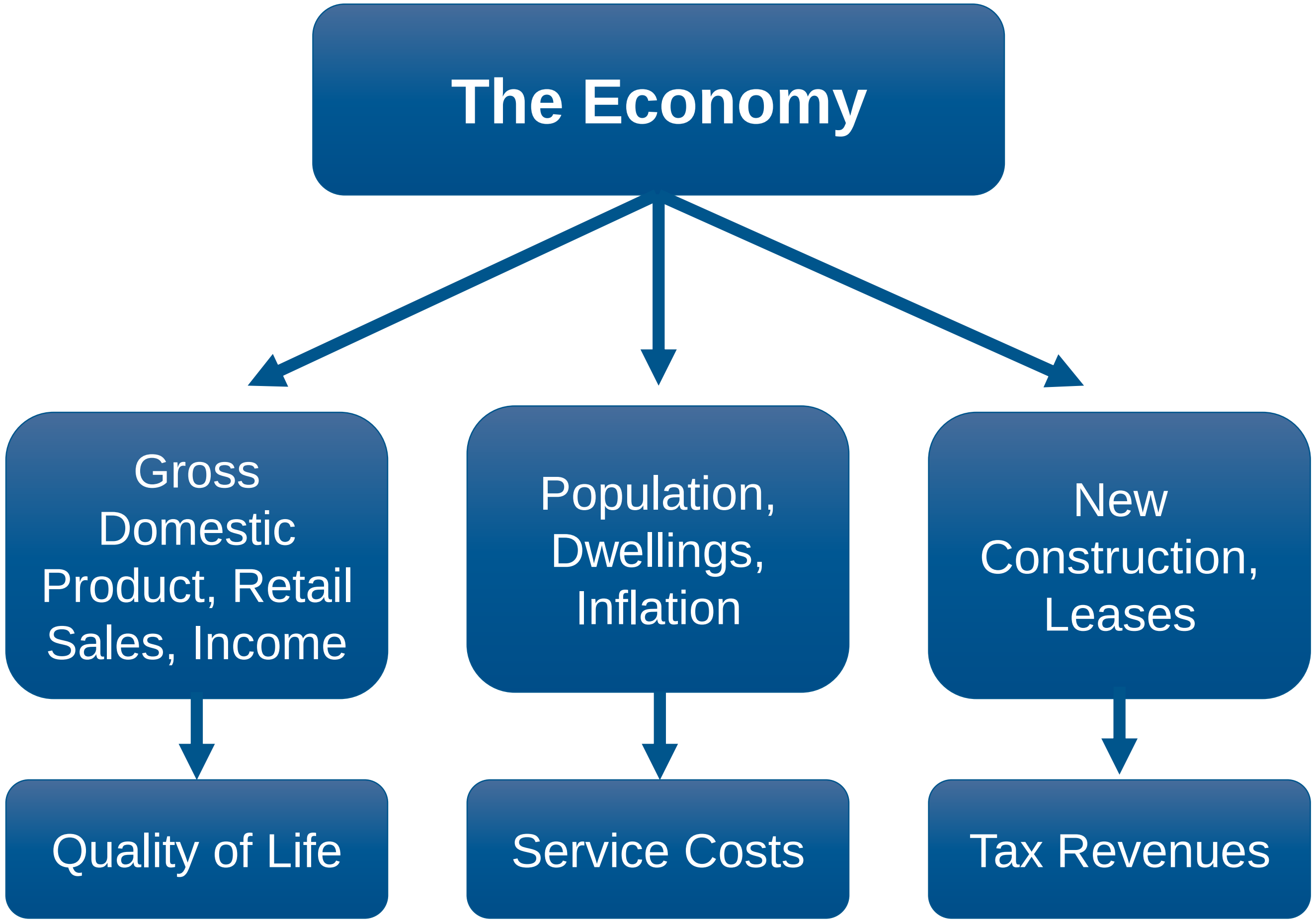
HALIFAX

Outline

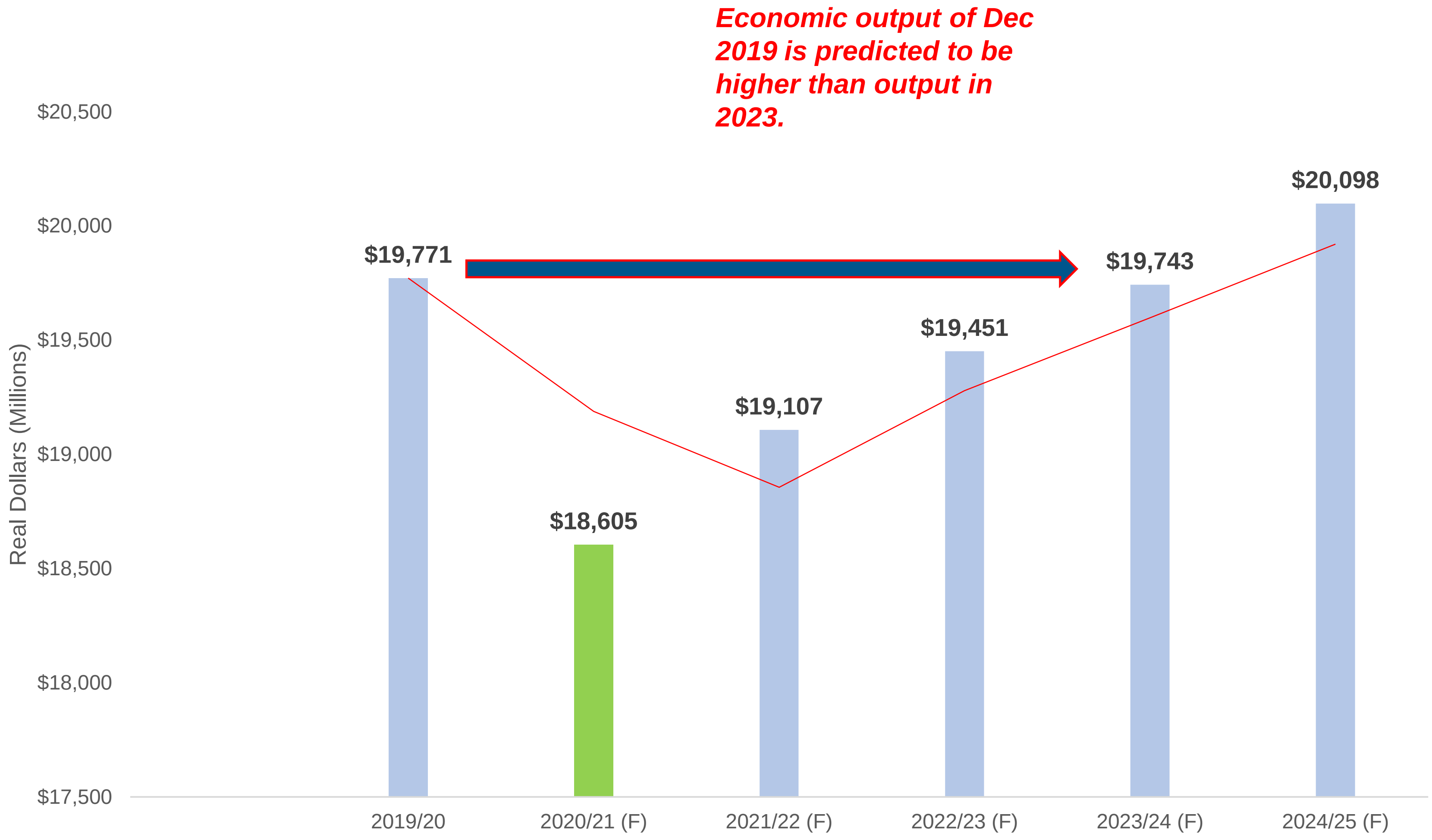
- Economic Assumptions
- Fiscal Outlook
  - Operating
  - Capital
  - Debt
  - Reserves
- Conclusions
- Recommendation

