HALIFAX

P.O. Box 1749
Halifax, Nova Scotia
B3J 3A5 Canada

Item No. 6 i)
Budget Committee
November 23, 2021
January 28, 2022

TO: Chair and Members of Budget Committee (Standing Committee of the Whole on Budget)

SUBMITTED BY: Original Signed by

Jacques Dubé, Chief Administrative Officer

DATE: November 9, 2021

SUBJECT: 2022/23 Fiscal Framework

ORIGIN

Requirement to establish the fiscal direction from Council for the 2022/23 Budget and Business Plans.

LEGISLATIVE AUTHORITY

Halifax Charter, section 35 (1) The Chief Administrative Officer shall (B) ensure that an annual budget is prepared and submitted to the Council.

93 (1) The Council shall make estimates of the sums that are required by the Municipality for the fiscal year.
(2) The estimates shall include the probable revenue from all sources other than taxes for the fiscal year and make due allowance for:
    (a) the abatement and losses that might occur in the collection of the taxes; b) taxes for the current fiscal year that might not be collected.
(3) The Council shall include an allowance to provide for any variation in the total assessed value shown on the roll that might result from assessment appeals.
(4) The Council shall include in its estimates the deficit from the preceding fiscal year.
(5) The Council may include in its estimates an amount for:
    (a) contingencies and unforeseen expenses in matters on which it may vote and expend money;
    (b) all or part of any surplus of previous fiscal years that will be available for the current fiscal year.
(6) The Council shall authorize the levying and collecting of a
    (a) commercial tax rate of so much on the dollar on the assessed value of taxable commercial property and business occupancy assessment; and
    (b) residential tax rate of so much on the dollar on the assessed value of taxable residential property and resource property.
(7) Notwithstanding clause (6)(a), the tax rate for the part of commercial property that is identified on the assessment roll as being occupied by a seasonal tourist business is 75% of the commercial tax rate.
(8) The tax rates must be those that the Council deems sufficient to raise the amount required to defray the estimated requirements of the Municipality.

RECOMMENDATIONS ON PAGE 2

RECOMMENDATION

It is recommended that the Budget Committee:

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.

BACKGROUND

In March of 2020 Regional Council had completed, but not ratified, the 2020/21 Budget when the Global COVID pandemic struck. As a result, Regional Council completely revised that year's budget, calling it the "Recast" Budget. The Recast Budget was crafted to reflect the fear of a municipal liquidity crisis as well as sharply declining fees and revenues. In 2021/22, the Approved Budget plotted a path through the pandemic, assuming that the pandemic would last a total of eighteen months from start to finish. While services started to be re-introduced, fees and revenues remained subdued, especially transit fares. The "Federal Restart" program provided one-time $31M of cost-sharing to offset the decline of revenues. During this time period Deed Transfer Taxes (although expected to decline) remained quite robust. In 2021/22 Regional Council set the average tax increase at 0.9%.

During the pandemic, Regional Council approved the Fiscal Sustainability Strategy which examined the current financial state of HRM in (1) Operating and Taxes, (2) Capital, (3) Reserves, (4) Debt. This included recommendations to develop

> *… "Strategic Initiative" reserves 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.*

DISCUSSION

The 2022/23 Fiscal Framework was designed in the face of one of the most complex financial environments the municipality has seen. It broadly encompasses significant changes in taxation, services, debt, and reserve policies. These changes are designed to deal with the triple challenge of emerging from the pandemic; funding growth related costs, especially infrastructure; and providing extensive support for unfunded Climate Change initiatives.

In the upcoming year, HRM faces strong economic and population growth; intense pressure on the cost of its services; and insufficient funding for its capital budget, especially strategic initiatives such as climate change and transportation. As key strengths the municipality has available tax and debt room and has strong Deed Transfer Tax revenues.

Halifax Faces Strong Economic and Population Growth

The Halifax region economy is relatively small and open with a mixture of public-sector employment coupled with considerable finance, insurance, and real estate activity. Its bio-technology and ocean-oriented sectors have innovation-intensive firms that are growing relatively rapidly.

In recent years the growth in Halifax's population and economy has become increasingly rapid. Prior to the pandemic, Halifax was one of the fastest growing Census Metropolitan Areas (CMAs) in the country. This growth brings significant opportunities as the city expands and attracts many newcomers, including immigrants. The current economic forecasts show that population growth will continue to accelerate with an estimated 9,700 new individuals in 2022 and nearly 4,000 new homes. Halifax's population is expected to exceed half a million people within five years.

