Re: Item No. 6

2022/23 Fiscal Framework

Budget Committee

November 23rd, 2021

HALIFAX

Overview

Introduction

The Opportunities and the Challenges Ahead

1. Strong Population and Economic Growth
2. The Operating Budget is Under Substantial Pressure
   - Federal Re-Start Funds of $31M are ended
3. The Capital Budget is Insufficient and must Grow
4. There are Key Strengths we can Leverage

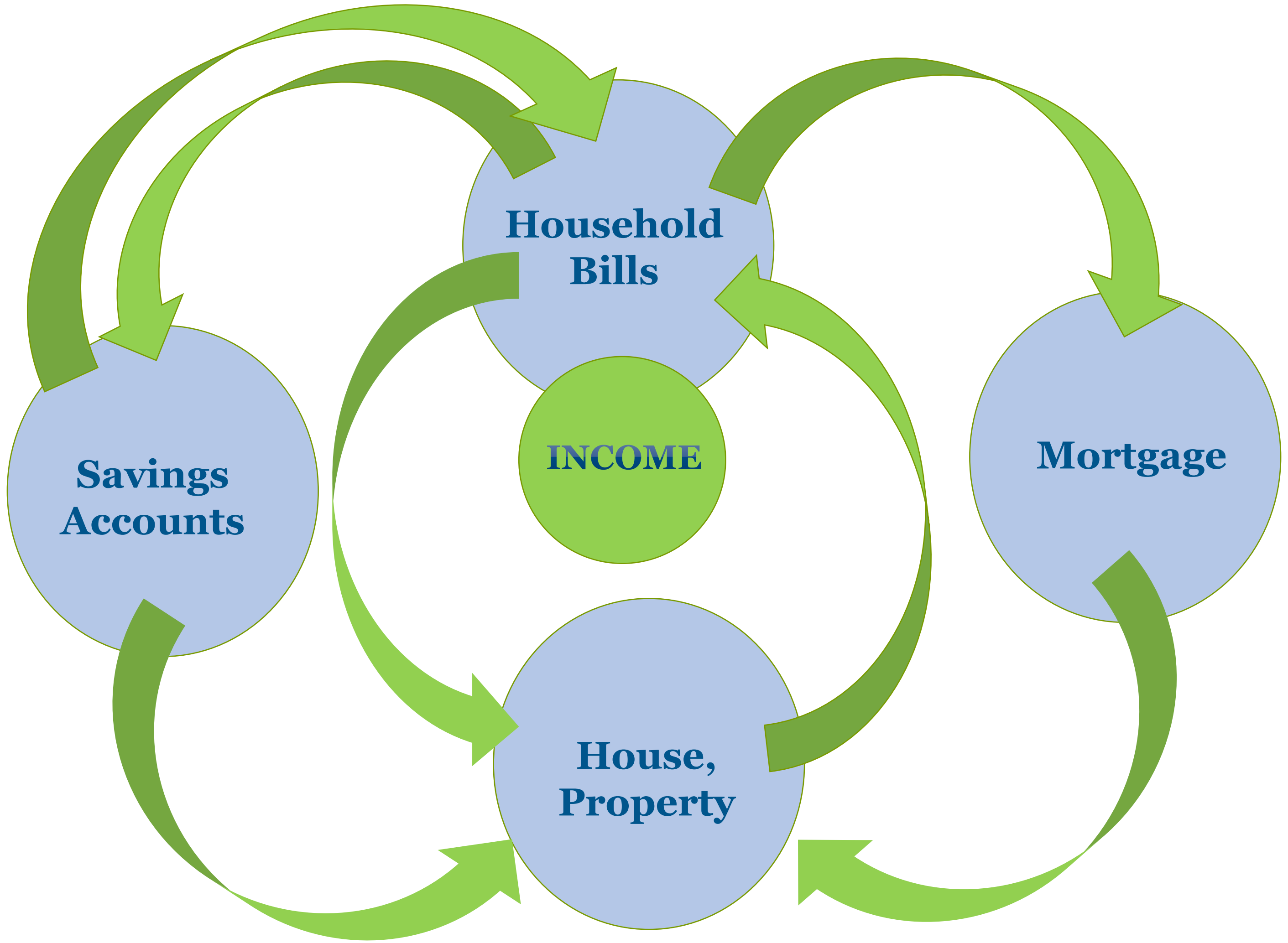
The Critical Actions that are Recommended

1. Non-Tax Revenues need to Offset Federal Re-start
2. Property Taxes should rise to cover growth and inflation
   - Sustainable tax increases must follow
3. The Capital Budget should Grow with the Population
   - new Debt and Capital from Operating Targets
   - Reserves are to be restructured
4. Strategic Initiatives (SI) must be Funded
   - rising Deed Transfer Tax to fund SI
   - Proposed Climate Action Tax

Conclusions and Recommendations

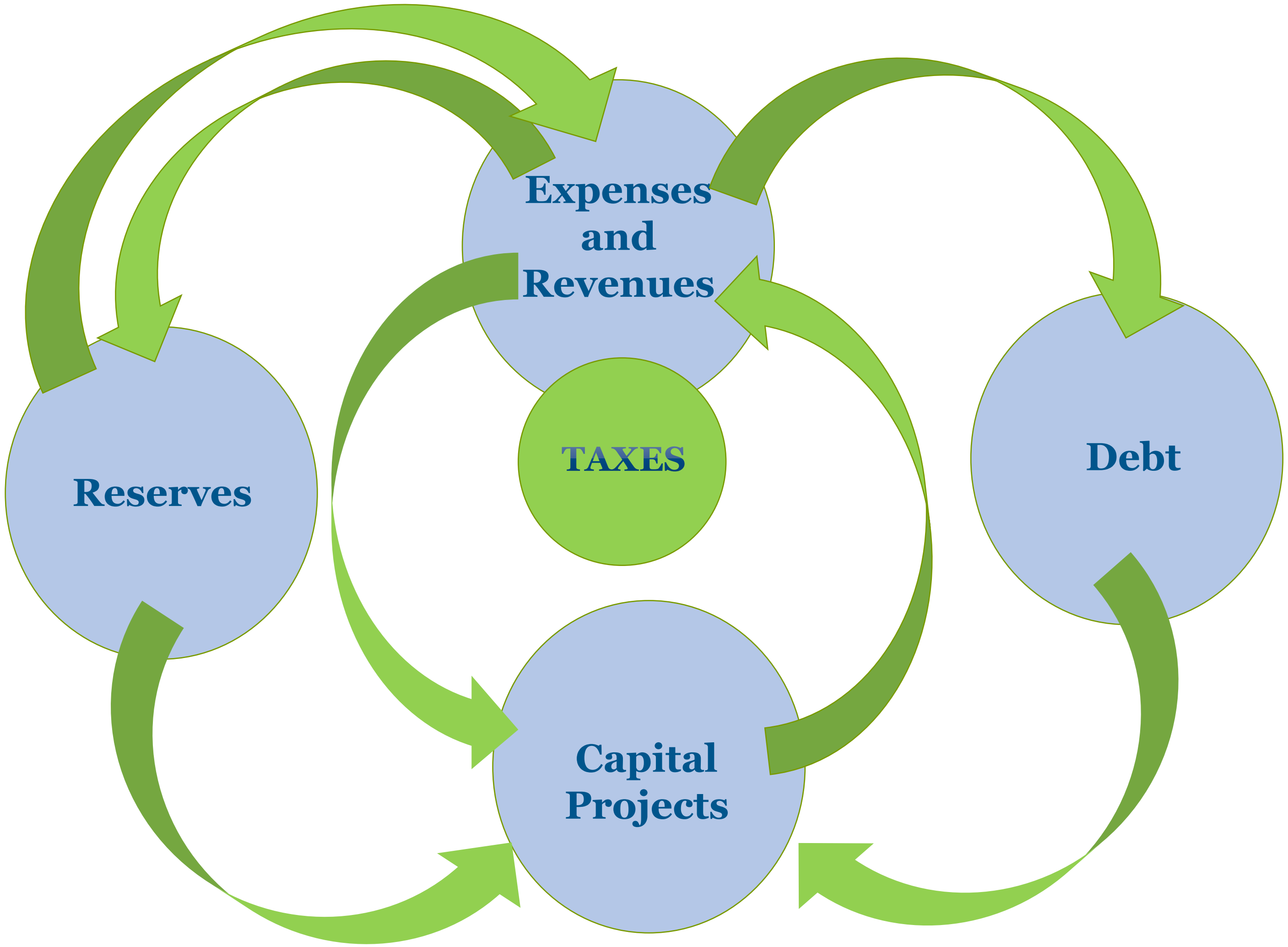
Introduction

A Household Budget



- There are four areas that household finances are broken into:
  - Household income and bills
  - Mortgages
  - Assets (home, car, cottage)
  - Savings (Bank Accounts, RRSP, RESP)
- Each of these four items are interconnected

Fiscal Framework



- Municipal finances are similar to a Household
- Fiscal Framework sets the initial working assumptions to develop the budget
- Final Assessment Roll is available December 31
- Detailed review of Budgets starts in February
- **Final Budget and Tax Rates decided by Council on April 12**

Three Key Themes are Converging

Substantial Population Growth

1. Nearly 10,000 new residents expected in 2022
2. Larger municipality with Higher Services
3. Growth pays for Growth
   - But Growth can’t pay for Existing Homes/Inflation