Economic Assumptions

The Economy and HRM

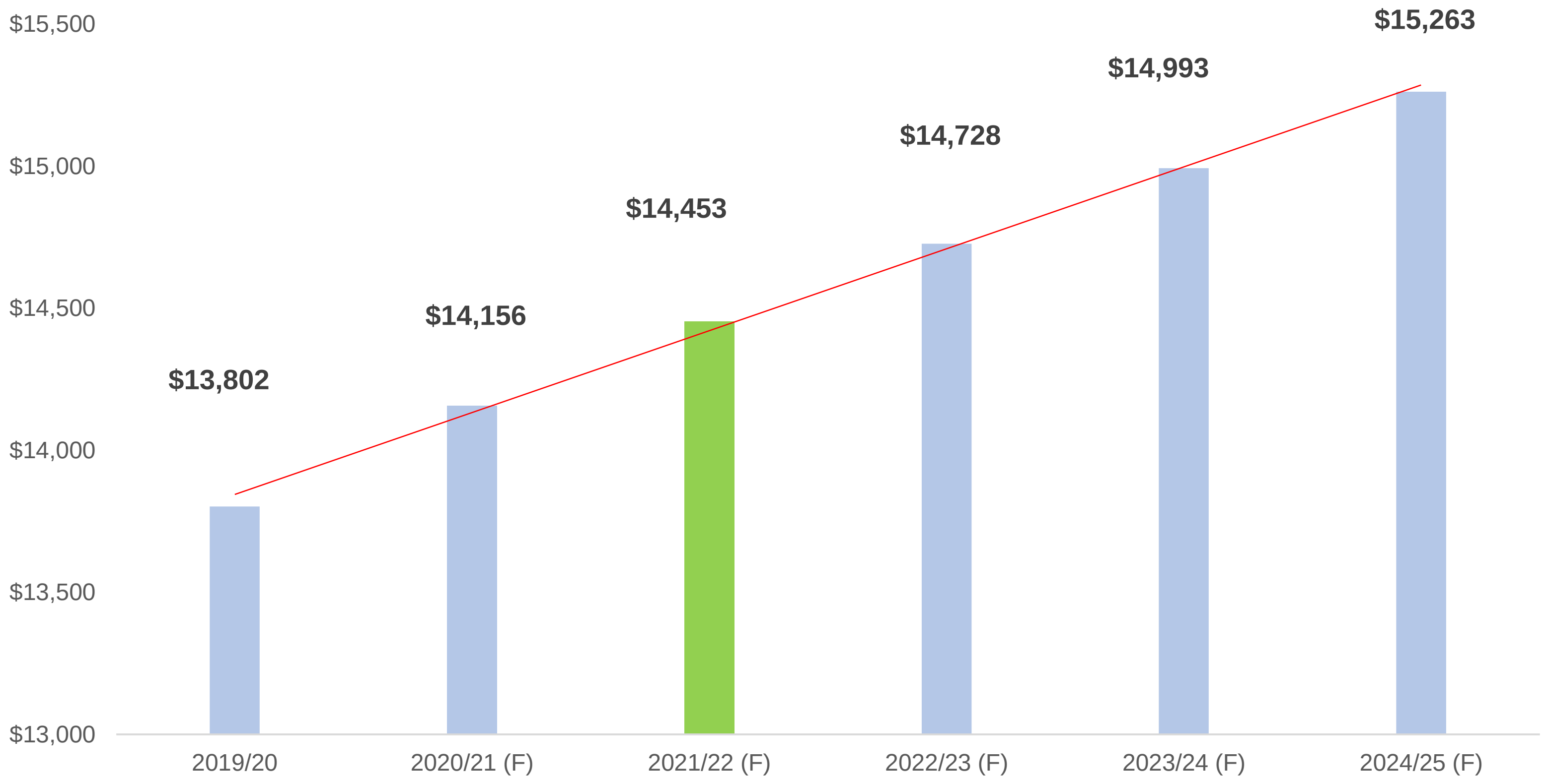


Real GDP: Modest Recovery Post Pandemic



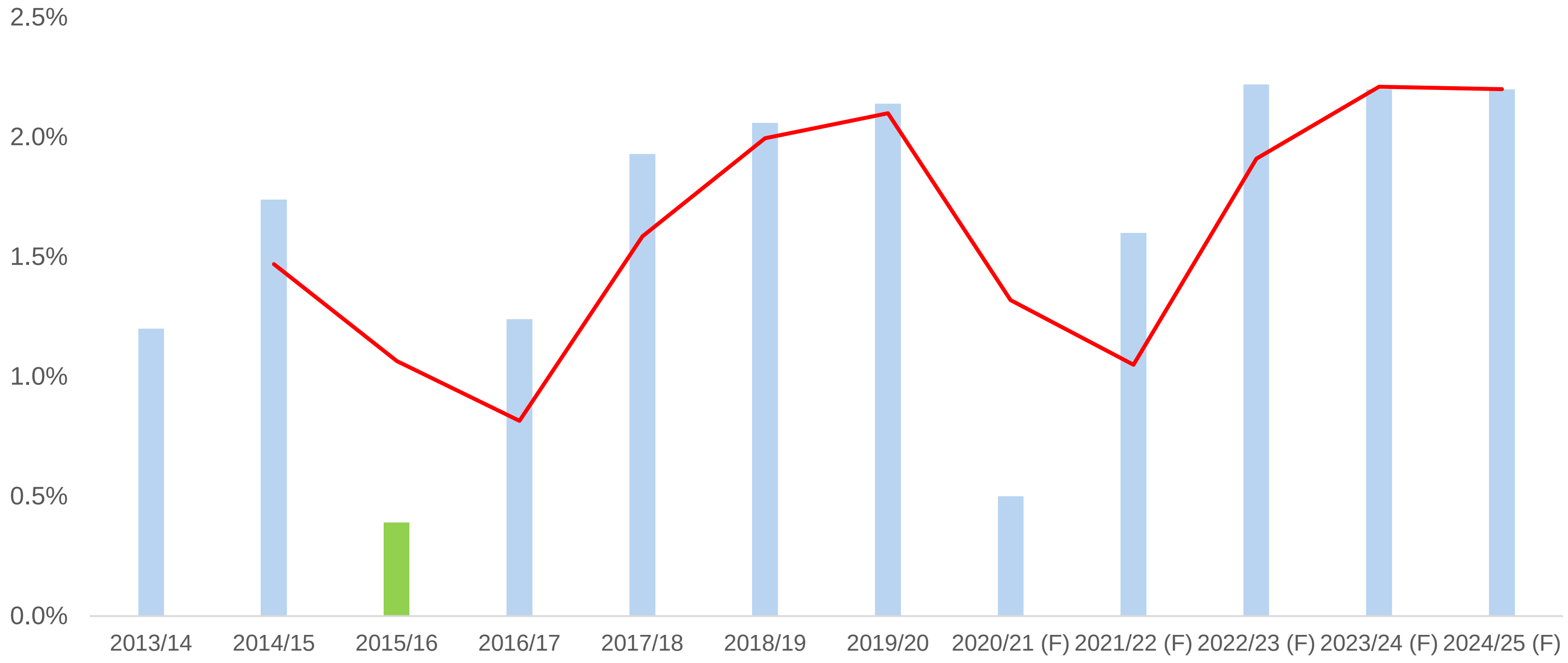
Source: Canmac Economics (Halifax Region Economic Outlook, December 2020 Update)

Personal Disposable Income (millions): Supported by Stimulus in Near-Term



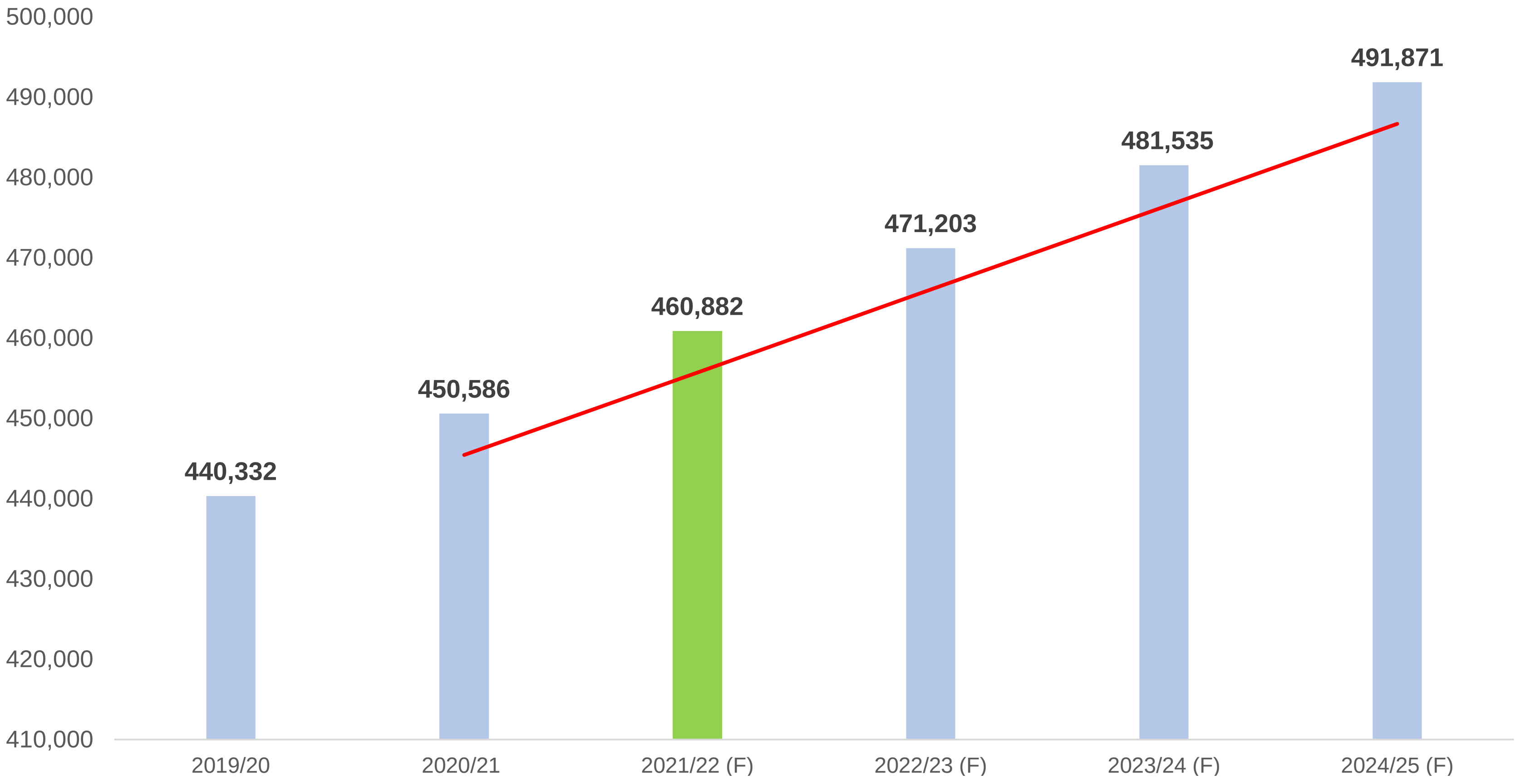
Source: Canmac Economics (Halifax Region Economic Outlook, December 2020 Update)

Inflation: Subdued but Cost Pressure will Persist



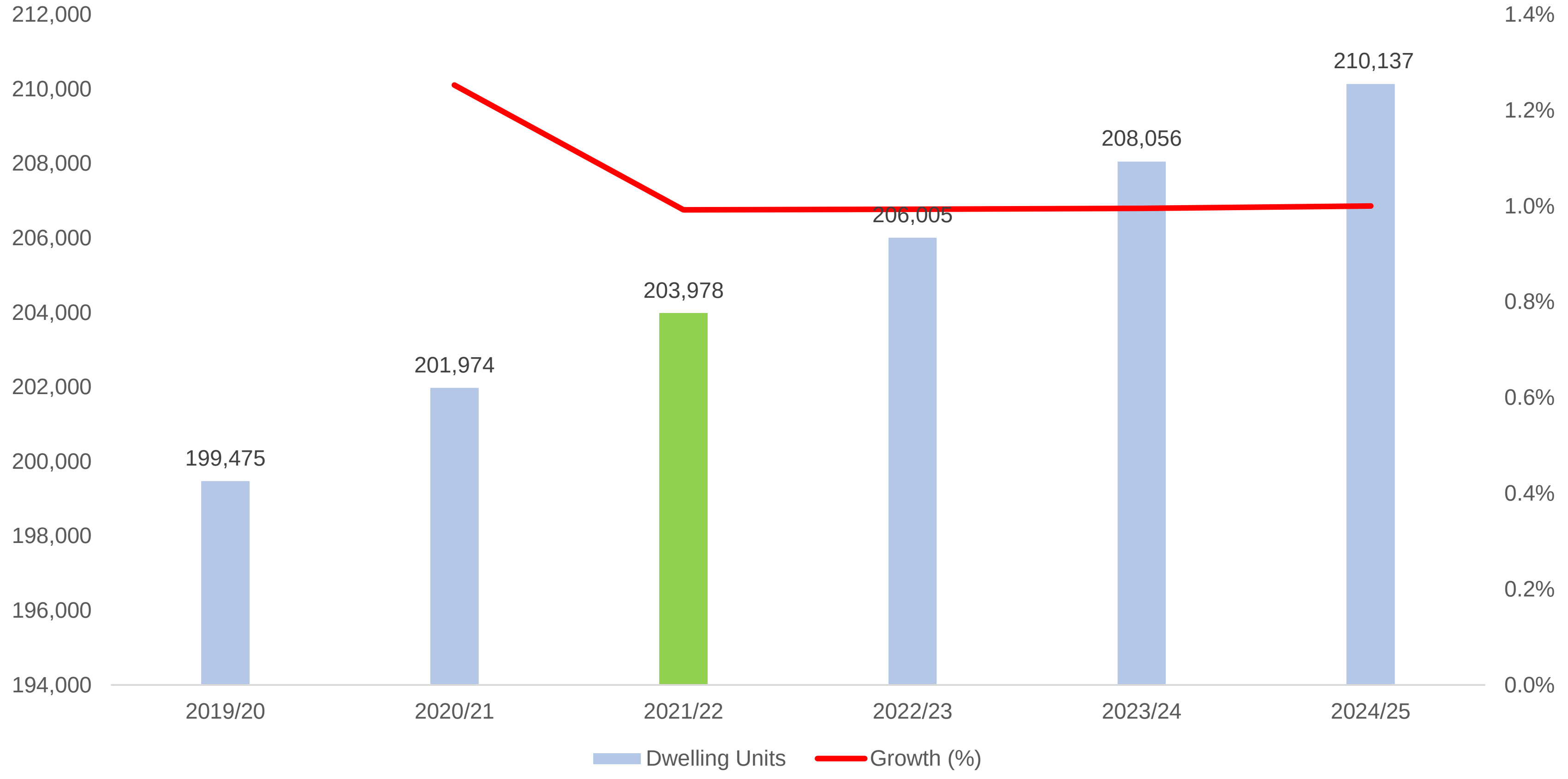
Source: Canmac Economics (Halifax Region Economic Outlook, December 2020 Update

Population Growth: Uncertainty, Cautious Optimism



Source: Canmac Economics (Halifax Region Economic Outlook, December 2020 Update)

New Dwelling Units: Demand Resilient through Pandemic, Near-Term Moderation



Source: Canmac Economics (Halifax Region Economic Outlook, December 2020 Update)

