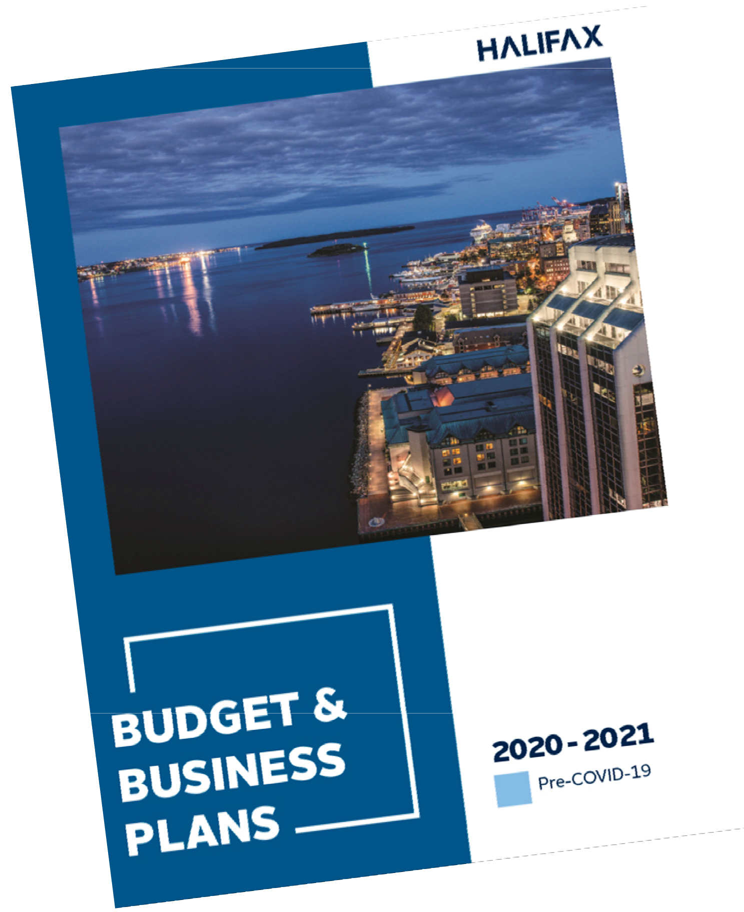
Re: Item No. 9

HALIFAX

A Guide to HRM's Budget and Options

What is a budget?

- **Authority** to spend money
- Council's main **policy document** – it's priorities
- It is a **plan** - based on estimates and assumptions and must be balanced
- It is a **point in time**
- **Changes** occur throughout the year – captured through projections.
- Year end **surplus/deficit** shows how close your plan was to actual spending.



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Operating Costs

- A budget is made up of :
  - Fixed operating costs – costs that HRM is required to pay either by contract or legislation.
  - Discretionary costs – costs that HRM can chose to incur or not
  - One–time costs – these are costs are only incurred once, an example would be a special grant

Fixed Operating Costs

Many budget items have essentially been **Committed to or Fixed** for this year:

- Salary/wages
- RCMP costs
- Signed contracts: snow removal, cleaning, solid waste, park maintenance
- Commodities: fuel, salt, supplies……
- Heat, water, taxes
- Lease costs
- Provincial mandatory contributions
- Debt payments Principal and interest

$877M
88%

- Many are part of ongoing services, they may be altered in future years.

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Discretionary Operating Costs

Other Budget items are **Discretionary,** and can still be changed:

- New services or services with expired contracts
- Services for new homes, properties
- Training, travel, office costs
- Special projects, consultants, professional services
- Building maintenance, hardware and software purchases
- Grants
- Capital from operating
- Transfers to reserves

$122M
12%

There may still be an impact on services if they are delayed or eliminated.

Some budget items are **One-Time** in nature and aren't repeated.

- We try to match one-time revenues with one-time costs.