This growth brings tremendous opportunities for the Region, but it also brings with it a heightened set of responsibilities and expectations. Not only are there new homes that require services but there is an expectation of a higher order of servicing across the entire municipality. This would include strategic and other investments such as Rapid Transit, Ferries, inclusive growth, complete streets, and multi-modal corridors. At the exact same time, the economy is seeing lowered vacancy rates, highly visible homelessness, simultaneous labour shortages and wage increases, price increases and supply chain disruptions. While knowledge and other sectors of the economy are thriving, the restaurant, hotel and tourism industries continue to suffer.

		Prior Year	Year 1	Year 2	Year 3	Year 4
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Real GDP Growth (%)	-4.2%	3.2%	2.1%	2.5%	2.6%	2.6%
Personal Disposable Income	-3.0%	5.4%	4.3%	4.7%	4.8%	4.8%
Population Level	448,544	455,689	465,371	475,109	484,972	494,872
Percent Change	2.1%	2.0%	2.1%	2.1%	2.0%	2.0%
Dwelling Units	200,904	204,922	209,000	213,180	217,443	221,792
Percent Change	1.4%	2.0%	2.0%	2.0%	2.0%	2.0%
Inflation – (NS CPI)	0.3%	1.1%	2.2%	2.3%	1.6%	2.8%
Employment Level (Thousands)	227.6	235.0	237.3	239.6	241.9	244.3
Percent Change	-2.7%	3.3%	1.0%	1.0%	1.0%	1.0%

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

HRM's Operating Budget is under Intense Pressure

In the upcoming 2022/23 budget, HRM faces pressure from five key areas:

1. Inflationary pressures on the budget have been considerable. While compensation and other costs are normally expected to rise with inflation, there are major cost increases expected in a variety of other areas including
    - Worker's Compensation increases are expected to cost $2.7M,
    - The new RCMP collective agreement will cost HRM $2.9 Million in 2022/23
    - Contractual Increases across the organization have cost $4M
    - Prices increases for parts have typically risen 7% to 13%
    - Insurance Costs have risen roughly 25% ($0.5M)
    - Fuel Costs are up over 40%

2. Federal Re-Start Funds offered cost-sharing to mitigate the decline in municipal fees and other revenues. The program is now complete leading to a loss of $31M in 2022/23.

3. Municipal fees and revenues that declined during Covid have yet to fully recover. While assumptions on many revenues are aggressively optimistic, some revenues like transit fares are yet to fully recover. Due to the uncertainty caused by the pandemic, the fees and revenues budget contains considerable risk.
4. HRM is taking over 300 km of Provincial roads within HRM. This will lead to operating pressures of $4 million in 2022/23 and $6 million on pressure on the capital budget.
5. While the full assessment roll will not arrive until the end of December, the commercial tax base remains weak. There is strong growth in the residential sector including apartments. Deed Transfer Tax remains a bright spot with continued strong growth.

The Capital Budget is Insufficient

HRM's capital budget faces three key challenges:

1. First, there are insufficient funds to support the services directed by Regional Council. There is evidence that the amount of funding allocated to "Asset Renewal" is insufficient to maintain HRM's existing assets in safe and reliable working condition. Moreover, the rapid population growth of the region has led to additional demands for growth in services, requiring more assets and upgraded designs.

2. Secondly, there is a limit to how many projects HRM can deliver at any one time, regardless of funding. HRM's capital program has been able to deliver around $155M per year with previous staffing levels.

3. Lastly, delays and gaps in the industries' supply chain, as well as the labour market, have caused extensions to project delivery timelines and increased vendor costs, sometimes as high as 30%-50% over previous costs. This is putting pressure on HRM's reserve balances and further deferring necessary maintenance activities.

Strategic Initiatives Require Significant New Funding

There is in excess of $1 Billion worth of significant strategic city building programs such as HalifACT and the Integrated Mobility Plan (IMP) that cannot be funded within existing capital budget levels. All of these capital projects will require significant funding. Under the Fiscal Sustainability Strategy, a Strategic Initiative Reserve is being established to fund these projects. Debt will be issued for the specific projects and the eventual principle and interest repayments will be made from the reserve. The reserve will require up-front contributions from the operating budget in order to leverage the large amounts of debt that will be required.