Economic Outlook: Strong Relative Performance, Effects of Pandemic Wide-Ranging

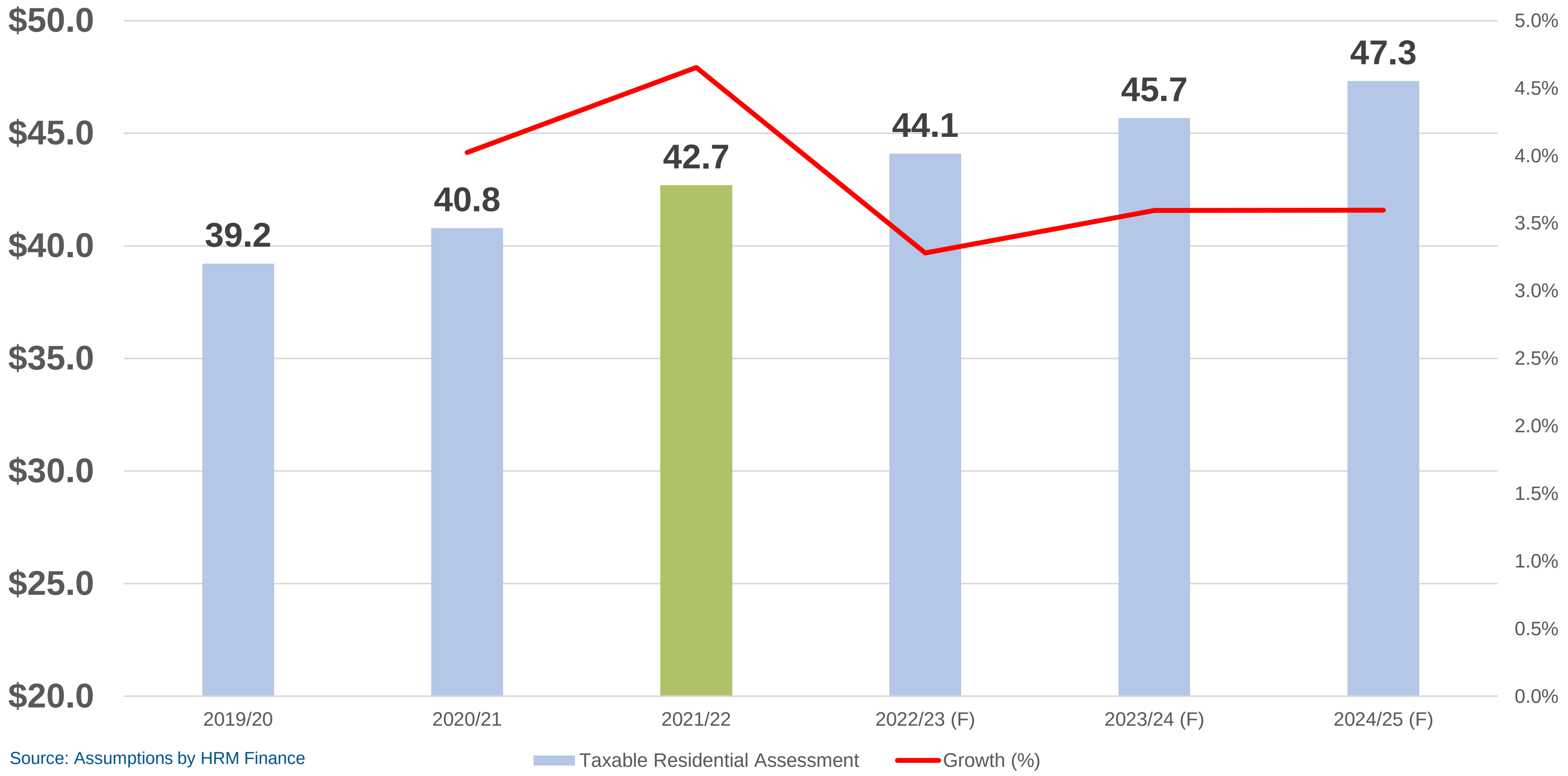
	Prior Year	Current Year	Year 1	Year 2	Year 3	Year 4
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Real GDP Level (Millions)	19,771.4	18,604.9	19,107.2	19,451.1	19,742.9	20,098.3
Personal Disposable Income Growth	2.8%	2.6%	2.1%	1.9%	1.8%	1.8%
Population Level	440,332	450,586	460,882	471,203	481,535	491,871
Percent Change	2.2%	2.3%	2.3%	2.2%	2.2%	2.1%
Dwelling Units	199,475	201,974	203,978	206,005	208,056	210,137
Percent Change	1.1%	1.3%	1.0%	1.0%	1.0%	1.0%
Inflation – (NS CPI)	2.2%	0.5%	1.6%	2.2%	2.2%	2.2%
Employment Level (Thousands)	240.7	231.7	236.3	240.4	244.3	248.4
Percent Change		-3.7%	2.0%	1.7%	1.6%	1.7%

Source: Canmac Economics (Halifax Region Economic Outlook, December 2020 Update)

Housing Market: Prices High but Correction Likely

- Housing prices have risen above historical trend in past 24 months.
- Likely to continue for 12-16 months before tapering or correction.
- Housing is viewed by market participants as **new risk-free asset**, replacing Government Bonds (Canmac Economics, Bloomberg).
- Macroeconomic environment is one of slow growth, persistently low inflation and excess savings (Peterson Institute of International Economics).
- Regional economy is benefiting from both fiscal and monetary policy stances and major investment projects (Irving Shipyards, QE2 re-development).

Residential Assessment: Continued Growth Amid Housing Market Robustness ($B)

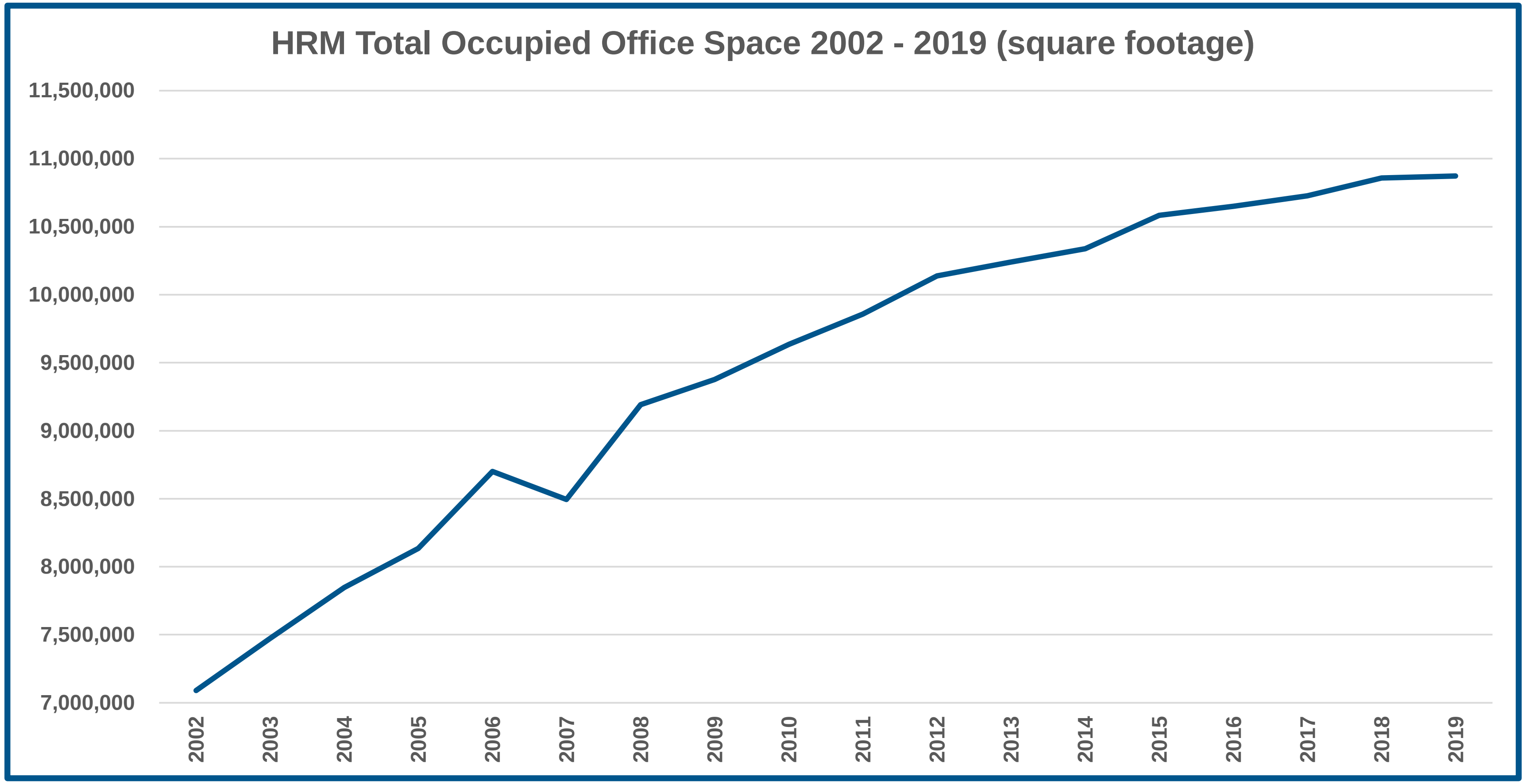


Source: Assumptions by HRM Finance

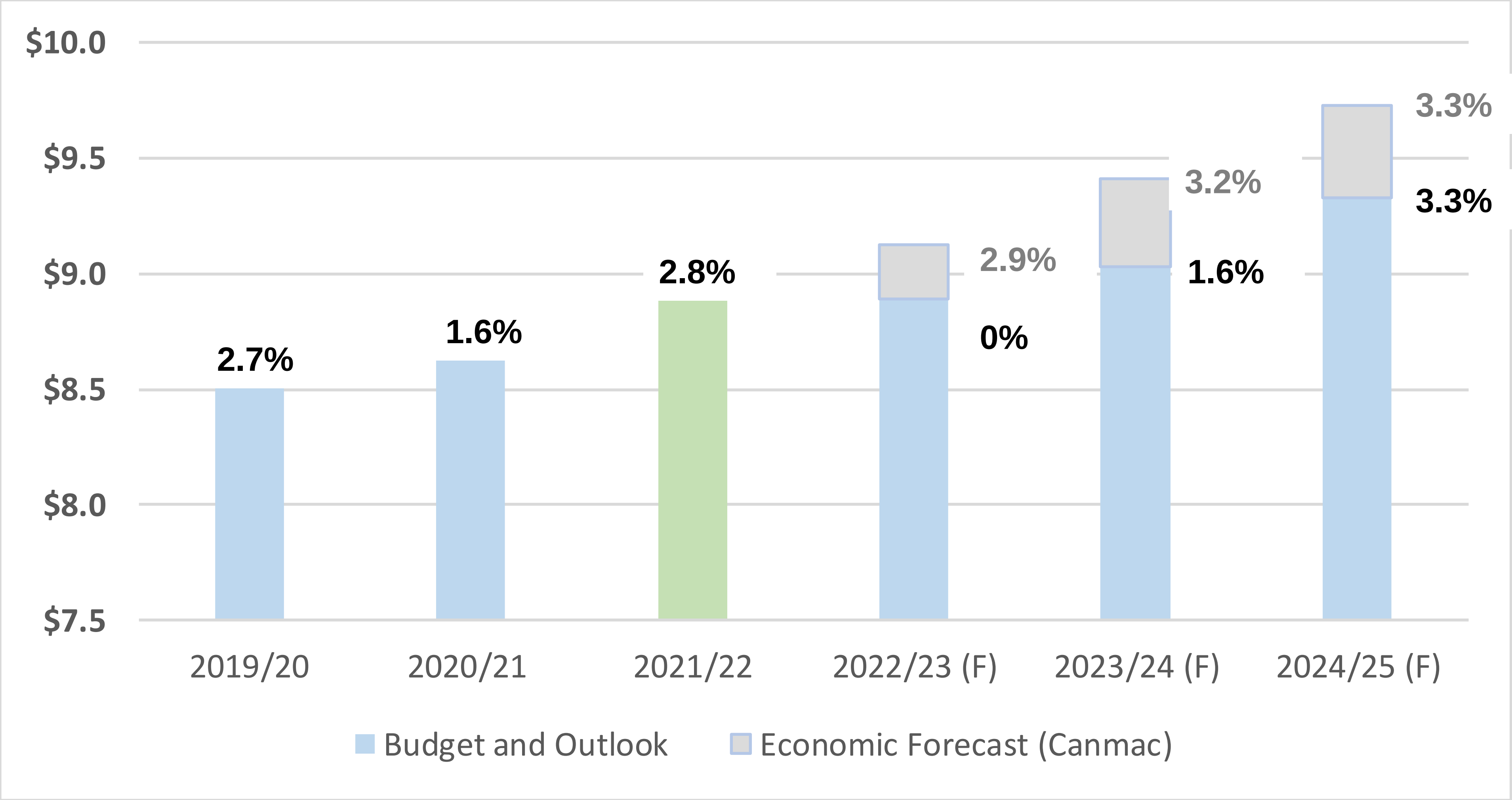
Commercial Real Estate: Sectorial Impacts Severe, Slower Growth Projected

- Due to changing nature of economy, coupled with the Pandemic, square foot demand per worker could fall <u>substantially</u>.
- Commercial real estate is a relatively volatile asset class, prices behave much differently than residential assets.
- Commercial real estate is a core part of institutional investor portfolios, REIT prices have fallen substantially in the last 8 months
  - Systemic risk to pension funds and institutional holdings.
  - Constraint on municipal assessment bases

Commercial Real Estate: Historic Occupied Space



Commercial Assessment:
2020 Pandemic affects 2022 Assessment ($B)



Source: HRM Finance, Canmac Economics (Halifax Region Economic Outlook, December 2020 Update)

Key Conclusions on Assessment

- 2021 assessments reflect 2019 economic conditions.
- The 2020 pandemic will be reflected in the 2022 assessment roll.
- Residential sector has surprised nationally, strong demand due to financial conditions and increased interest/demand in homes.
    - However, residential sector will moderate in near-term (Canmac Economics, CMHC)
- Commercial volatile, difficult to predict.
    - Outlook for Years 2 to 4 based on 18 month recovery.
    - Pandemic downturn in tourism, hospitality and others to be realized in 2022 assessment roll.