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Revenues and Tax

- HRM has **<u>OPERATING</u>** revenues, which are the ongoing funds that come from:
  - Property Taxes
  - Deed Transfer Taxes
    - – 1.5% tax on property sales
  - Transit Fares
  - Fines and Fees
    - – Fees offset service costs
    - – Fines discourage behaviors
  - Investment Income
    - – Based on interest rates
  - Transfer from other Governments
    - – Library, Other

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Non-tax Revenues

- Transit Fares
- Fines & Fees:
  - Parking Meters
  - Building Permits
  - Fees, Rentals, Other
  - Recoveries, Other
- Other
  - Interest Revenues
  - Transfers

$27M
3%

$56M
6%

$33M
3%

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Taxes

- Property Taxes:
  - Residential Tax
  - Transit Taxes
  - Commercial Tax
  - Payments in Lieu of Taxes
  - Tax Agreements

$831M
83%

- Other Taxes:
  - Deed Transfer Taxes - $46.5M
  - Other

$52M
5%

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Capital Projects

- Every capital project must have a funding source :
  - Capital from operating (down payment)
  - Debt (mortgage)
  - Reserves (savings account)
  - Cost sharing (going splits on the cost)

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Borrowing Debt for Capital

- Without Debt, many capital projects would simply not happen. Debt stretches the cost out over the life of the asset.

- The most important thing about debt is affordability. Many ways to measure debt affordability (**2020/21 numbers**):
  - Absolute dollar amount = $235.7M
  - debt per household = $1,173
  - debt/tax revenue = 4.7%

- Debt payments impact the operating budget over 10+ years while capital from operating impacts the budget immediately.

Short Term Debt

- As part of the response to COVID the Province made a short term "line of credit" available to municipalities for cashflow purposes
- After the October tax bills HRM had planned to draw $100M
- In the Recast Budget $20.8M in funding for principal and interest payment was put in reserve
- Staff are recommending that the loan <u>not</u> be taken out
- The $20.8M will be available for other uses as Council determines

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Reserves

- Reserve Funds are like savings accounts. HRM has 21 reserves. Savings are for
  - To mitigate **Risks**, (rainy day funds)
  - To budget for future **Obligations** such as landfill closures.
  - To provide flexibility for **Opportunities** such as strategic initiatives, capital or taking advantage of cost sharing.

- Some reserves are for legislated or contractual obligations.

- Reserve withdrawals – once the funds are spent they are gone

BALANCING THE BUDGET

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Balancing the Budget

- By Provincial Law, we must have sufficient revenues to pay for our costs.

Expenses:
- Fixed
- Discretionary
- One-time

Revenues:
- Taxes
- Fares
- Fines, Fees
- One-time

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Balancing the Budget
- The Seven Steps

1. Add Costs and Revenues
2. Add Tax Revenues
3. Consider Tax Implications
4. Recommendations on the GAP
5. Staff Presents Draft Budget
6. Budget Adjustment List
7. Final Decisions

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Balancing the Budget
- Add Costs and Revenues

Step One

A. Add all Fixed costs
   - E.g. Salaries, Contracts, Debt
   - One-time items (+/-)

B. Add all Discretionary Costs/Revenues
   - Training
   - Reserves, Capital from Operating
   - Council direction on new services

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Balancing the Budget – Estimate Tax Revenues

<u>Step Two</u>

A. Add <u>Tax Revenues</u>

- Examine economic data/Models
- Review assessment Roll (December)
  - Includes existing and new properties
- Make assumption as to the "Average Tax Bill" (Assessment * Rate)
- It is the starting point

Tax Revenues = Average Tax Bill for Previous Year Plus % change. Add: New Properties

Balancing the Budget – Tax Considerations

Step Three

- Consider competitiveness. Where are we, Where should we be relative to other jurisdictions.

- Need to look at longer term impacts. Does the change make us sustainable over the next four years?

- Consider one-time impacts. E.g., Federal Safe Re-Start program provides one-time $31M in 2021/22.

Balancing the Budget
- Recommendations on the "Gap"

<u>Step Four</u>

A. Revenues and Taxes less operating costs equal the **Budget Gap**

B. Options to close the Gap
   1. Additional taxes
   2. Reduce Discretionary Costs
   3. Reduce Fixed Costs (Longer term)

C. Eliminate Budget Gap

D. Recommendation to Council

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Balancing the Budget
- Staff Present Draft Budget

Step Five

A. Staff present Recommendation to Regional Council (Fiscal Framework)
B. Recommended tax is the starting point for deliberation
C. Presentations by Business Units
   - Each Business Unit presents to Regional Council.
     - Proposed Budget
     - Options for Budget Changes
       - » **Overs**
       - » **Unders**

Balancing the Budget
- Budget Adjustment List (BAL)

Step Six

A. Council Motions:

- During each presentation Council moves any item it wishes to the BAL
  - **Overs** will increase Budget
  - **Unders** will decrease Budget