Three Key Strengths that HRM can leverage

For the past number of years HRM has been in strong financial condition and has a number of key strengths that it can now take advantage of.

1. HRM's average residential tax bill's remain relatively modest compared to other municipalities. Available benchmarks show that the average and median tax burden for single family homes is at the low end of the scale compared to other jurisdictions. In fact, the average homeowner tax burden is 10% to 17% lower than comparable benchmark cities, St. John's, and Regina, meaning HRM could increase taxes considerably and still benchmark favorably. Currently, residential property taxes are equal to roughly 3% of personal disposable income. This is complicated somewhat by higher provincial taxes on individuals. Conversely, HRM's average commercial tax bills are more middle of the road, roughly comparable to similar sized cities in Canada. Like most Canadian cities, commercial taxpayers have a significantly higher rate than residents and available research suggests that they help subsidize residential property taxes.

2. HRM's debt levels are low. Due to a conservative debt policy, HRM's debt levels remain quite low.

Currently HRM's tax supported debt is only 1,177 per dwelling unit. The debt ratio (debt payments as a percent of total expenditures) is 4.7%. Provincial guidelines stipulate no more than 15%. As a rule, low debt levels could mean deferred maintenance costs are growing or HRM is missing out on major investment opportunities.

3. Deed Transfer Taxes remain strong and continue to grow. Deed Transfer Tax is a 1.5 per cent levy on the value of real estate transactions. In recent years Deed Transfer Tax has seen considerable growth, even through the pandemic. That trend is expected to continue. Such trends tend to be cyclical in nature. While Deed Transfer Tax is trending upward right now, in a downturn it could quickly reverse itself and fall steeply.

It might also be noted that reserve balances are currently quite significant. While those balances are indeed strong, they are not sufficient to deal with the funding required for HRM's Strategic Initiatives.

There are Eight Key Actions included in this Framework

Budgets normally include a wide range of assumptions and actions. The combination of opportunities and pressures that HRM is currently facing are unique in the municipality's recent history. They represent a mixture of lingering Covid impact, robust population growth, strong inflationary pressures and key aspirational demands including climate change mitigation.

1. **Increase fee and revenue assumptions to offset the loss of $31M in Federal Re-Start funds**. The Federal cost sharing budgeted for in 2021/22 offset the decline in municipal fees for that year. While there is considerable uncertainty around the level of municipal activity that will occur in April 2022, most revenue and fee budgets are assumed to return to their pre-covid levels. An exception would be transit fares which are hoped to be at 85% levels for 2022/23. There is risk to these assumptions so the trends will need to be closely monitored. To clarify, the higher budget amounts are revenue increases driven by higher demand for programs, not new increases in the amount of fares or fees. Initial estimates are that higher revenues would offset 90% of the $31M loss.

2. The property tax increase for HRM to cover its costs is expected to be 4 per cent. In order to offset what would be an abnormally high increase, staff are including a $7M offset from the 2021/22 surplus, lowering the increase to 2.9 per cent. It is recommended that HRM **increase the average residential and commercial tax bills by 2.9% to cover higher service costs.**

   Taxes are simply the cost to pay for services, either higher costs or new services. Inflation has been extremely strong. HRM collects 80% of its revenues from property taxes and has few alternatives to pay for higher costs other than raising taxes or lowering service levels. The increased tax bill would on average be $58 residential and $1,258. In addition, staff are working on a proposal to increase the low income property tax relief to accommodate for the living wage.

   Unlike most municipalities, HRM budgets by first considering the increase in the average tax bill and adjusting the tax rate to reflect that required change. This allows it to budget in advance of receiving the final assessment roll in December. Hence the average tax bill increase of 2.9% includes the impact of any tax rate change.

3. **In the medium-term, HRM should set average tax increases that at a minimum mirror inflation increases and account for significant service changes.** Normal ongoing pressures from collective agreements, contracts, fuel, and other commodities tend to match or exceed the Consumer Price Index (CPI). Ongoing savings tend to come from higher user fee and fine revenues, and sometimes in debt charges. Without reducing services, HRM has few avenues to offset these higher costs other than raising taxes. The easiest manner for the municipality to save short-term funds without a tax increase is to reduce its capital from operating, (leading to deferred maintenance costs) or use reserve/surplus funds (which is not sustainable). If the municipality wishes to grow and function in a sustainable manner with higher service levels, it needs higher revenues to offset higher costs. This is similar to any organization or

household. An alternative to increase taxation is higher user fees and recoveries or seeking legislative changes to increase the Deed Transfer Tax from 1.5% to 2.0%.