Fiscal Outlook

Assumptions for the Fiscal Outlook

- Economy will start to rise in 2021/22,
  - GDP will return to pre-pandemic level in 2023/24
- COVID is estimated to directly affect finances for the next 18 months
  - Impact continues in 2021/22 and six months of 2022/23
  - Revenues recover slower than the economic outlook suggests
- Budget balanced in 2021/22 due to federal assistance ($31M)
- Gap in 2022/23, 2023/24 and 2024/25 will hit $50m+
  - Assessment at $2.1B (4.3%) increase, not enough to balance budget
  - Inflation at 1.6%
  - No Federal Assistance ($31m)
  - Short-Term Loan for Liquidity ($20.8M)
    - Loan not yet issued. Costs may still be avoided.

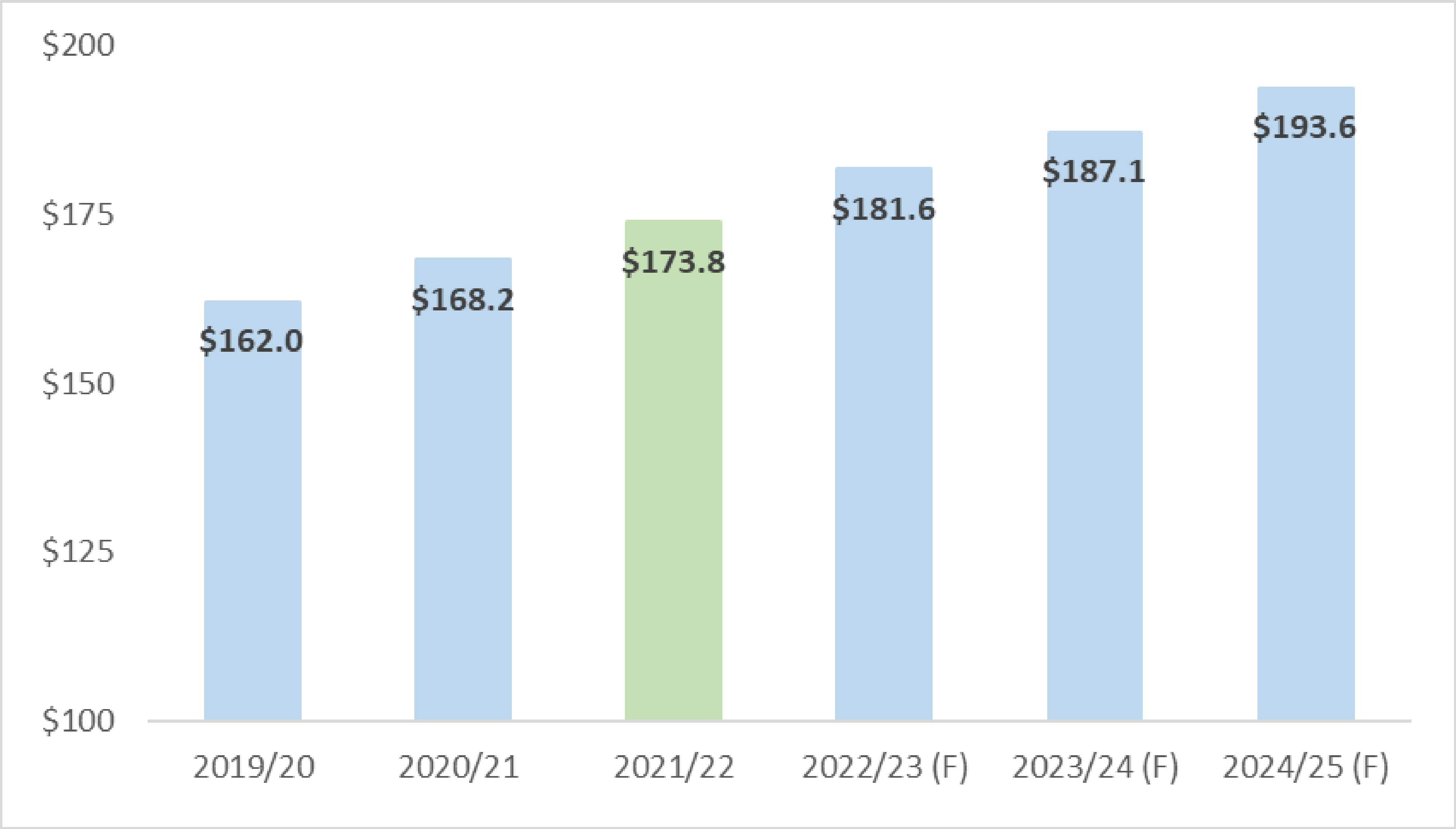
Four Year Fiscal Outlook
Municipal Expenditures and Revenues

	2020/21	Year 1 2021/22	Year 2 2022/23	Year 3 2023/24	Year 4 2024/25
Expenditures	$787.3	$827.2	$898.2	$931.6	$956.7
Revenues	-228.5	-249.1	-258.7	-270.1	-278.5
Net Expenditures	**$558.7**	**$578.1**	**$639.5**	**$661.5**	**$678.2**
Tax Levy	-558.8	-578.1	-583.5	-600.0	-619.2
Budget Gap	**$0**	**$0**	**$56.0**	**$61.5**	**$59.0**

Mid - Term Fiscal Outlook

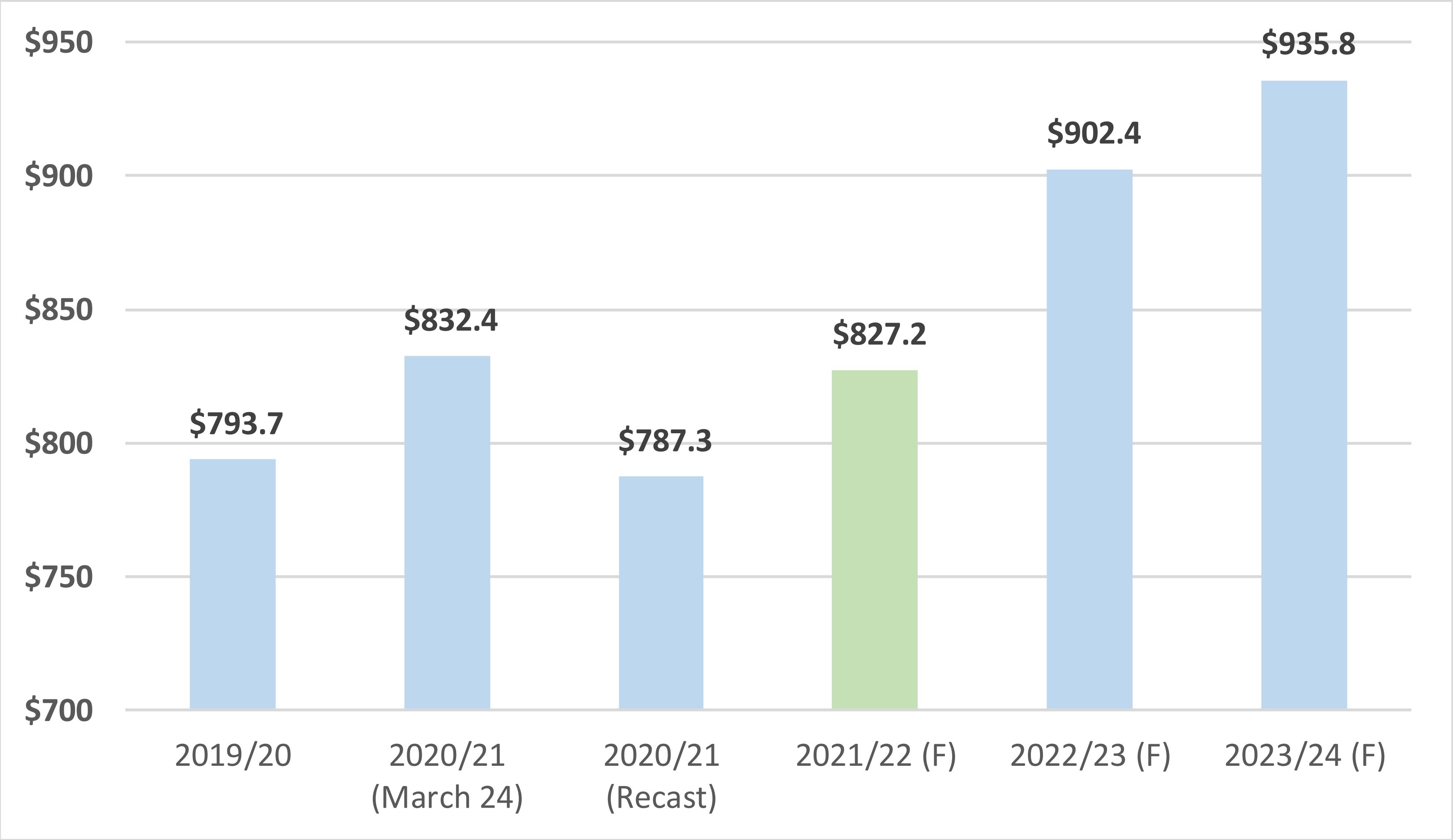
	Year 1 2021/22	Year 2 2022/23	Year 3 2023/24	Year 4 2024/25
Restoring Service Reductions	$21.9	$18.7	$16.9	$17.9
Higher Operating Costs	17.2	28.1	48.2	61.2
Providing for Capital	38.9	44.3	49.2	54.5
Accounting for Liquidity Crisis	(22.1)	(2.6)	(1.3)	(1.3)
Deed Transfer Tax	(5.7)	(7.7)	(10.3)	(12.9)
Sub-Total	**$50.3**	**$80.8**	**$102.8**	**$119.5**
Federal Assistance	(31.0)	-	-	-
Net Expenditures	**$19.3**	**$80.8**	**$102.8**	**$119.5**
Tax Levy	(19.3)	(24.8)	(41.3)	(60.5)
Budget Gap	**$0**	**$56.0**	**$61.5**	**$59.0**