Winding down of the Pandemic

1. Loss of Federal Re-Start Funding ($31M)
2. Supply Chain and Inflationary Pressures

Funding for Strategic Initiatives

1. HalifACT, Multi-Modal Transit, Integrated Mobility Plan (IMP)

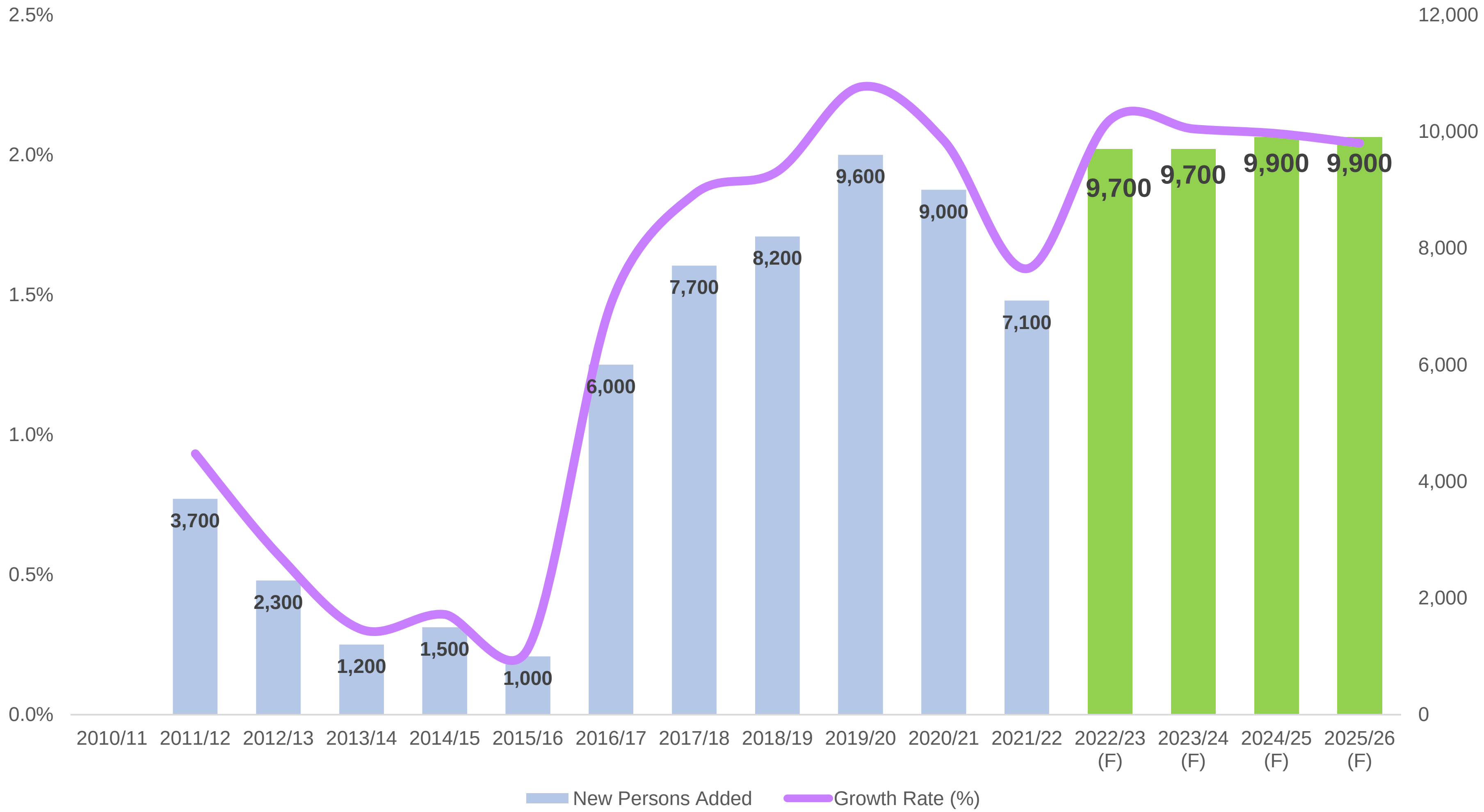
The Opportunities and the Challenges Ahead

1. Population is Booming
2. Loss of Federal Re-Start Funds
3. Inflation and Other Pressures are Hitting HRM
4. Provincial Road Transfer
5. Weak Commercial Tax Base
6. Insufficient Capital Budget
7. Strategic Initiatives are Partly Funded
8. Average Taxes are low compared to other Cities

Economic Outlook: Inflation and Income Expected to Rise

	2020/21	2021/22	Year 1 2022/23	Year 2 2023/24	Year 3 2024/25	Year 4 2025/26
Real GDP Growth (%)	-4.20%	3.20%	2.10%	2.50%	2.60%	2.60%
Personal Disposable Income	-3.00%	5.40%	4.30%	4.70%	4.80%	4.80%
Population Level	448,544	455,689	465,371	475,109	484,972	494,872
Percent change	2.10%	2.00%	2.10%	2.10%	2.00%	2.00%
Dwelling Units	200,904	204,922	209,000	213,180	217,443	221,792
Percent change	1.40%	2.00%	2.00%	2.00%	2.00%	2.00%
Inflation (NS CPI)	0.30%	1.10%	2.20%	2.30%	1.60%	2.80%
Employment Level (000)	227.6	235	237.3	239.6	241.9	244.3
Percent change	-2.70%	3.30%	1.00%	1.00%	1.00%	1.00%

Population Booming:
Like Adding the Town of Truro Each Year



Source: Canmac Economics (Halifax Region Economic Outlook, September 2021 Update)

Loss of Federal Re-Start Funds:
$31M of one-time Funds must be Replaced

	Pre-Covid	Covid
	24-Mar	Base Year
	2020-21	2021-22
Expenses	832	856
Taxes	-643	-665
Other Revenues	**-189**	**-160**
Federal Re-Start	0	**-31**
Total	**0**	**0**

Federal Funds were $31M.

Revenues dropped $29M during Covid

Inflation is Hitting HRM:
$14M alone for these Five Items

Contract Increases - $4.0M

Gasoline & Diesel - $3.0M

RCMP Contract - $2.9M

Workers Compensation & CPP - $3.7M

Insurance Premiums - $0.5M

Other Major Factors in the Budget

Existing Compensation - $11.0M
(Market Wage Pressures)

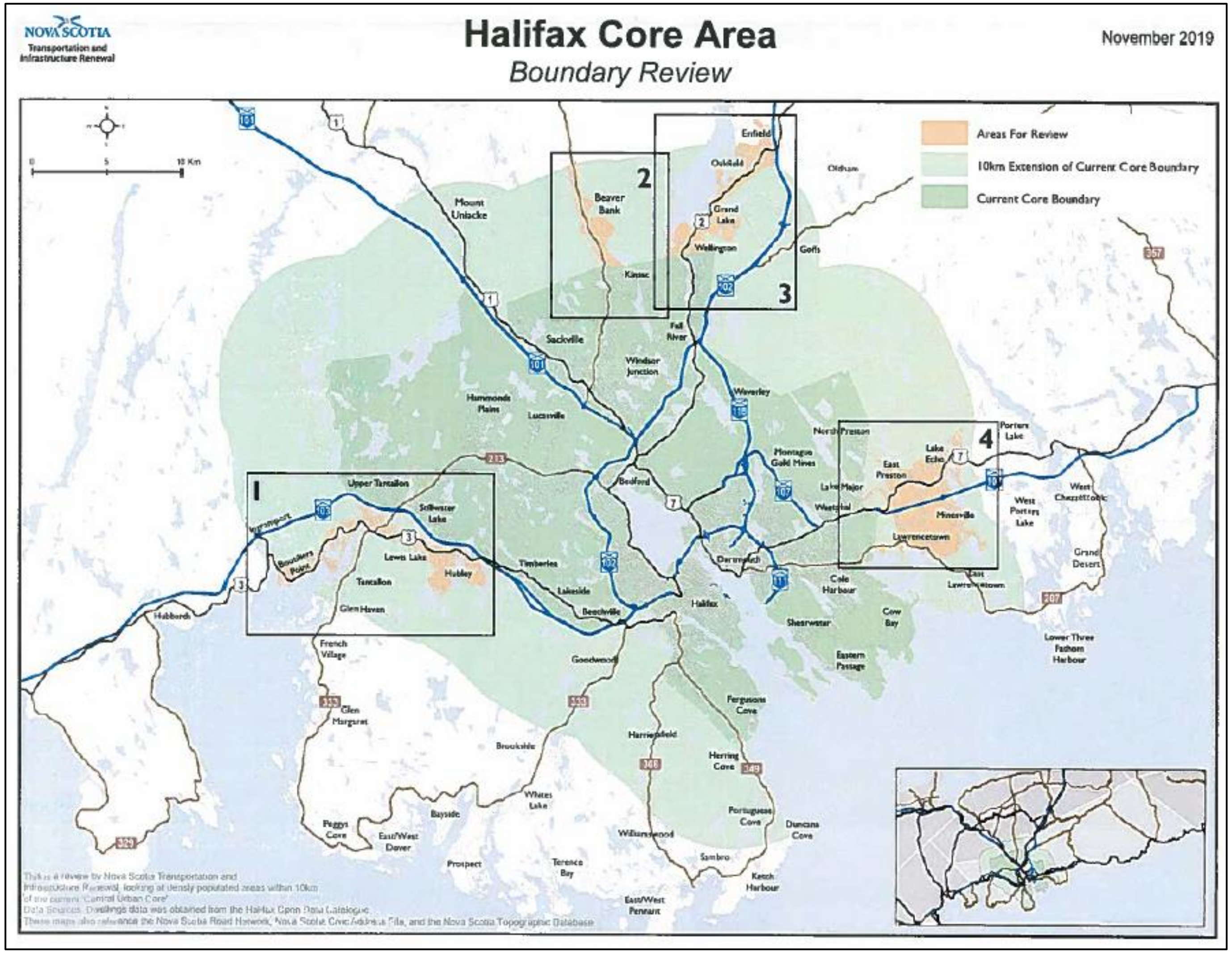
New Positions - $10.0M
(For Growth and Service Challenges)