4. HRM's capital budget suffers from three gaps. First, there is a "funding gap", ie the difference between the cost of projects and the available funding. The large stock of existing assets requires constant preventative maintenance coupled with upgrades. Regional Council has approved a commitment of 70 per cent capital funding to rehabilitating existing assets. Secondly, a "capacity gap" exists which is the ability to quickly complete the desired work. Lastly, the pandemic and supply chain issues have now caused gaps in acquiring the needed supplies and equipment at a reasonable price and time. While precise figures on asset condition are still being developed, with rising prices and the recent transfer of an additional 300 km of Provincial roads to HRM, the funding gap is increasing. **As such it is recommended that this budget increase capital from operating funding from $52.6M to $66.0M, an increase of $13.4M or 25.4%.**

Currently, Regional Council has set targets under its debt policy to increase capital from operating. Its formula sets the increase as a per home amount plus inflation plus 3 per cent. Under the revised debt policy this target has been revised upward to a per home amount plus inflation plus 6%. This will provide substantial extra funds for the capital budget (an estimate $6.9M in 2023/24) but will also place additional pressure on taxation levels.

5. HRM has followed a policy of steadily reducing debt. This policy served the municipality well when HRM had a high level of debt and interest rates exceeded 6%. Today, however, HRM's debt levels are relatively modest with debt per dwelling equal to $1,177 per home and the debt services ratio at only 4.7%. Current long term interest rates are in the 1.5% to 2.5% range, considerably less than the rising costs associated with the capital assets the municipality is acquiring. Hence it makes sense for HRM to make greater use of its available debt room to acquire "growth" related assets that are considered a priority for the community. **Staff are recommending that a debt ceiling of $1,200 per home be established.** HRM staff are closely watching trends in infrastructure costs and, depending on its ability to deliver on capital projects, may recommend additional increases in the debt ceiling. It is, important to note that the future repayment of additional debentures will place more pressure on the operating budget and on tax rates. This change in policy reverses HRM's approach to decreasing its debt levels each year.

6. Staff have reviewed the existing reserves and their business cases and reconsidered how those reserves should ideally be established. **Staff are recommending multiple reserve changes including the elimination of three reserves, combining other reserves, the restructuring of three capital reserves, and the reallocation of significant funds to the new Strategic Initiative Reserve.** These changes mean reserves will become more strategic in nature and will be targeted at events of financial significance and long-term requirements especially strategic initiatives. Some of the updating reflects removing outdated or repetitive wording. The following specific changes to individual reserves are being recommended. These changes are summarized in Table One.

- The Insurance and Risk Reserve (Q406), Police on the Job Injury Reserve (Q411) and Operations Stabilization Reserve (Q416) are to be combined into a single reserve: the Risk and Resiliency Reserve. This allows funds to be pooled together and to be used for any major risk event that might occur. In line with the proposed Business Case, the reserve funds can be used for a major catastrophic event, either to deal with the immediate event or to provide funding or leverage debt in the aftermath of an event. This reserve will one of a number of tools that will be available in an emergency.
- The General Contingency Reserve (Q421) is to become the Options Reserve and will be transferred to the Opportunity Category. Its main purpose is to provide flexibility so that Regional Council can provide mid-year or budget funding to new or desired ideas.
- The Building Recapitalization and Replacement Reserve (Q541), Vehicle Fleet and Equipment Reserve (Q531) and the Transit Capital Reserve (Q551) are no longer required and will be eliminated with their balances and commitments transferred to the Capital Fund

Reserve (Q526).

- The Capital Fund Reserve (Q526), Strategic Capital Reserve (Q606) and Debt Principal and Interest Reserve (Q631) are all being restructured into three special reserves:
    - As per Regional Council's direction, a new "Strategic Initiative Reserve – Capital" (SI Capital) will be dedicated to pay for the principle and interest costs of Council's "Strategic Initiatives".
    - A new "Strategic Initiative Reserve – Operating" (SI Operating) will be dedicated to pay for operating costs related to Council's "Strategic Initiatives". It will be targeted to one-time, implementation and non-recurring costs while any ongoing costs will be budgeted for on an operational basis.
    - The "Capital Fund Reserve" will be used to assist in funding the capital budget. By default, all land and asset sales (other than Parkland and Business Parks) will be deposited into this reserve for reinvestment into capital. Regional Council may also choose to allocate some portion of any surplus into this reserve for use in the near future.
    - All previous commitments of the Strategic Capital Reserve (Q606) and Debt Principal and Interest Reserve will be transferred to the Capital Fund Reserve.
    - The payment of LED costs (currently within the Debt Principal and Interest Reserve (Q631)) will be transferred to the operating budget as an ongoing cost.
    - The SI Capital is intended to have an opening balance of just over $117M and the SI Operating of $28M.