Provincial Mandatory Contributions

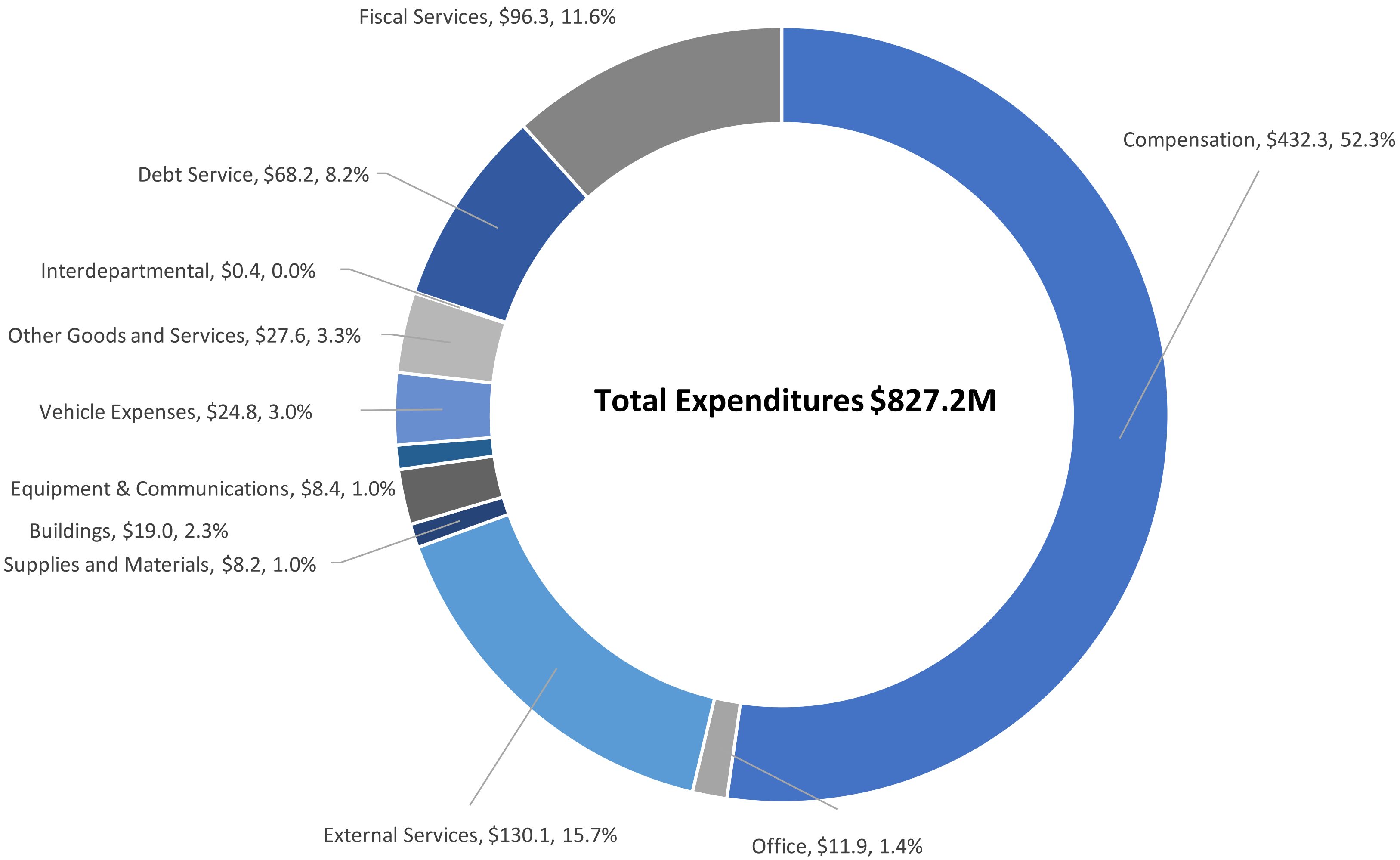


Operating Budget

Municipal Expenditures Returning to Pre-Pandemic Trend

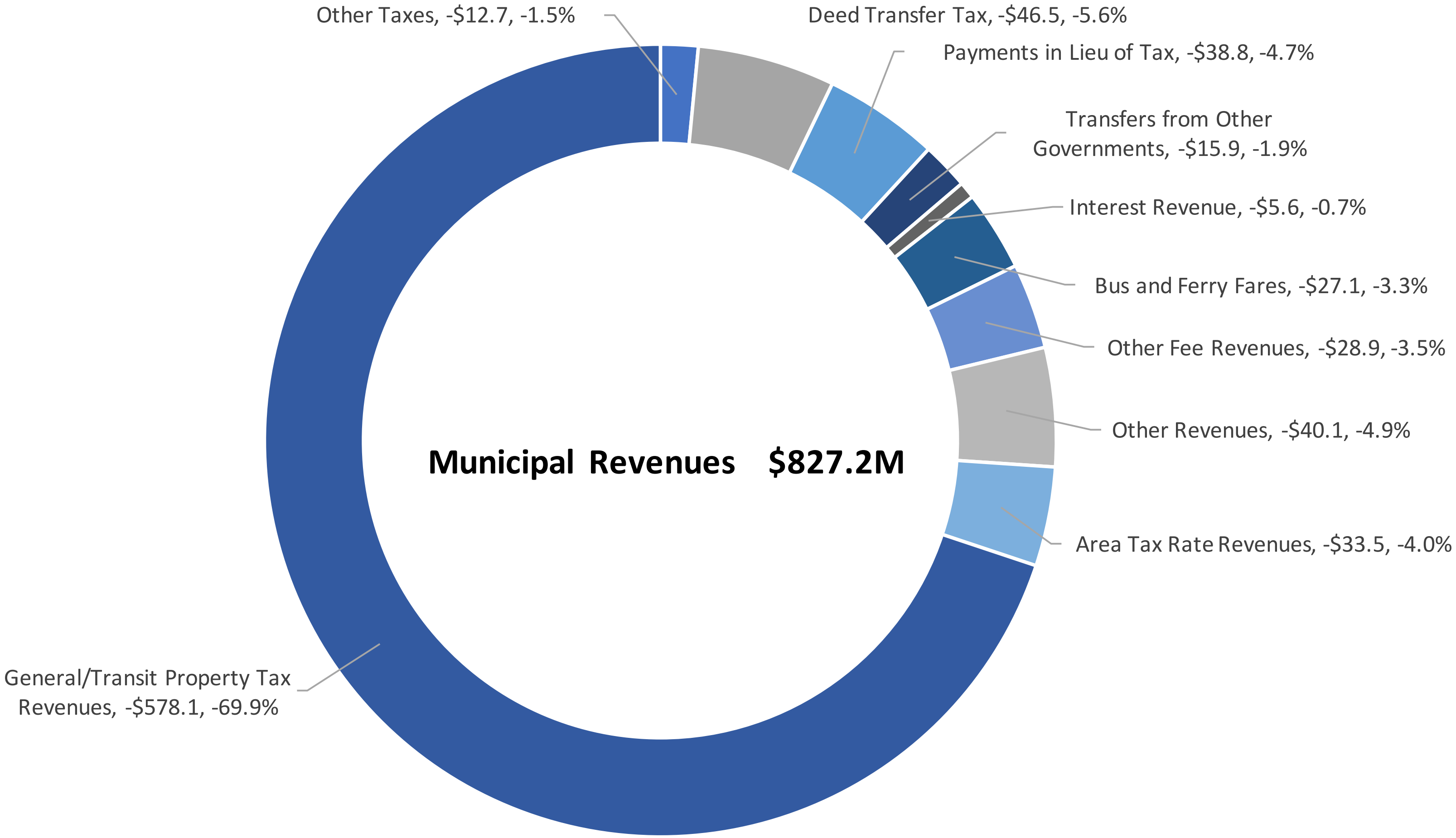


Overview of 2021/22 Expenditures ($M)



Compensation	52%
Office	1%
External Services	16%
Supplies and Materials	1%
Buildings	2%
Equipment & Communications	1%
Vehicle Expenses	3%
Other Goods and Services	3%
Interdepartmental	0%
Debt Service	8%
Fiscal Services	12%

Overview of 2021/22 Revenues ($M)



Other Taxes	1.5%
Deed Transfer Tax	5.6%
Transfers from Other Governments	1.9%
Interest Revenue	0.7%
Bus and Ferry Fares	3.3%
Other Fee Revenues	3.5%
Other Revenues	4.9%
Payments in Lieu of Tax	4.7%
Area Tax Rate Revenues	4.0%
General/Transit Property Tax Revenues	69.9%

Changes in Expenses and Revenues for 2021/22

OPERATING BUDGET

	Year 1 2021/22
Restoring Service Reductions	$21.9
Higher Operating Costs	17.2
Providing for Capital	38.9
Accounting for Liquidity Crisis	(22.1)
Deed Transfer Tax	(5.7)
Sub-Total	**$50.3**
Federal Assistance	(31.0)
Net Expenditures	**$19.3**
Tax Levy	(19.3)
Budget Gap	**$0**

Restoring Service Reductions

- During the pandemic HRM had to reduce numerous services. It is now restoring a wide variety of service costs that cut across all business units and services ranging from overtime to leases, grants, training and contract costs. It affects services ranging from recreation and solid waste to arts grants.
- Vacancy management requirements have been eliminated although many Business Units are expected to budget for vacancy gaps.
- In addition, many revenues could not be realized during COVID but are now being slowly restored. This includes transit revenues (up $10.6M) and parking meter revenues (1.2M).

Restoring Service Reductions	
Service Costs	20.5
Vacancy Management	16.1
Revenues restored	-14.7
Total	**21.9**

Higher Operating Costs

- HRM 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 considerable including Organics contract (+$2.7M), Solid Waste Collection ($1M) and RCMP ($1.5M).
- HRM expects to absorb $6M, or 25% of these costs.

Higher Operating Costs	
Compensation (New & Existing Positions)	15.4
Contracts, Other Fiscal Costs	6.9
Costs to be absorbed	-6.0
Other Costs and Revenues	0.8
Total	**17.2**

Compensation is a Significant Cost Driver

OPERATING BUDGET

- Compensation is 52% 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
  - Five Agreements will be expired during 2021/22
- New positions and step increases contribute to wage costs. Many eliminated positions/vacancies from Recast Budget added to 2021/22.
- Pension costs remain substantial.

Compensation as a per cent of 2020/21 Gross Expenditures	
Business Unit	**%**
Halifax Regional Fire and Emergency	96%
Halifax Regional Police	94%
Human Resources	93%
Office of the Auditor General	91%
Planning and Development	87%
Legal and Legislative Services	86%
Halifax Transit	76%
Halifax Public Libraries	74%
Finance, Asset Management & ICT	59%
Parks & Recreation	57%
CAO	49%
Corporate and Customer Services	47%
Transportation and Public Works	24%

Providing for Capital

- Significant Funds are being dedicated to Capital including:
  - Restoring Capital from Operating, from $19.8M to $49.9M, an increase of $30.1M.
  - The start of Strategic Infrastructure Funding, at $10.0M.
  - Operating Cost of Capital budgeted at $2.5M, with additional funds allocated to Business Units.

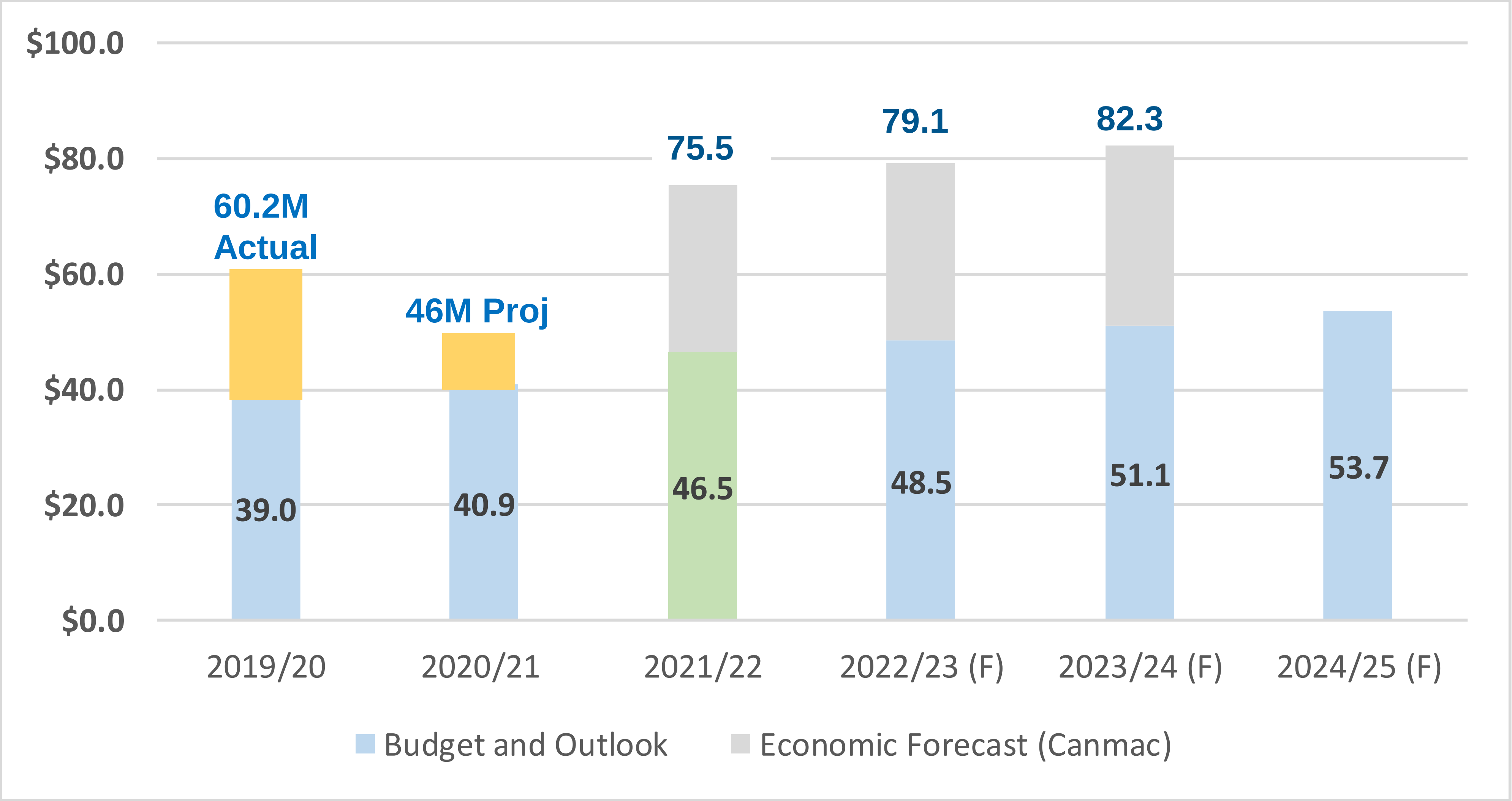
Providing for Capital	
Capital from Operating	30.1
Strategic Initiative Reserve	10.0
Operating Cost of Capital	(1.2)
Total	**38.9**