Capital from Operating - $13.4M
(for Streets, Parks & Recreation, Other Capital Projects)

One-Time Surplus - $7.0M
(Using 21/22 Surplus to offset Tax Increase)

Deed Transfer Tax - $20.0M
(Helps Fund the Strategic Initiative Reserve)

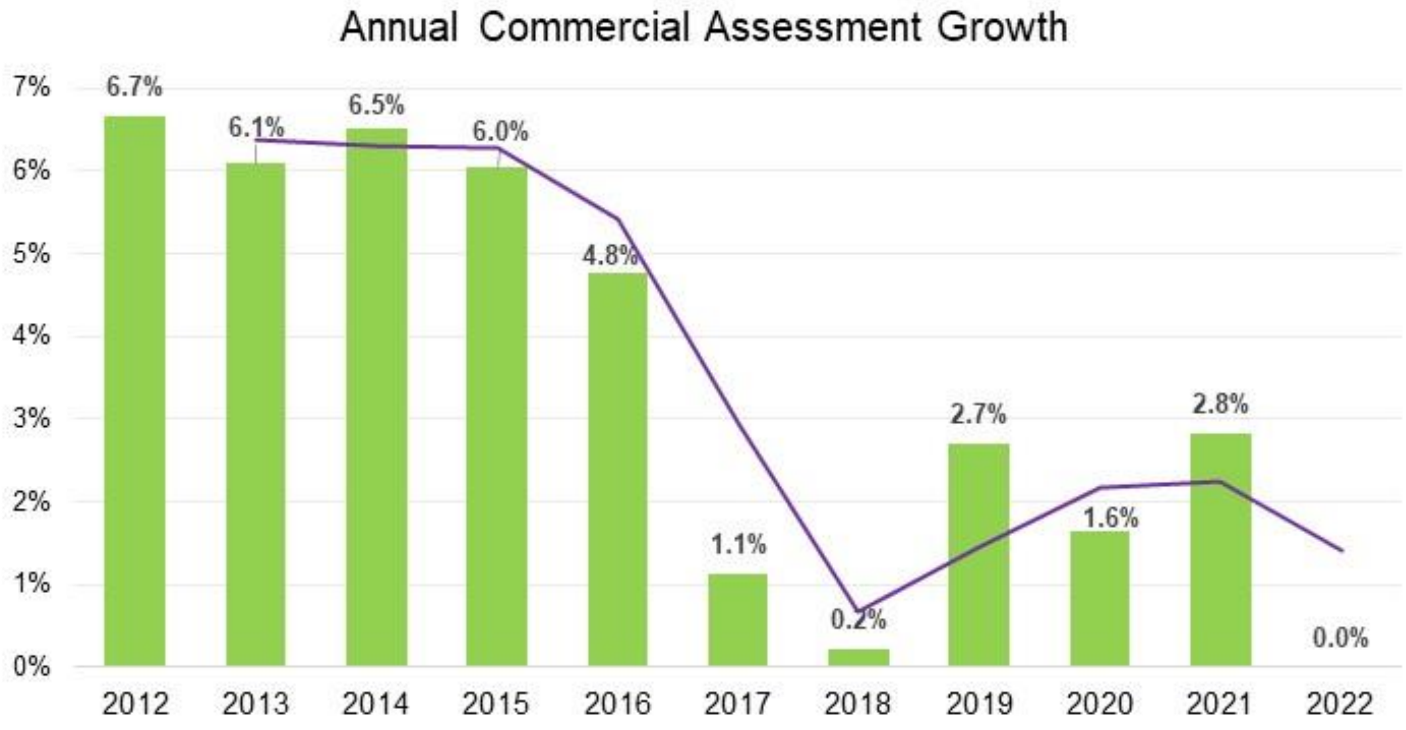
The Provincial Road Transfer:
Adds Costs to HRM



- June 1/2022 – Province transfers 300 lane km of roads and 19 bridges to HRM
- Additional **$4.3M operating costs** next year
- Pressure of **$6M on the capital budget**

Note: Only Areas 1 and 4 are transferring roads to HRM at this time.

Weak Commercial Tax Base



- From 2012 through 2016, assessment growth for Commercial **averaged 6.0%** annually
- Since then, assessment growth has averaged **1.7% for Commercial**
- Assumed no growth for 2022. Tax roll arrives at the end of December

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The Capital Budget is Insufficient:
Pressures on Renewal and Growth Projects

- **Renewal (70%) and Growth (30%) projects compete for limited funds**
  - Parks and Recreation
  - Provincial Roads
- Ability to Deliver is Constrained.
  - Projects are becoming larger, more complex
- Economic constraints:
  - prices,
  - construction timelines,
  - supply chain issues

The Capital Budget is Insufficient:
Strategic Initiatives are Largely Unfunded

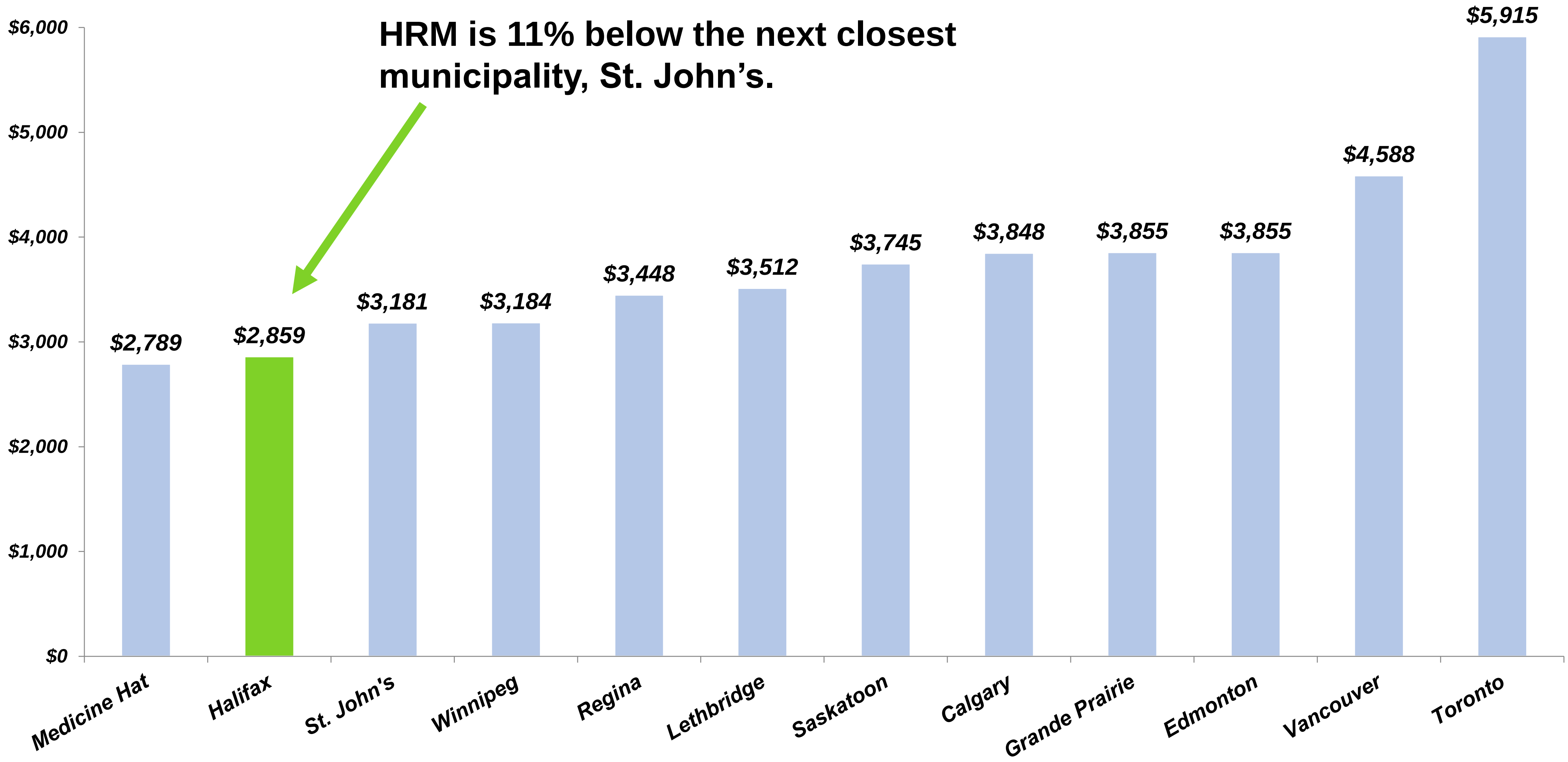
- Council has approved a number of strategies that require funding. These include:
  - Windsor St Interchange
  - Halifax Forum
  - HalifACT
  - Integrated Mobility Plan
  - Multi-Modal Corridors
  - Mill Cove Ferry
  - Bus Electrification

Simplified Example of Strategic Initiative Reserve

	Year 1	Year 2	Year 3	Year 4
Capital Project Costs			**100M**	
Strategic Initiative Reserve				
Climate Action Tax	18M	18M	18M	18M
Debt Costs			(12M)	(12M)
Balance	**18M**	**36M**	**42M**	**48M**

Taxes are low compared to other Cities
Average <u>Total</u> Tax Bills for 2020

HRM is 11% below the next closest municipality, St. John's.