B. At later date, Staff return with briefing note on each presentation:

  - Pros and Cons
  - Funding options and impact on taxes

Balancing the Budget
- Final Decisions

Step Seven

A. Council Debate on Budget Adjustment List

- ✓ Council makes final decisions on BAL
- ✓ Finance staff return with a funding plan – review revenue assumptions, look at reserves, surplus and cost assumptions
- ✓ The funding plan includes the final recommended tax rate and impact on the average tax bill
- ✓ Council votes on the budget

OPTIONS FOR 2021/22

Residential Average Tax Bill - Fiscal Framework

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

The average home value is up 1.3%.

The Tax Rate rises 0.6%.

So, the average tax bills rises 1.9% or $38.

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Commercial Average Tax Bill - Fiscal Framework

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

The average commercial value is up 2.6%.

The Tax Rate actually decreases rises 0.7%.

So, the average tax bills rises 1.9% or $817.

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Risks to reducing the average tax bill

- Lost revenue must be made up in future years
- HRM costs rise faster than inflation
- Services continue to expand
- Capital construction costs continue to grow
- A series of smaller increases is easier to absorb than one large one
- While the economy has performed better in COVID than anticipated the future is still uncertain
- 2021/22 budget is benefitting from Federal Safe Restart Funding

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Options for Tax Rates – 2021/22

- The Fiscal Framework average tax bill change of 1.9% is an assumption.
- By changing the budget, Regional Council has options to reduce taxes.
- Not taking out the short-term loan frees up $20.8M
- Examples of Options:

  ✓ Keep Average Taxes the same as 2020/21

  ✓ Set Average Taxes at the 2020/21 inflation rate of 0.5%

  ✓ Use Fiscal Framework assumptions of Average Taxes at 1.9%

Set at 0% - Last Years Amount

- One option is to keep average tax bill at the same amount as the current year 2020/21. This would result in $10.8M of lost revenue, that could be taken from reserves (forgone short-term loan payment).

  - ✓ The residential tax rate decreases by 1 cent from 81.5 cents to 80.5 cents.
  - ✓ The Commercial tax rate decreases by 7.7 cents from $3.00 to $2.923.
  - ✓ Concern that the 2021/22 budget is balanced through use of $31M in Federal Safe Restart funds which are one-time.
  - ✓ In 2022/23 to 24/25 (life of the fiscal framework) would have to find the lost $10.8M tax revenue as well as cover increased operating costs – one time lost is $41.8M
  - ✓ Fiscal framework is already projecting a gap in each year.

Set at 0.5% CPI for 2020/21

- Option is to adjust the average tax bill by the inflation rate for the current year 2020/21 (0.5%). This would result in a loss of $7.8M of revenue, that could be taken from reserves (foregone short-term loan payment).

  - ✓ Keeps Average Residential Taxes to $11 increase. The tax rate decreases by 0.6 cents from 81.5 cents to 80.9 cents.
  - ✓ Average Commercial Taxes to $231 increase. The tax rate decreases by 6.1 cents from $3.00 to $2.939.
  - ✓ The 2021/22 budget is balanced through use of $31M in Federal Safe Restart funds which are one-time.
  - ✓ In 2022/23 to 24/25 (life of the fiscal framework) would have to find the lost $7.8M tax revenue as well as cover increased operating costs – one time lost is $38.8M
  - ✓ Fiscal framework is already projecting a gap in each year.

Options for Tax Rates
Set at 1.9% ($38)

- The Fiscal Framework considered the estimated inflation for 2021/22 (1.6%) and the pressure to cover cost increases and provide services.

  - ✓ Keeps Average Taxes to $38 increase for residential and $817 for commercial
  - ✓ Sets Average Taxes just above the 2021/22 inflation rate of 1.6%
  - ✓ Concern that budget is balanced through use of $31M in Federal Safe Restart funds which are one-time. 1.9% may not be sustainable into 2022/23.

Comparison of Options

	Zero Change	CPI of 0.5%	1.9%
Decrease in Tax Revenue	($10.8M)	($7.8M)	$0
Residential – average tax bill	$0 Change	$11 Change	$38 Change
Residential tax rate	80.5 cents	80.9 cents	82.0 cents
Commercial – average tax bill	$0 Change	$231	$817
Commercial tax rate	$2.923	$2.939	$2.979

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Thank you