Adjusting for Liquidity Risk

- Liquidity is a concern. PNS arranged for a short term loan vehicle for municipalities through NSMFC.
- In 20/21 $22.1 M was put in reserve to pay for 6 month of short term loan – assumed $130M over 3 years at 1.1%
- Assuming HRM borrows $100M in a Short-Term loan, payments will be 20.8M for the next 5 years. In Year 1 this can be covered through reserves.
- As of January 8th taxes outstanding for 20/21 is approximately $32M

Liquidity Adjustments	
Eliminate Reserve Contribution for Short-Term Debt	(22.1)
Short-Term Debt Payment	20.8
Reserve Withdrawal for Short-Term Debt	(20.8)
Total	**(22.1)**

Deed Transfer Tax



Impact of COVID on Finances continues

- For budget purposes, assumption is that COVID impact will last 18 months
  - Impact of COVID not seen on assessment until 2022/23
  - Economic Impact will continue until 2024/25
- Major financial impacts
  - Short-Term Debt costs $20.8M for five years
  - Deed Transfer Tax below historic level
  - Increased costs for PPE, cleaning, impact on recreation programs
  - Transit, parking fines and Interest Revenues below former levels
  - Budget Costs not fully restored

Tax Levy

- The average single family home assessment has increased by 1.3% and the average commercial assessment by 2.6%.
  - Assessment based on pre-pandemic economic conditions, 2019.
  - Residential values are capped at 0.3%.
  - Average apartment increased in value 8.1%
- Revenues assume that the average residential and commercial bill rises at 1.9%, slightly higher than inflation.
  - This increases tax revenues by $19.3 million
- Assumption is that the tax system does not change for 2021/22:
  - Small Property Tax relief requires new revenue system
  - Assessment averaging delayed

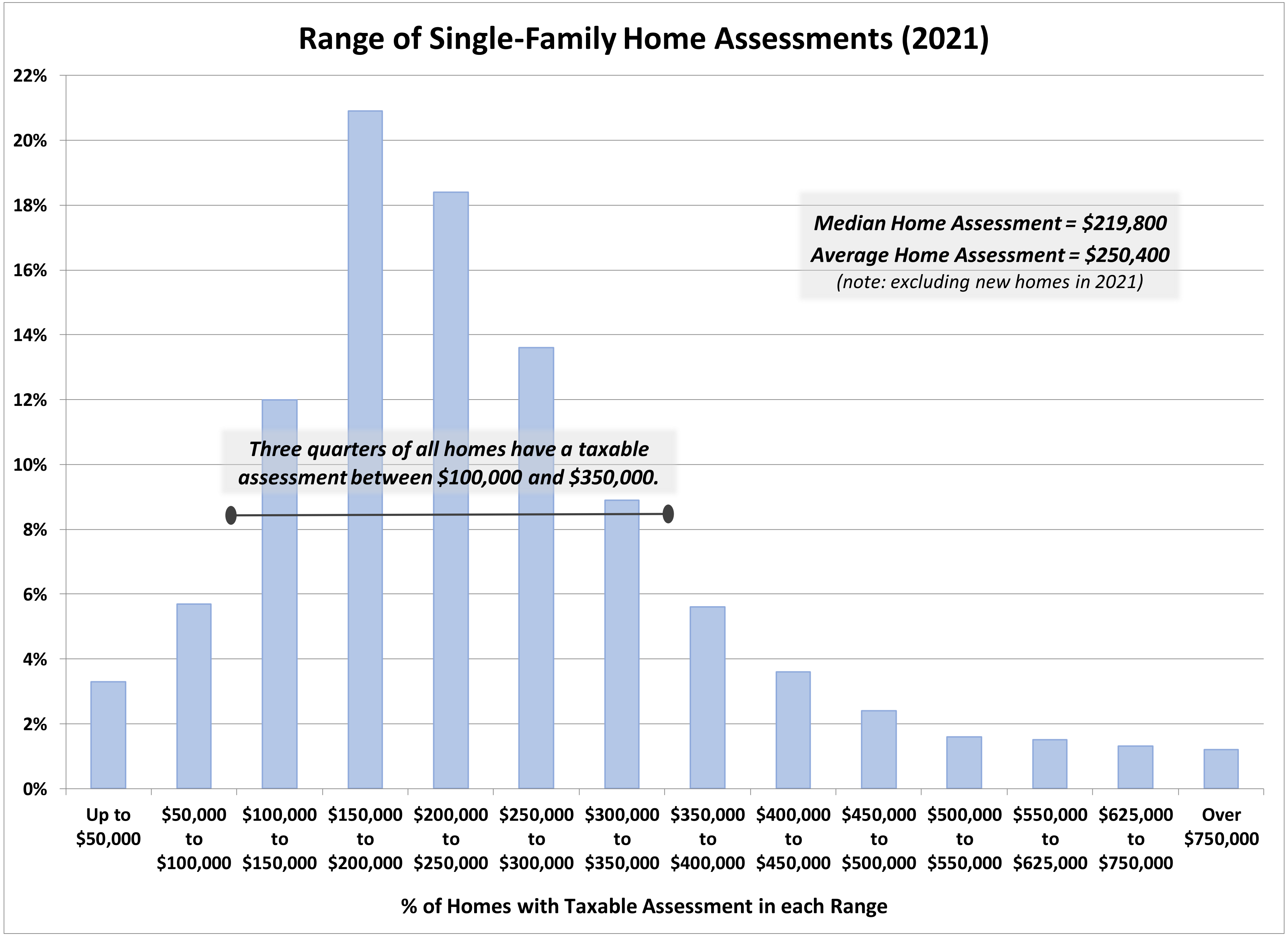
Slight Change to Residential Tax Rate on Average Home

	Approved 2020/21	Proposed 2021/22
Assessment	$247,200	$250,400
Tax Rate	0.815%	0.820%
Tax Bill $	**$2,015**	**$2,053**
Increase $		$38
Increase %		1.9%

Slight Change to Tax Rate

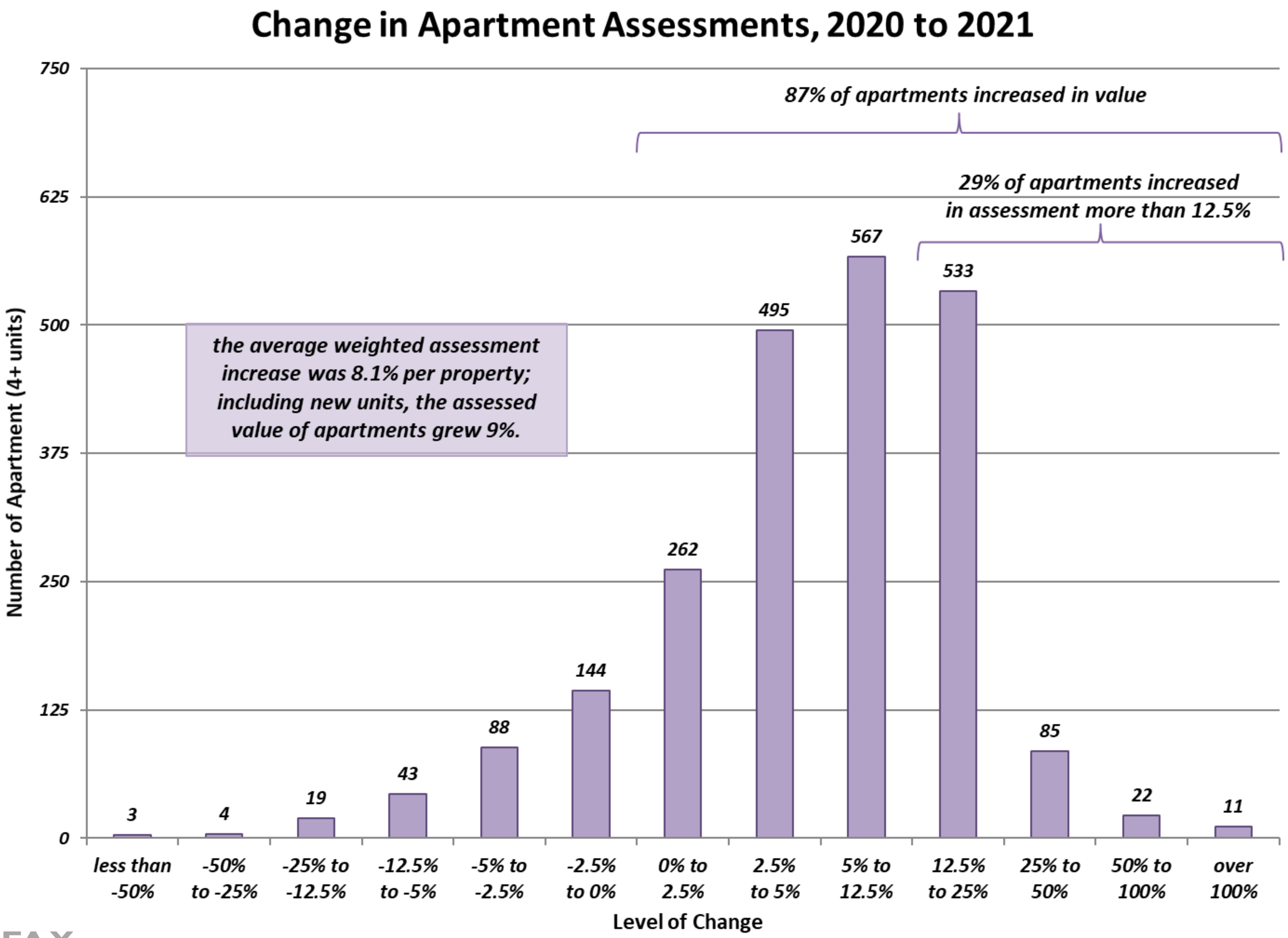
$38 Increase

Note: based on the estimated average single family home and the Urban General, Local Transit and Regional Transportation Tax Rates.