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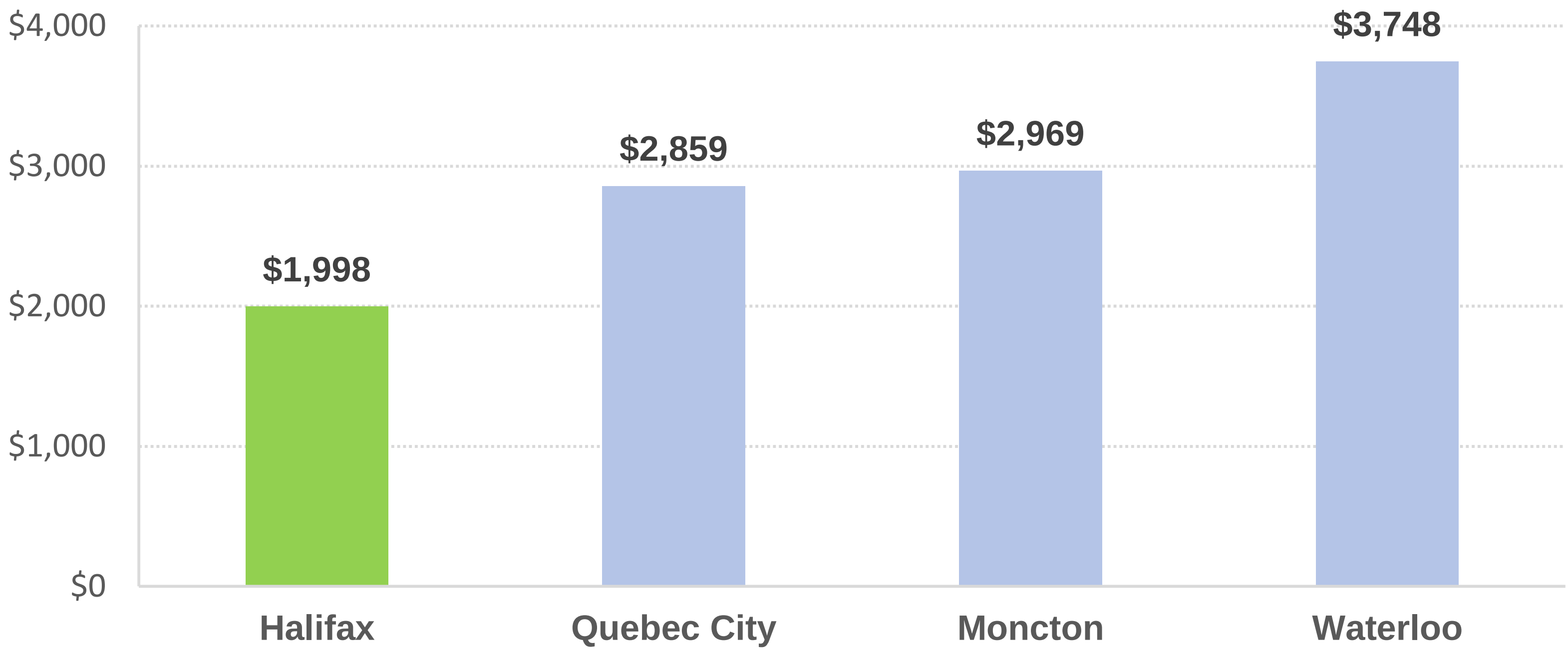
Source: 2020 Residential Property Taxes and Utility Charges Survey, City of Calgary

Taxes are low compared to other Cities
Average <u>Municipal</u> Tax Bills for 2020

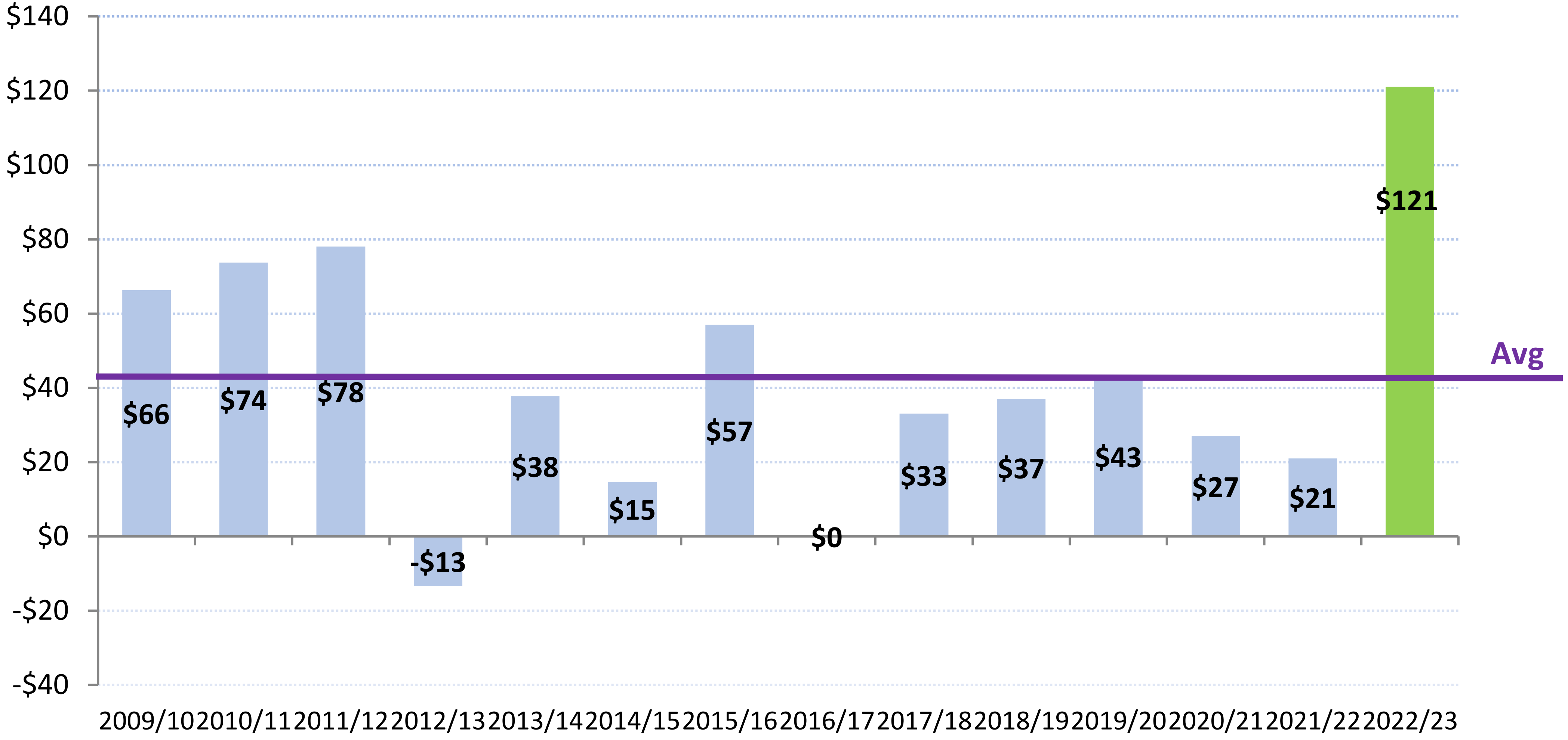


- 2020 average <u>municipal</u> property tax bill in HRM was **14% to 47% lower**

- 5.9% tax increase would **add $121** to the 2022/23 average **t**ax bill on a single-family home (SFH) to reach $2,157

Year over Year Residential Property Average Tax Change

as voted by Regional Council at Budget



Note: Based on year to year assessment changes at budget time. Not re-stated for assessment growth.

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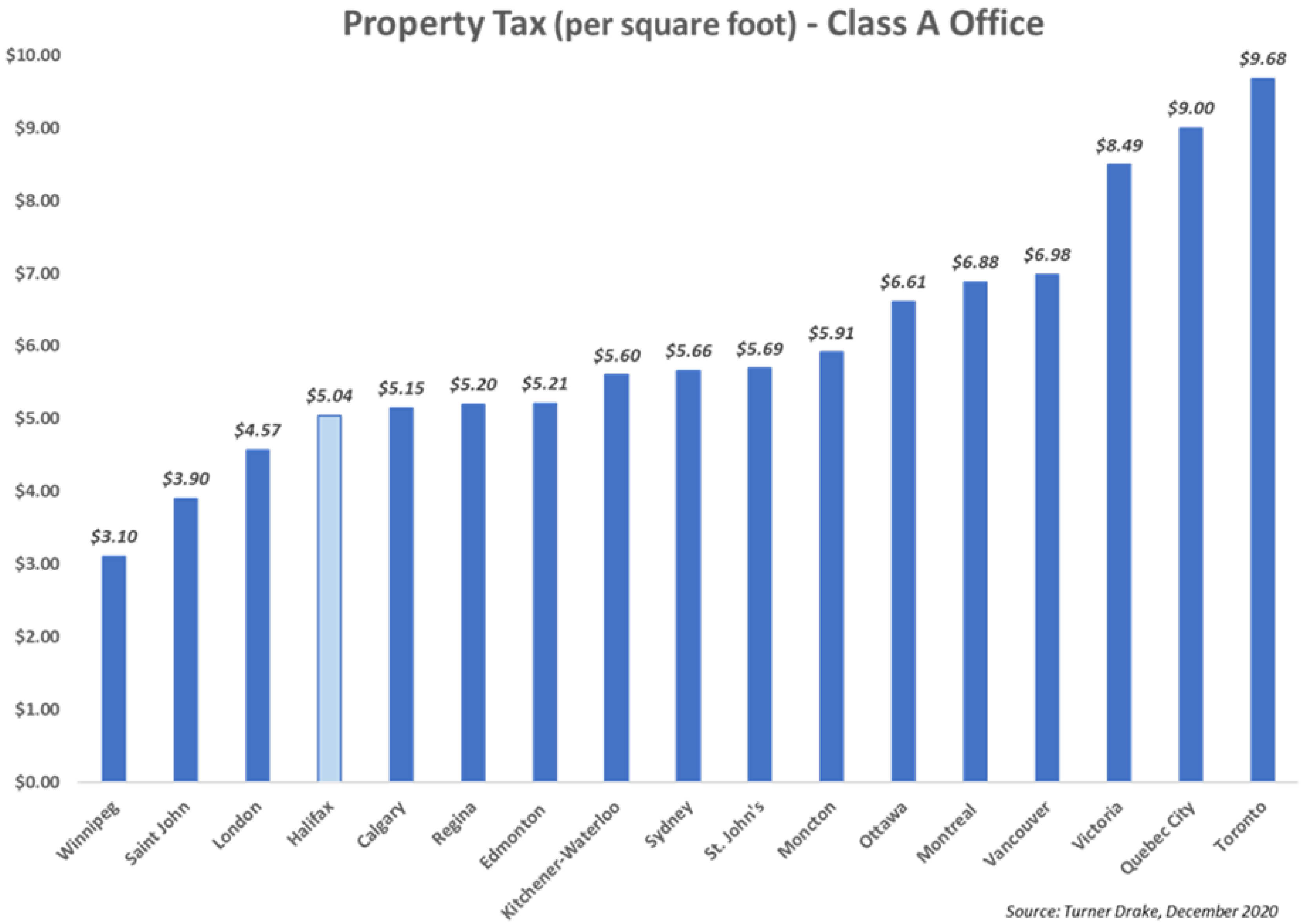
Taxes are low compared to other Cities
Average Commercial Tax Bills for 2020