- A new Master Plan Reserve will be created for the development charges associated with master plans. Currently these funds reside on the balance sheet and, as significant contributors to sustainability, need to be transparent and visible. Staff will return with a business case for this reserve.
- The Multi-District Facilities Reserve (Q546) will be maintained but redesigned to focus on upgrades and replacements for the existing major facilities, including Scotiabank Centre.
- The Solid Waste Facilities Reserve (Q556) will be streamlined to focus on major upgrades or replacements for the solid waste system. Operating costs within the reserve (such as green cart purchases) will be redirected to operating or capital as appropriate.
- The Landfill Closure Reserve (Q506) supports the long-term financial and environmental sustainability of the landfills. It is mandated under Public Sector Accounting Board standards and will remain as is.
- The Business Parks Industrial Reserve (Q616) will be transferred to the Obligation category. It will remain largely as is but will be modified to enable the Reserve to pay principle and interest payments, should HRM wish to incur debt for the Business Parks.
- The Municipal Election Reserve (Q511) will remain as is but will be adjusted to include the costs of District Boundary Review (once every eight years). While the election amounts involved are not significant relative to the size of the other reserves, the Municipal Election is one of the most significant events to occur in the municipality and needs to be funded in a sustainable manner.
- The Central Library Recapitalization Reserve (Q536), Convention Centre Reserve (Q521), Parkland Development Reserve (Q611), Gas Tax Reserve (Q626) and Density Bonus Reserve (Q640) will all remain largely unchanged. Several have legal or contractual obligations governing their use. The Community Events Reserve (Q621) will remain as is but is still be examined.

- Under the current Reserve Policy, each reserve is required to have a maximum amount. While some reserves specify a maximum, other reserves have never established a maximum. In some cases, a maximum is not the most appropriate approach to the business case. Staff are proposing amendments to the Reserve Administrative Order that will make the use of a maximum permissive, not mandatory. Business Cases reflect this proposed change.

- Staff are further recommending that some of the existing reserve balances are transferred to the

Strategic Infrastructure Reserve Capital and Operating to support Regional Council's strategic priorities such as HalifACT and the Integrated Mobility Plan (IMP). The following changes are recommended:

- The closing balance of the Strategic Capital Reserve (Q2 - $74.0M est) will be transferred to the Strategic Initiative Reserve (Capital).
- The Risk and Resilience Reserve will have an opening balance of $10M with the remainder ($5.1M est) transferred to the Strategic Initiative Reserve (Capital).
- The Capital Fund Reserve will have an opening balance of $31M with the remainder ($57.0M est) transferred to both the Strategic Initiative Reserve - Capital (29M) and the Strategic Initiative Reserve - Operating ($28M).
- The Options Reserve will have an opening balance of $8M with the remainder ($9.6M est) transferred to the Strategic Initiative Reserve (Capital).
- The existing Regional Council commitment for a stadium (2023/24 - $20M) will be included in the SI – Operating Reserve.