Range of Single-Family Home Assessments (2021)
22%
20%
18%
16%
14%
12%
10%
8%
6%
4%
2%
0%
Median Home Assessment = $219,800
Average Home Assessment = $250,400
(note: excluding new homes in 2021)
Three quarters of all homes have a taxable assessment between $100,000 and $350,000.
Up to $50,000
$50,000 to $100,000
$100,000 to $150,000
$150,000 to $200,000
$200,000 to $250,000
$250,000 to $300,000
$300,000 to $350,000
$350,000 to $400,000
$400,000 to $450,000
$450,000 to $500,000
$500,000 to $550,000
$550,000 to $625,000
$625,000 to $750,000
Over $750,000
% of Homes with Taxable Assessment in each Range

HALIFAX


Change in Apartment Assessments, 2020 to 2021
750
625
500
375
250
125
0
Number of Apartment (4+ units)
87% of apartments increased in value
29% of apartments increased in assessment more than 12.5%
the average weighted assessment increase was 8.1% per property; including new units, the assessed value of apartments grew 9%.
3
4
19
43
88
144
262
495
567
533
85
22
11
less than -50%
-50% to -25%
-25% to -12.5%
-12.5% to -5%
-5% to -2.5%
-2.5% to 0%
0% to 2.5%
2.5% to 5%
5% to 12.5%
12.5% to 25%
25% to 50%
50% to 100%
over 100%
Level of Change

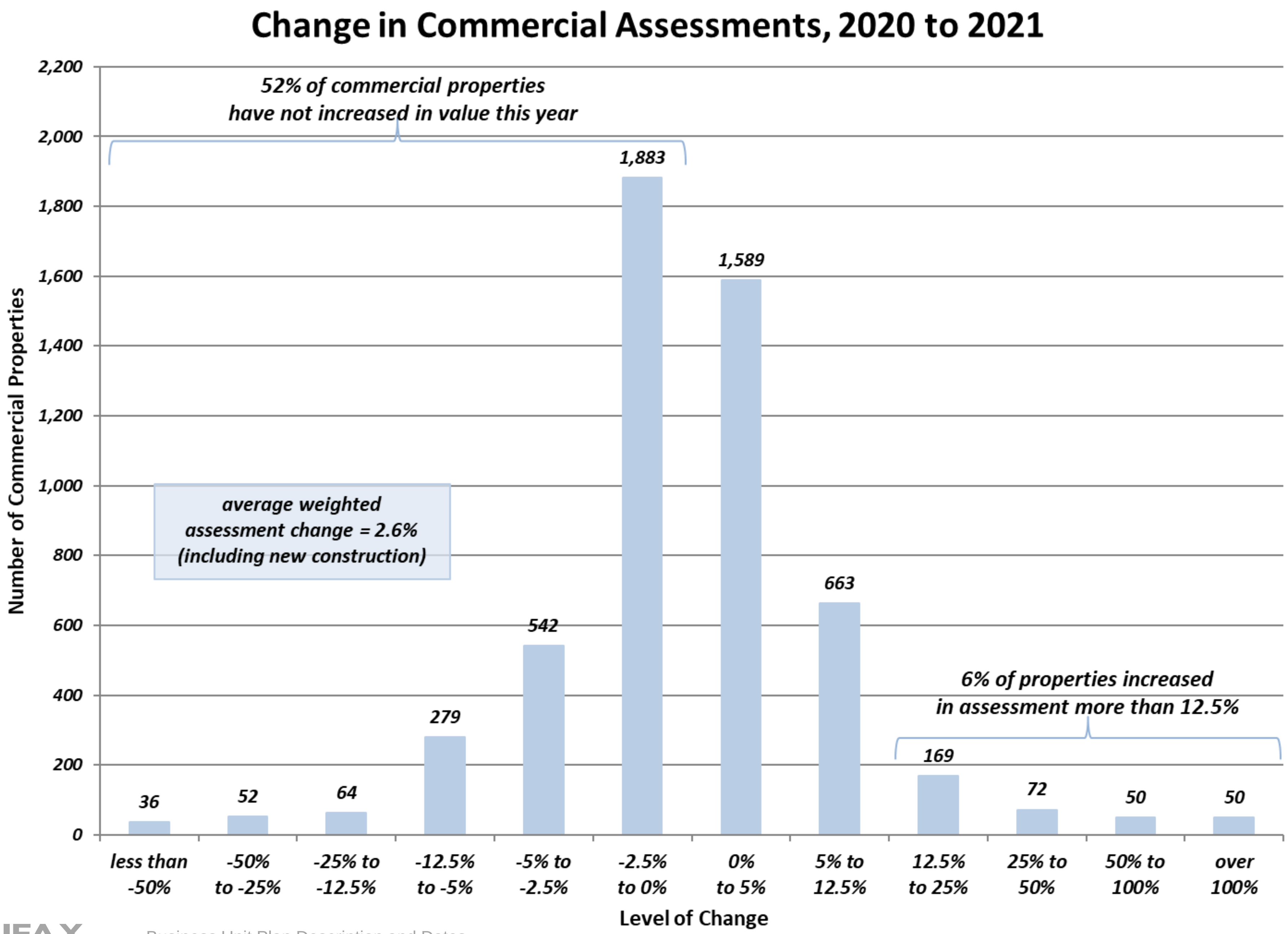
Commercial Tax on Average Business

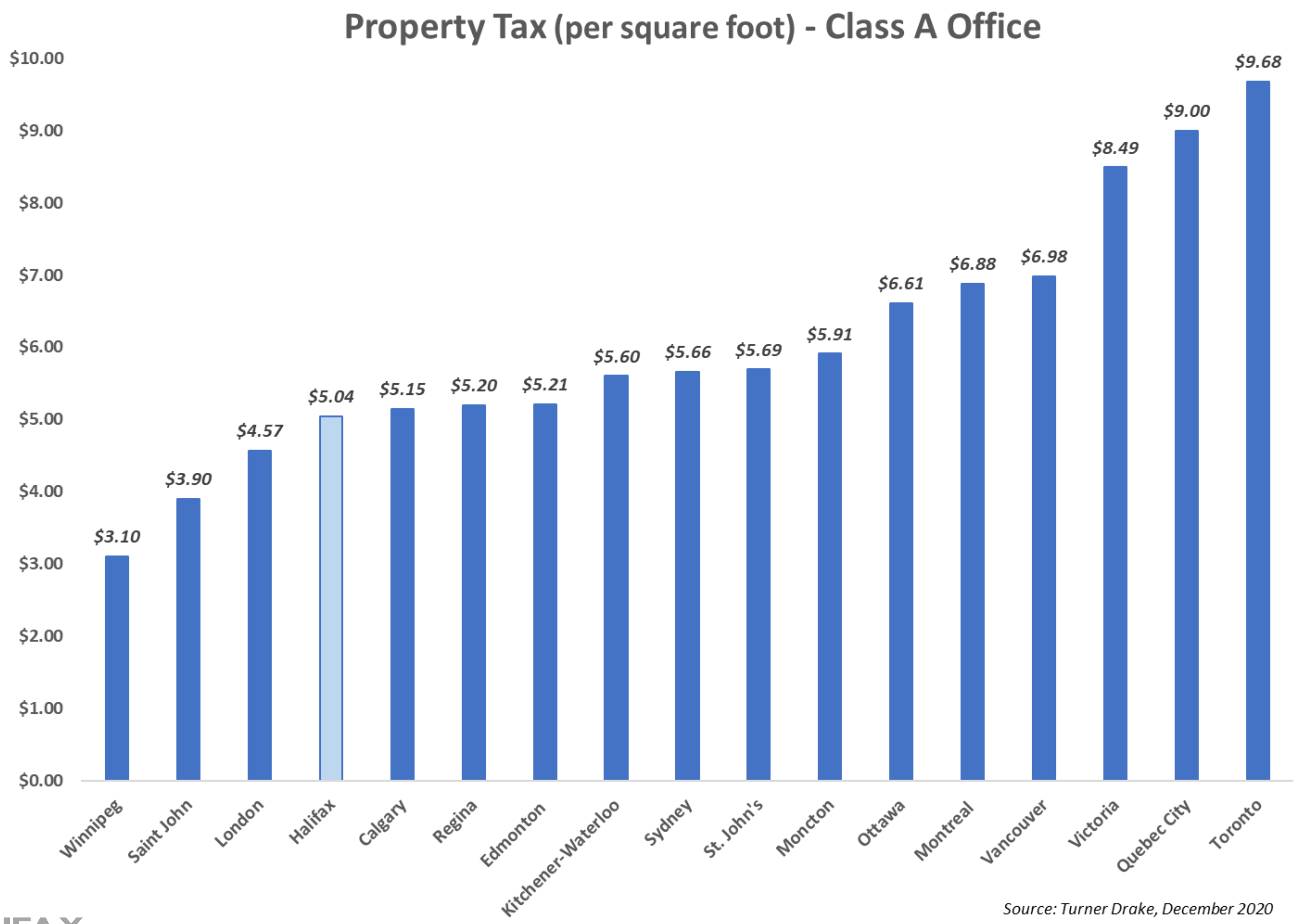
	Approved 2020/21	Proposed 2021/22
Assessment	$1,427,800	$1,465,300
Tax Rate	3.000%	2.979%
Tax Bill $	**$42,834**	**$43,651**
Increase $		$817
Increase %		1.9%

Slight Decline in Tax Rate

$817 Increase

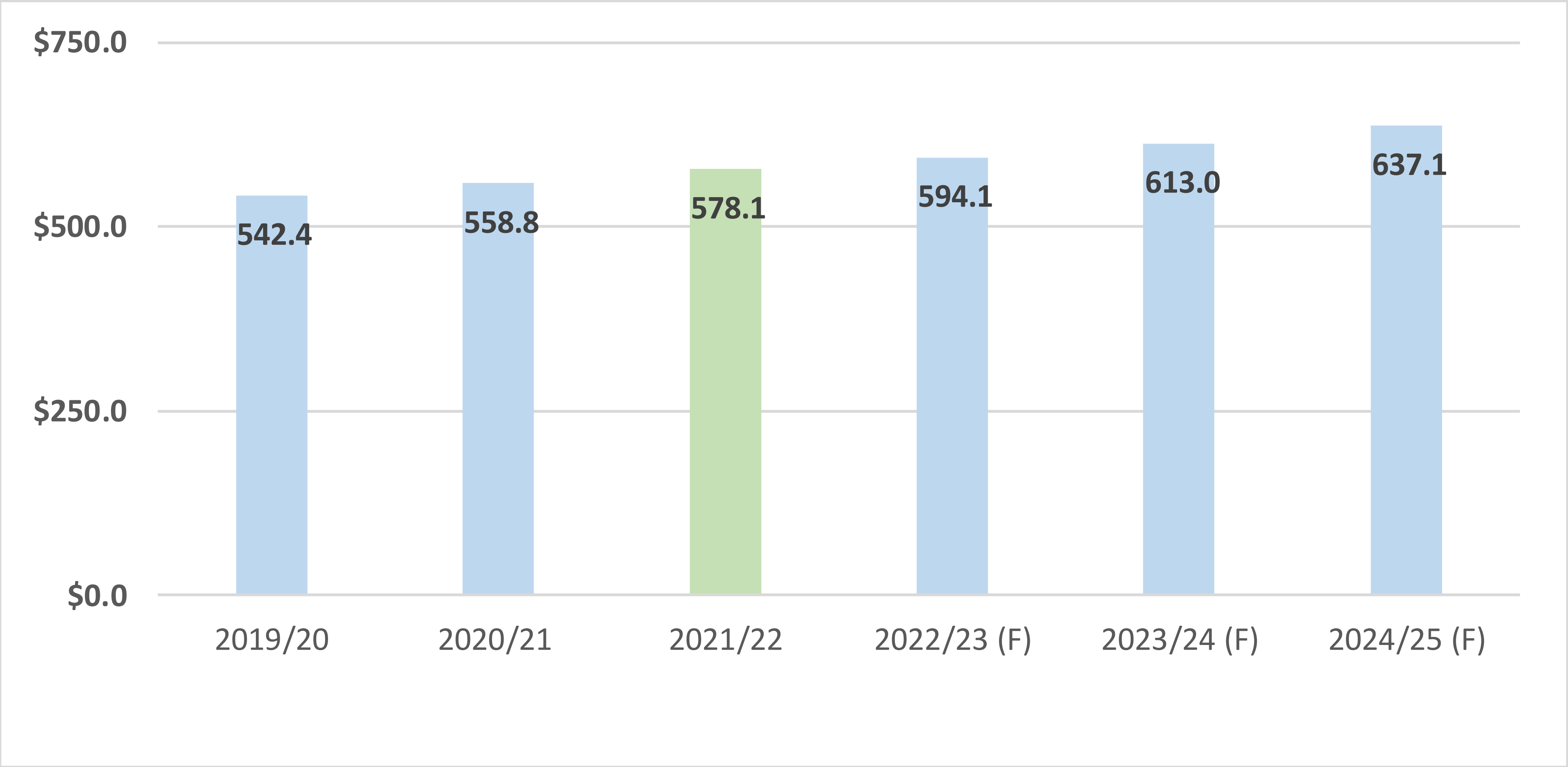
Note: based on the estimated average commercial property and the Urban General Tax Rate.