The Critical Actions Recommended

1. Increase Fees & Revenues
2. Raise Taxes 2.9% to cover pressures
3. Increase Capital from Operating
4. Set a Debt Ceiling of $1,200 per Home
5. Restructure the Reserves
6. Dedicate Deed Transfer Tax to Strategic Initiatives
7. Introduce Climate Action Tax
8. Future Tax Increases Mirror Inflation & Services

Increase Revenues:
Offset the Loss of Federal Re-Start $31M

	Pre-Covid	Covid	Post-Covid
	24-Mar	Base Year	Year 1
	2020-21	2021-22	2022-23
Expenses	832	856	912
Taxes	-643	-665	-730
Other Revenues	**-189**	**-160**	**-182**
Federal Re-Start	0	**-31**	0
Total	**0**	**0**	**0**

Federal Funds were $31M.

Revenues $7M lower than Pre-Covid

Increase Fees & Revenues:
Normal Level of Activity for Revenues

Building & Other Permits - $7.9M

Transit Fares - $4.9M
(Transit Fares would be at 88% of Pre-Covid amounts)

Parks and Recreation - $2.2M

Other - $2.2M
(Summary Offence Tickets, Parking, etc…)

Raise Taxes to Cover Pressures:
Normal Level of Activity for Revenues

- Last Year the average home was paid a municipal property tax bill of $2,036
- To cover the various costs and pressures, this would rise by $58 a home (2.9%)
- The average business tax last year was $43,270. This would also rise by 2.9% ($1,257)
- This is without the Climate Action Tax

Raise Taxes to Cover Pressures: Low Income Tax Relief

Low-Income Homeowner Tax Relief

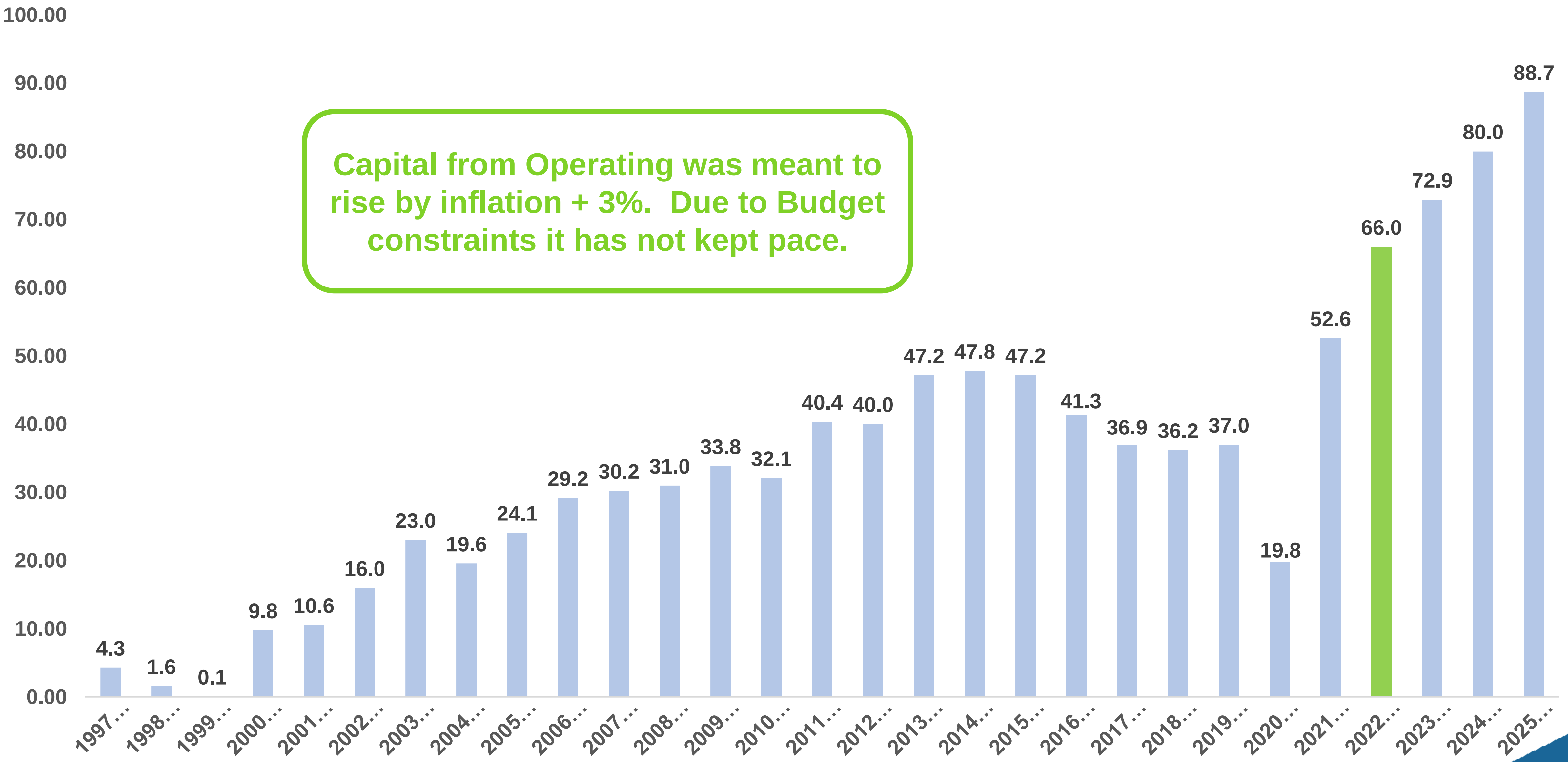
- In 2021, the maximum tax exemption is $1,050. Maximum income is $35,000
  - exemption is automatically indexed
  - Homeowners only, not apartments

- Reviewing formula:
  - adjustment to offset tax increase
  - Review income level relative to Living Wage

Non-Profit Tax Relief

- Program “redesign” will be coming forward to Regional Council prior to 2022/23 fiscal year