Change in Commercial Assessments, 2020 to 2021
52% of commercial properties
have not increased in value this year
average weighted
assessment change = 2.6%
(including new construction)
6% of properties increased
in assessment more than 12.5%
Number of Commercial Properties
2,200
2,000
1,800
1,600
1,400
1,200
1,000
800
600
400
200
0
36
52
64
279
542
1,883
1,589
663
169
72
50
50
less than -50%
-50% to -25%
-25% to -12.5%
-12.5% to -5%
-5% to -2.5%
-2.5% to 0%
0% to 5%
5% to 12.5%
12.5% to 25%
25% to 50%
50% to 100%
over 100%
Level of Change

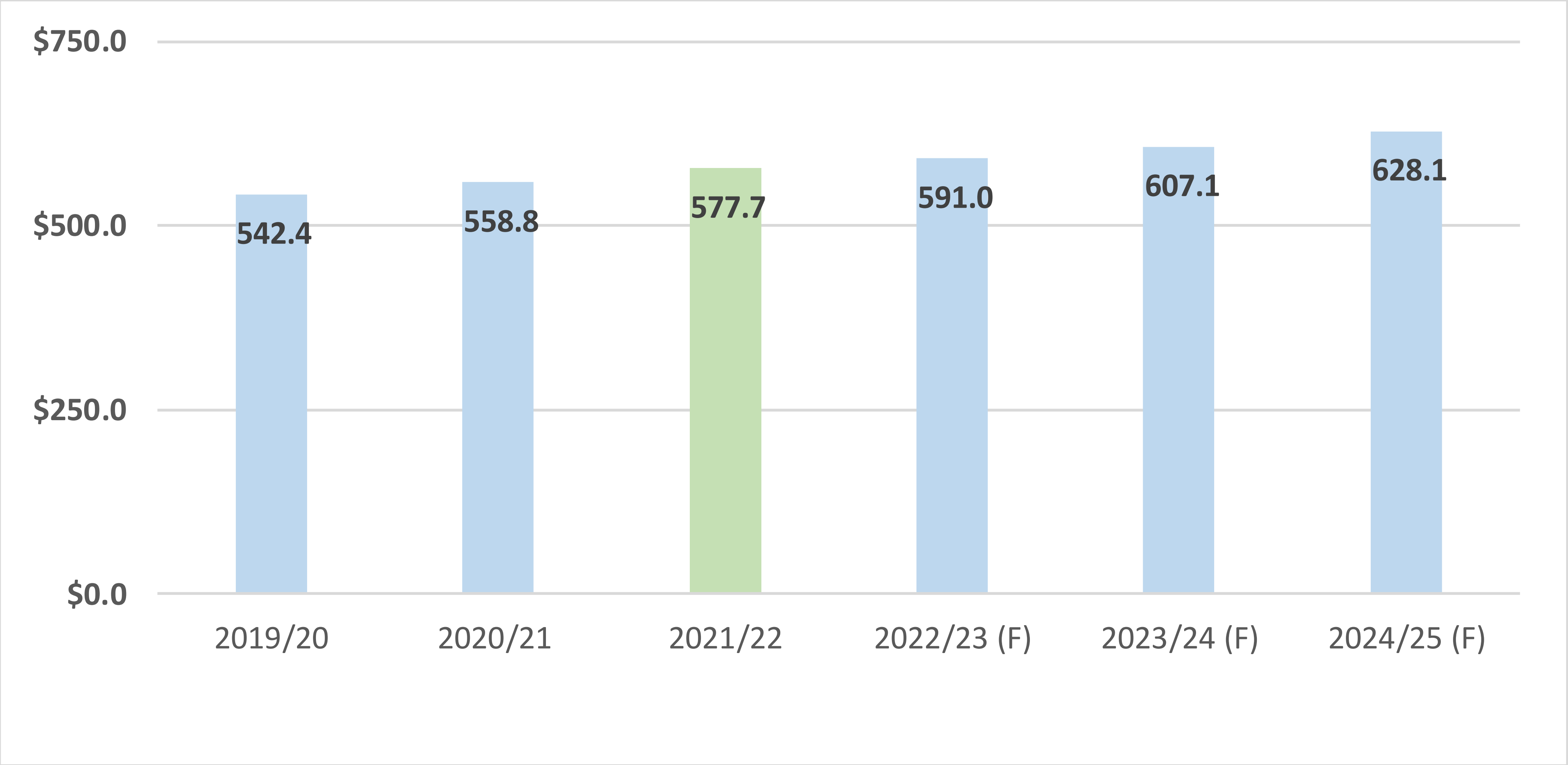


Source: Turner Drake, December 2020

Property Tax Revenues ($M) – Proposed Tax Rates



Property Tax Revenues ($M) – Flat Tax Rates



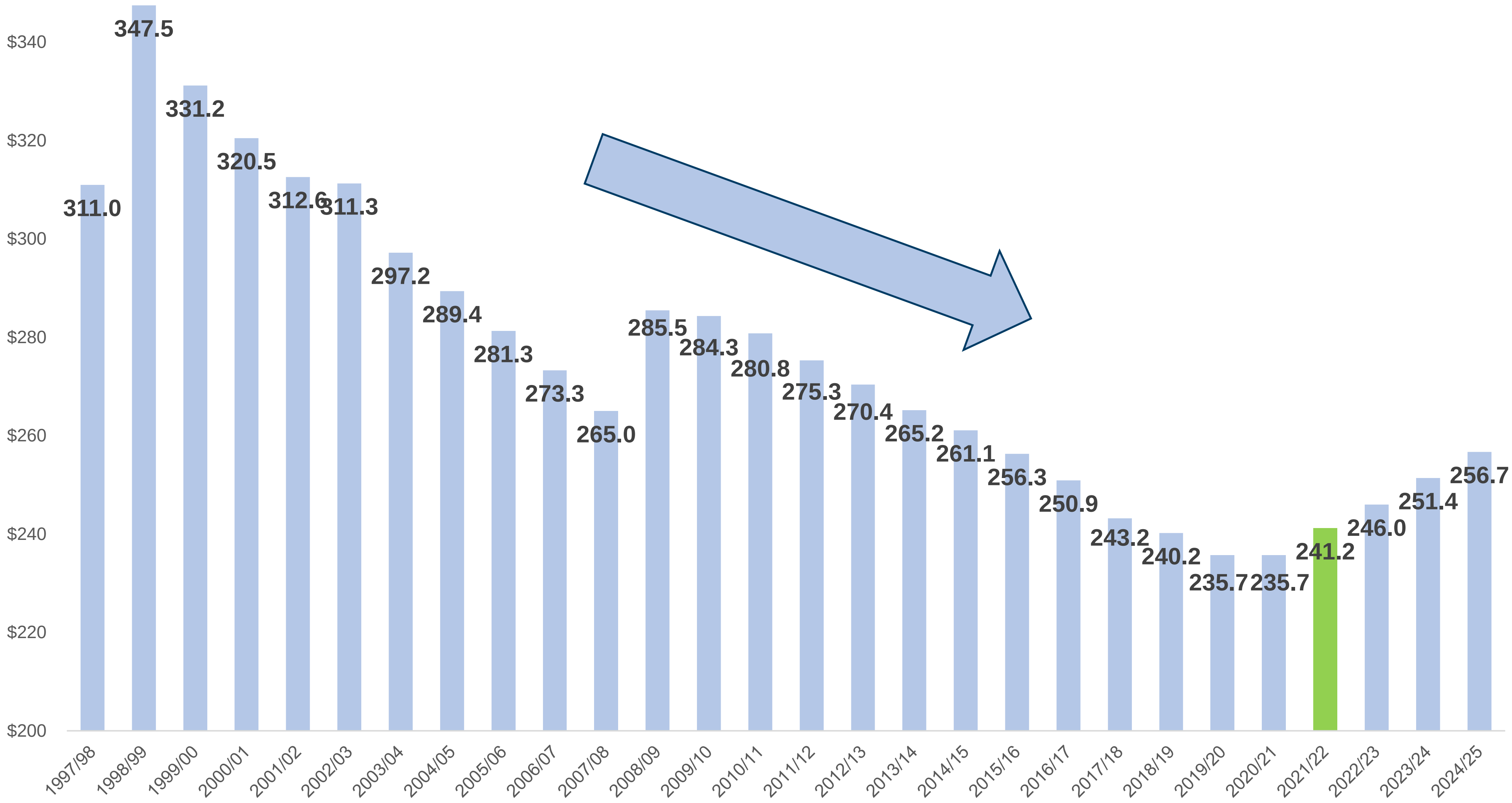
Capital

Capital

- Significant Funds being added into Capital Budget:
  - Capital from Operating increasing by $30.1M
  - Operating Cost of Capital to increase by $12M over 4 years
  - Strategic Initiative Reserves set-up with $10M
  - Base Capital Budget built on $150M per year, this is not enough to keep our assets in a good state of repair
  - Proposing a strategy for capital related to strategic initiative , the capital program that will be presented is in the $175M to $230M range
- Capital Budget Debate:
  - Strategic Initiatives - January 20
  - Capital Budget – February 23

Debt

Tax Supported Debt



Changes in Debt Policy

- Interest rates are at historic lows staff are recommending debt targets increase of $10M per year for each of the next four years.
  - Increased debt will support the capital budget
- Strategic Initiative Funds are expected to require additional debt funding to support key Council initiatives. These additional debt charges will be offset by reserve withdrawals.
- Short-term debt repayment of $20.1M has been budgeted for in 2021/22. If the $100M loan is taken out, full repayment is expected within five years.
- Staff will be returning to council in June with a revised debt plan that includes a recommendation on debt measurement

Reserves

Reserve Purposes

HRM has 21 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 – To leverage resources for strategic infrastructure funds or transformational projects as determined by Council.

Work is underway to amend the business cases to make reserves more focused. Business cases will be rewritten, some reserve will be collapsed and maximums will be established.

Reserves, Projected Balances (Net of Commitments)

	Budget 2020/21	2020/21 Projection	2021/22	2022/23	2023/24	2024/25
Risk Reserves	17.4	52.6	21.9	22.3	22.7	23.1
Obligation Reserves	64.7	73.8	74.0	71.7	71.3	67.4
Opportunity Reserves	125.0	138.2	156.2	132.7	116.0	131.8
Total	**207.2**	**264.7**	**252.1**	**226.7**	**210.0**	**222.2**

Conclusions

- 2019 levels of Economic output almost realized by 2023:
  - Economy is recovering despite uncertainty.
  - HRM is performing as well as other municipalities in the country
  - HRM tax levels are remaining competitive
- Fiscal Outlook
  - Budget balanced in 2021/22. Costs and Revenues that had been reduced during COVID are being reintroduced.
  - Reserves are intact. COVID impacts addressed through budget measures
  - Liquidity is holding. 95.8% of tax bills paid.
  - Preliminary 3 Year Outlook in Years 2-4 ($56M to $62M gap) are a worst case scenario.
- To Balance
  - Average tax bills rise 1.9% per cent per average Single Family Home and Commercial property. This means a reduction in commercial tax rate.
  - Business Unit budgets reduced by $6M

Recommendation

- It is recommended that Halifax Regional Council:
  - direct the Chief Administrative Officer to develop the 2021/22 Budget according to Council's approved priorities, and preliminary fiscal direction, including setting the average property tax bill for residential and commercial properties at a 1.9 per cent increase and,
  - direct the Chief Administrative Officer to establish an area rate of approximately $0.341 per $100 of assessed value for provincial mandatory contributions.