Increase Capital from Operating



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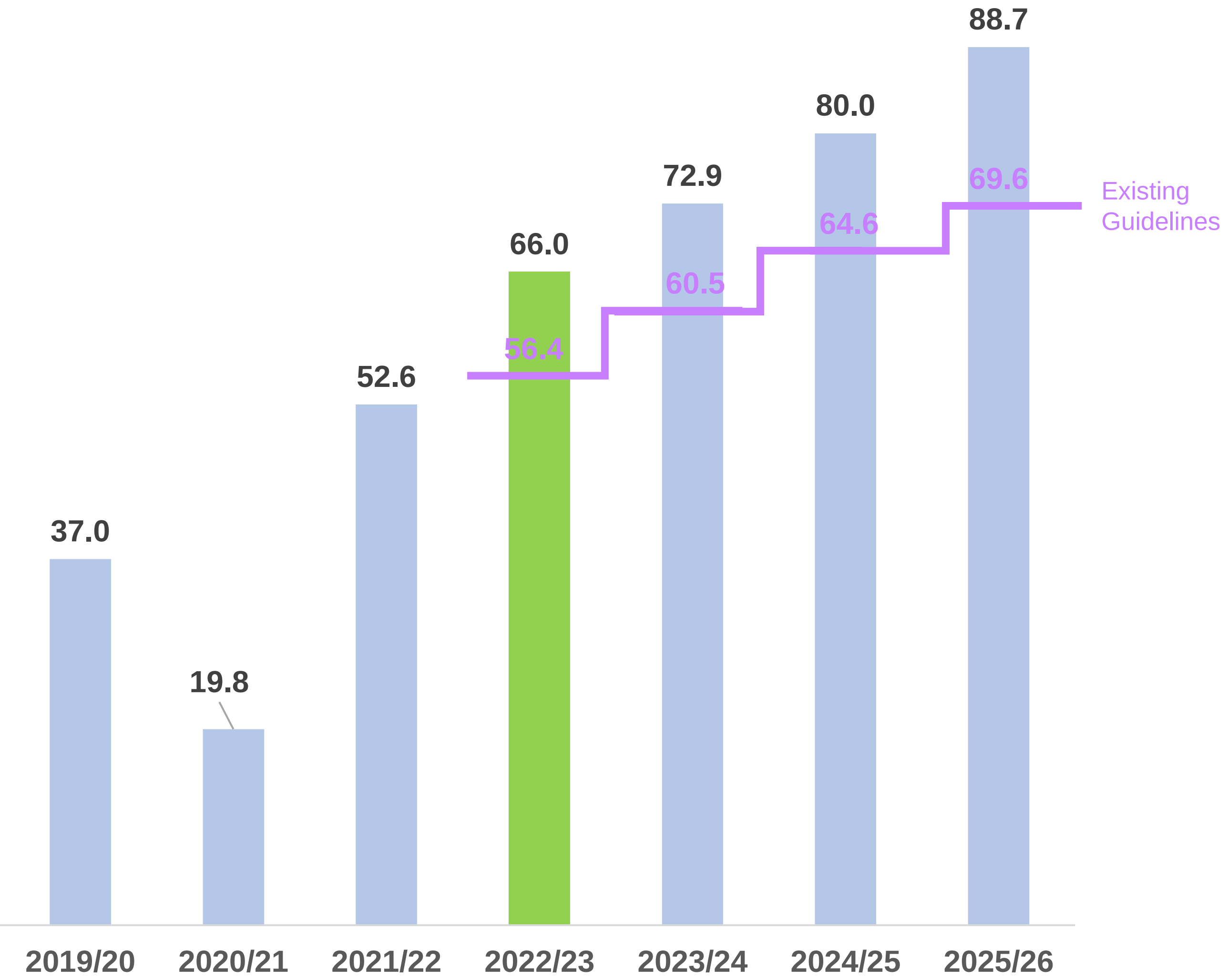
Increase Capital from Operating
Better Supports Future Growth



- **Current Approach:**
  - is to increase by CPI + 3% per Home
- **Revised Approach:**
  - increase by CPI + 6% per home
  - Allows for more aggressive growth in Cap from Operating
  - Helps narrow the funding gap,
    - Maintain current asset state (eg Roads)
    - Allow for Growth (eg Parks and Recreation)
  - Creates future budget pressure
    - A guideline, Council can adjust

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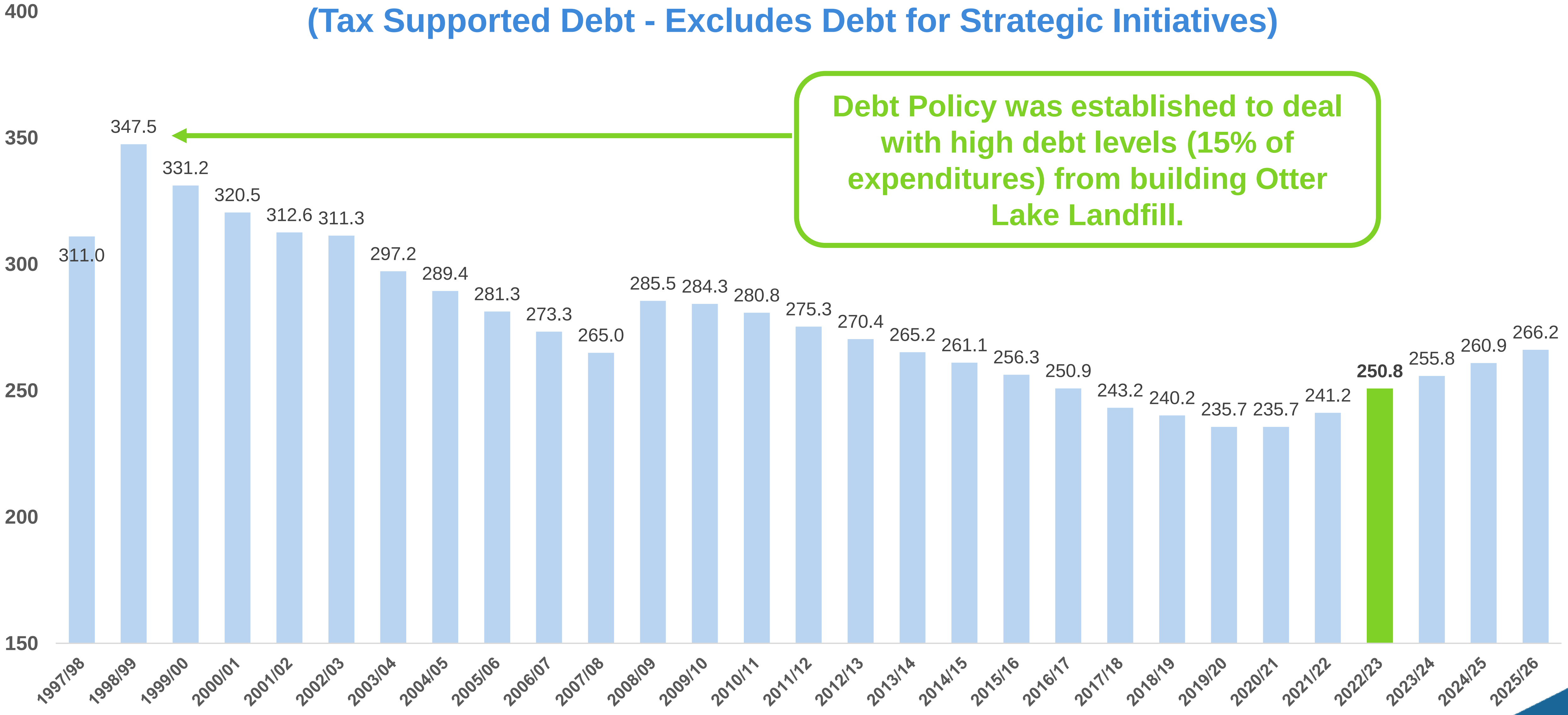
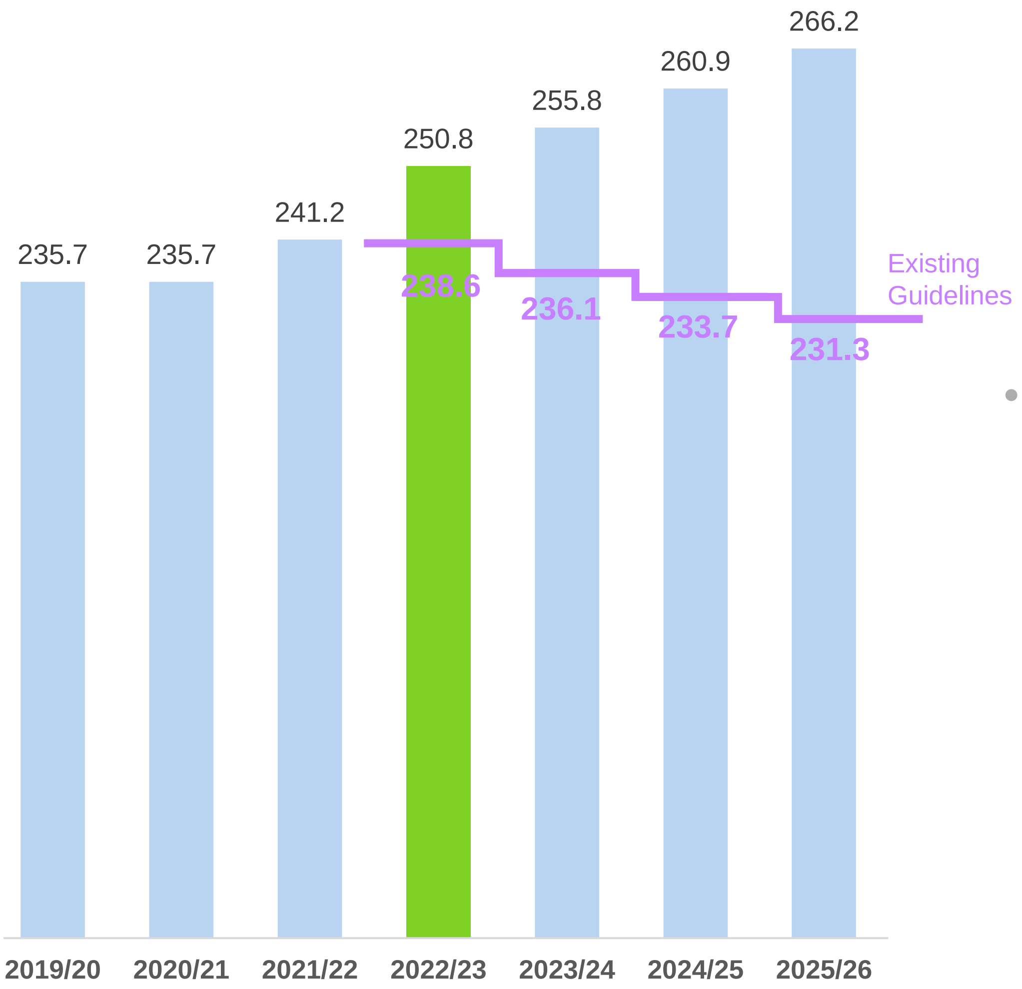
Set a Debt Ceiling of $1,200 Per Home

(Tax Supported Debt - Excludes Debt for Strategic Initiatives)



Set a Debt Ceiling of $1,200 Per Home



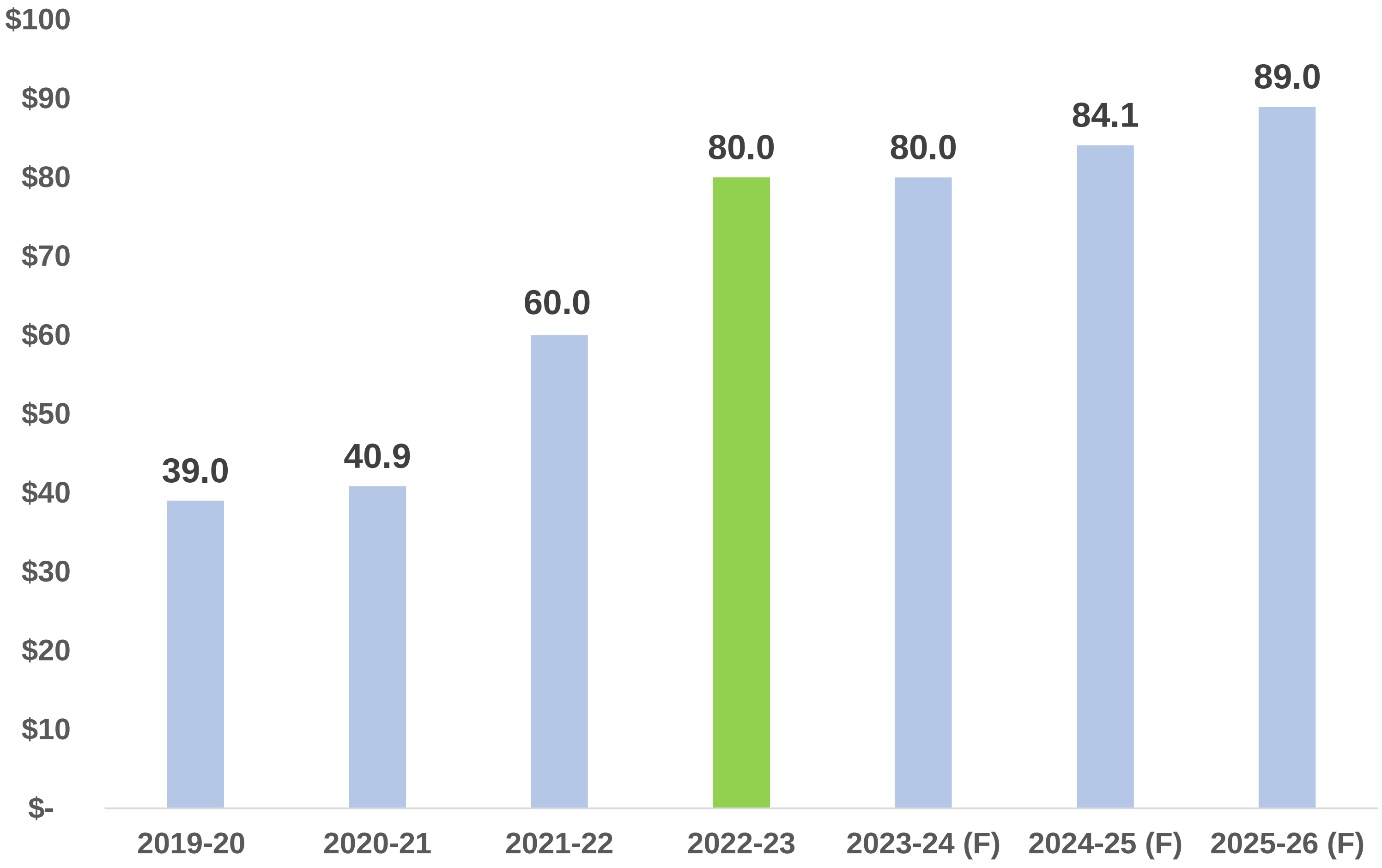
- **Current Approach:**
  - Originally designed to deal with high debt from Otter Lake Landfill
  - Policy was to drop Debt per Home by 3%.
    - To be offset by higher Capital from Operating
- **Revised Approach:**
  - Policy did not anticipate significant population growth
    - Inflationary Pressures, Low Interest Rates
  - Helps narrow the funding gap
    - Maintain current asset state (eg Roads)
    - Allow for Growth (eg Parks and Recreation)
  - Creates future budget pressure
    - A guideline, Council can adjust

Restructuring the Reserves

Risk Reserves	
Risk and Resilience	**10.0**
Obligation Reserves	
Landfill Closure Costs	8.1
Municipal Election Reserve	1.8
Convention Centre Reserve	2.8
Central Library Recapitalization Reserve	7.3
Multi District Facilities Reserve	0.4
Solid Waste Facilities Reserve	11.1
Master Plan Reserve (new)	**0.0**
Business/Industrial Parks Expansion	41.7
Community and Events Reserve	0.6
Sub-total	**73.8**
Opportunity Reserves	
Capital Fund Reserve	31.0
Strategic Initiative Operating Reserve	**28.0**
Strategic Initiative Capital Reserve	**117.6**
Parkland Development Reserve	6.5
Gas Tax Reserve	27.7
Options (Contingency) Reserve	**8.0**
Density Bonus	2.6
Sub-total	**221.4**
Total	**$305.2**

- Consolidate several reserves, transfer existing balances and commitments. All business cases updated
- Risk and Resilience is for significant risk events. New Master Plan Reserve
- Options replaces the “Contingency” reserve. Intent is service changes
- Two Strategic Initiative Reserves: Operating ($28M) and Capital ($117.6M)

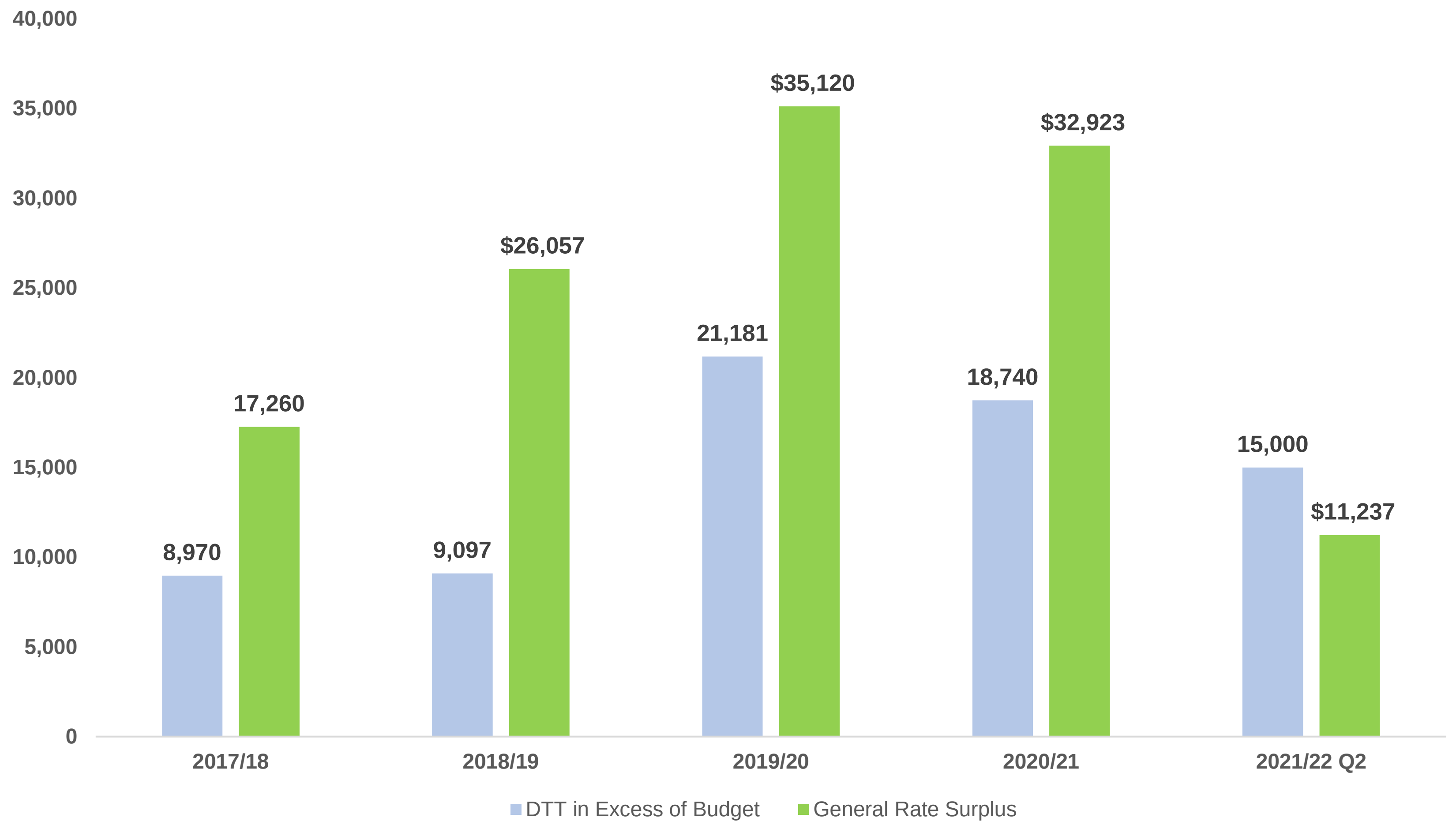
Dedicate Deed Transfer Tax to Strategic Initiatives
Amount over $68M to Strategic Initiative Reserve



- Econometric forecasts predict $75M for 2022/23
  - Framework assumes $80M. $20M (33%) increase
- Funding over $68M is allocated to the Strategic Initiative Reserve
  - Full contribution is dependent on achieving $80M

Source: Budgeted amounts. 2023/24F and forward are based on Canmac Economics (Halifax Region Economic Outlook, September 2021 Update)

Deed Transfer Tax (DTT) and Surplus



- DTT has been a significant cause of surpluses
- Using DTT for Strategic Initiatives should reduce surplus
- $7M of 21/22 surplus is used to support 22/23 Budget

Introduce Climate Action Tax

In Jan 2021, Regional Council approved Strategic Initiative (SI) Approach

- $1B+ proposed in initiatives for Climate, Transit and other Strategic proposals
- HRM would issue debt for proposals and repay the debt through the reserve

Proposed Budget Leverages $250M for projects

- Reserves have been restructured to direct funds to SI Reserve
- Deed Transfer Tax increases are being used to top up Reserve
- Projected $80M Deed Transfer Tax for 22/23. $20M increase

Climate Action Tax Leverages additional $150M

- Tax is equal to 3 per cent increase in average tax bill
- Average cost for this initiative is $63 per home
- Rising Deed Transfer Tax will also fund this initiative

Strategic Initiatives and Climate Change

General Tax Rate at 2.9% includes:	
Halifax Forum Redevelopment	57.0
Windsor Street Interchange	12.4
Mill Cove Ferry (Years 1-5)	33.3
Multi-Modal Corridors	144.2
Sub-Total	**246.9**
Climate Action Tax at 3%	
EV Buses - Phase 1	33.9
EV, Critical Infra, Net Zero Buildings	119.6
Sub-Total	**153.5**
Total Capital	**400.4**

- There are $400M of Strategic Initiatives identified in this budget. These projects will be completed over time
- Projects will be debt funded and the debt will be re-paid from the Strategic Initiative Reserve
- $250M of projects are included in the ongoing Budget
- $150M of projects require the 3% Climate Action Tax

Strategic Initiatives and Climate Change

What is not Funded	
HalifACT (Years 5-10)	178.8
Burnside Transit & Phase 2 EV Buses	414.8
Bus Expansion (MFTP 2)	25.5
Police Headquarters	80.0
funds to maintain Streets at current condition	
unbudgeted Sidewalk requests	
unbudgeted Traffic Calming requests	
unbudgeted Parks & Recreation requests	
multiple other unbudgeted requests, expectations	

- Not all Strategic Initiatives can be funded
- Additional projects will require more funding and cost sharing
- The intent is to firm up project costs/partners and look at other funding approaches

The Average Residential Tax Bill

Average Residential Tax Bill

	2021/22 Approved	2022/23 Proposed
Assessment	250,400	262,700
Tax Rate	**0.813%**	0.797%
Climate Action Tax	n/a	0.024%
Total Tax	**0.813%**	**0.821%**
Average Tax Bill	**$2,036**	**$2,157**
Increase $		$121
Increase %		5.9%

- The average tax bill would increase 2.9% plus an additional 3.0% for the Climate Action Tax
  - The impact of the 2.9% increase is $58 on the average home
  - The impact of the Climate Action Tax is $63 on the average home, i.e. $5 per month
- This is a 5.9 per cent increase on the average tax bill. It reflects that the average home is expected to increase in value by 4.9%. With a tax rate increase of 1.0% the average tax bill will increase by 5.9%

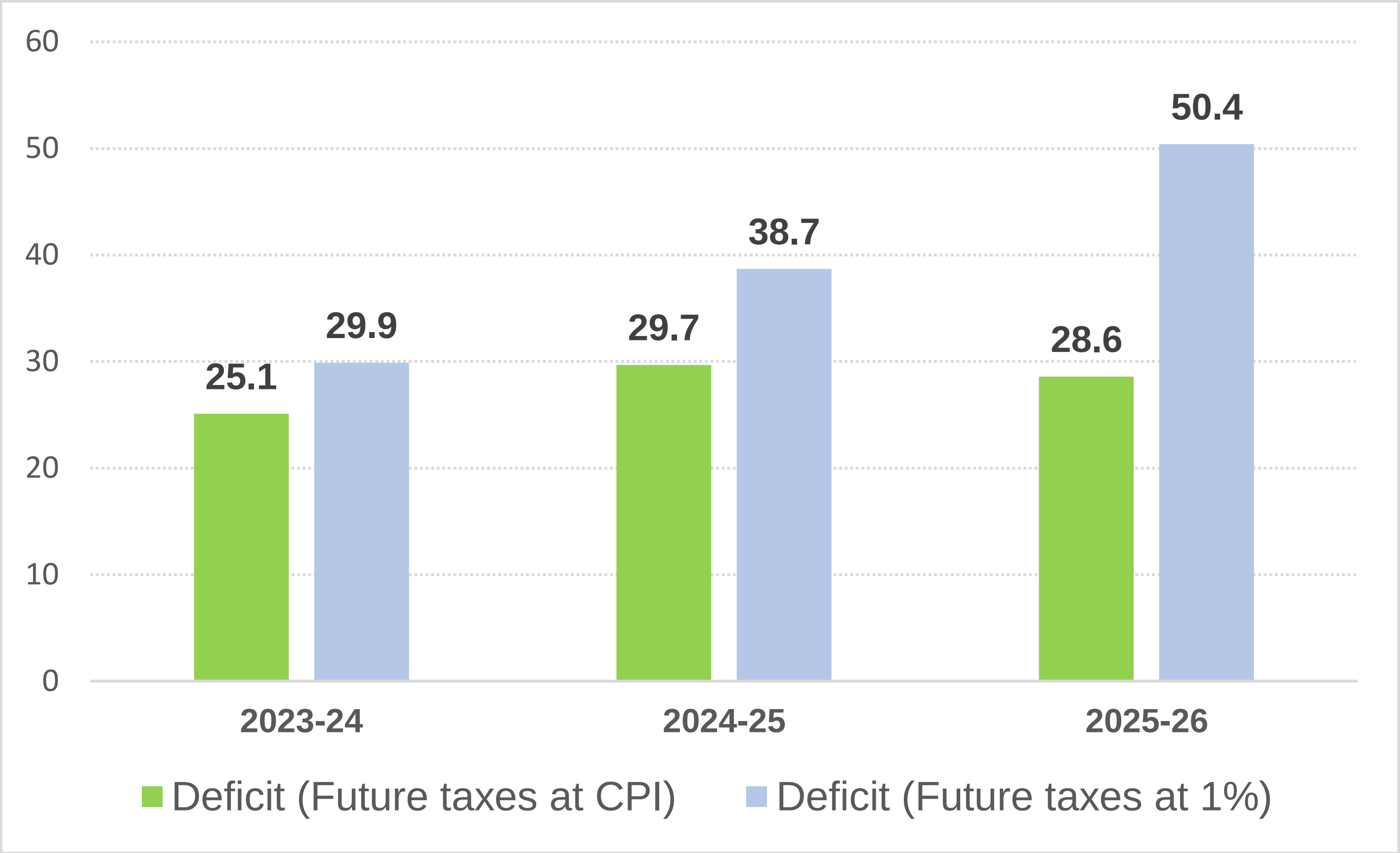
The Average Commercial Tax Bill

Average Commercial Tax Bill

	2021/22 Approved	**2022/23 Proposed**
Assessment	1,465,300	1,456,100
Tax Rate	2.953%	3.058%
Climate Action Tax	n/a	0.089%
Total Tax	**2.953%**	**3.147%**
Average Tax Bill	**$43,270**	**$45,823**
Increase $		$2,553
Increase %		5.9%

- The average tax bill would increase 2.9% plus an additional 3.0% for the Climate Action Tax
  - The impact of the 2.9% increase is $1,257 on the average business
  - The impact of the Climate Action Tax is $1,296 on the average business
- This is a 5.9 per cent increase on the average tax bill. It reflects that the average business is expected to decline in value by 0.6%. The tax rate would increase by 6.5%, for an average tax bill increase of 5.9%

Future Tax Changes Should Mirror Inflation & Services



Assumes no major service increases

- Year 2 (2023/24) will include
  - Replacing one-time Surplus ($7M) used in 22/23 Budget
  - Capital from Operating changes ($7M)
- Debt Policy will likely impact operating in Years 3 or 4
- Taxes consistently below inflation lead to ongoing structural issues. Tying to inflation helps sustainability

Conclusions and Recommendations

Conclusions

- The proposed Framework deals with three key challenges: **Substantial Population Growth**, the winding down of the **Pandemic** and funding for **Strategic Initiatives**.

- To achieve this, it supports:
    1. Increased Fees & Revenues
    2. Raising Taxes 2.9% to cover pressures
    3. Increasing Capital from Operating
    4. Setting a Debt Ceiling of $1,200 per Home
    5. Restructuring the Reserves
    6. Dedicating Deed Transfer Tax to Strategic Initiatives
    7. Introducing Climate Action Tax
    8. Mirroring future Tax Increases to Inflation & Services

- HRM is at a turning point and has an opportunity to:
    - leverage growth and invest in a climate-friendly path forward
    - step up services and improve quality of life for its citizens, and,
    - ensure readiness and resilience for a rapidly changing future

Recommendations

1. Direct the Chief Administrative Officer to develop the 2022/23 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 2.9 per cent increase plus an additional 3.0 per cent increase in the average property tax bill for a dedicated Climate Action Tax to fund Strategic Investments, for a total average increase of 5.9 per cent,

2. Recommend that Regional Council:
   - Approve the updated Reserve Business Cases included in Attachment A and the transfers in reserve balances and commitments described in this report; and,
   - Approve the updated Debt Guidelines included in Attachment B including a new debt ceiling of $1,200 per dwelling unit and a revised formula for Capital from Operating targets.