Table One - Revised Reserve Structure

Current Reserves		Revised Reserves
Risk Reserves		**Risk Reserves**
Insurance and Risk Reserve (Q406)		
Police on the Job Injury Reserve (Q411)		**Risk & Resilience Reserve (Q416)**
Operating Stabilization Reserve (Q416)		
General Contingency Reserve (Q421)	→	**Options Reserve (Q421)** **(move to Opportunity)**
Obligation Reserves		**Obligation Reserves**
Capital Fund Reserve (Q526)		Capital Funding Reserve (Q526) (move to Opportunity)
Central Library Recapitalization Reserve (Q536)		Central Library Recapitalization Reserve (Q536)
Solid Waste Facilities Reserve (Q556)		Solid Waste Facilities Reserve (Q556)
Multi District Facilities Reserve (Q546)		Multi District Facilities Reserve (Q546)
Convention Centre Reserve (Q521)		Convention Centre Reserve (Q521)
Landfill Closure Costs (Q506)		Landfill Closure Costs (Q506)
Municipal Election Reserve (Q511)		Municipal Election Reserve (Q511)
Vehicle Fleet and Equipment Reserve (Q531)	→	**Eliminated.** To Capital Fund Reserve.
Building Recapitalization and Replacement Reserve (Q541)	→	**Eliminated.** To Capital Fund Reserve.
Transit Capital Reserve (Q551)	→	**Eliminated.** To Capital Fund Reserve.
	→	**Master Plan Reserve (new)**
Opportunity Reserves		**Opportunity Reserves**
Strategic Capital Reserve (Q606)	→	**Strategic Initiative Operating Reserve (new)**
Debt Principal and Interest Repayment Reserve (Q631)	→	**Strategic Initiative Capital Reserve (new)**
Parkland Development Reserve (Q611)		Parkland Development Reserve (Q611)
Business/Industrial Parks Expansion Reserve (Q616)		Business/Industrial Parks Expansion Reserve (Q616) (Move to Obligation)
Community and Events Reserve (Q621)		Community Events Reserve (Q621) (Move to Obligation)
Gas Tax Reserve (Q626)		Gas Tax Reserve (Q626)
Density Bonus Reserve (Q640)		Density Bonus Reserve (Q640)

7. In the past number of years HRM has had significant surpluses at the end of its fiscal year. These surpluses have been principally driven by unforeseen Deed Transfer Tax (DTT) revenues. The Deed Transfer Tax is a 1.5% tax on the transfer of the deed on a residential or commercial property. The Deed Transfer Tax represents several significant challenges. It is subject to economic cycles, making it very difficult to forecast as it can rise and fall quickly. More importantly, the Municipality needs to be careful in tying ongoing expenditures to Deed Transfer Tax as, if and when they fall, municipal expenditures may need to be quickly adjusted. To remedy this, Staff are proposing that <u>any Deed Transfer Tax revenues in excess of $68M be dedicated to the Strategic Initiative Capital Reserve</u>.

This recommendation has several key impacts:

- Large end of year surpluses are likely to be a thing of the past as any excess Deed Transfer Tax revenues are being pre-allocated to the Strategic Initiative Capital Reserve.
- In 2022/23 staff plan to budget $80M for Deed Transfer Tax, an increase of $20M, meaning as much as $12M will be allocated to the Strategic Initiative Capital Reserve for use in funding climate change issues. This places the risk of declining Deed Transfer Tax revenues onto the reserve and the capital projects it supports. Should DTT revenues significantly decline HRM may need to direct greater tax funds to the reserve.

8. Lastly, considerable funding needs to be directed to the Strategic Initiative Capital Reserve, so as to support HalifACT and IMP and other strategic initiatives. These projects represent a long-term capital investment in excess of $1B. In order to fund these projects staff have proposed that
    - Existing balances from inactive and other reserves are being re-directed to the Strategic Initiative Reserve - Capital (SIR). This includes the 1 cent on the tax rate that Regional Council directed towards strategic projects in 2014. The starting balance for this reserve would become $117M and will be augmented over time through annual budgetary contributions. In 2022/23 the annual contribution is expected to be $27M plus an additional $12M from Deed Transfer Tax revenues.
    - The strategy for funding Strategic Initiatives is to issue debt for the specific projects and repay the principal and interest costs through the SIR reserve. Hence, funds in the SIR are used to leverage debt. The current balance and projected contributions are sufficient to leverage $250M worth of debt. This is a major portion of the amount required to fund strategic investments but is not sufficient to move forward many of the projects, including key climate change initiatives within transit and HalifACT.

In order to ensure there is adequate funding for key climate change initiatives to progress, staff are recommending the establishment of a Climate Action Tax. The tax is meant to represent an additional 3% increase on the average tax bill and will leverage an additional $150M for the Strategic Initiative Reserve, bring the full amount leveraged to $400M. This is one of the largest funds in HRM history, greater than even Harbour Solutions. It is meant to bring the full resources of the organization forward to combat climate change through initiatives such as electric vehicles, net-zero buildings, multi-modal transit corridors and other initiatives. To staff's knowledge, this is the only dedicated property tax in Canada for climate change.

Combined tax impacts of the general tax rate change and the new Climate Action Tax are as follows:

Table 2
Average Residential Tax Bill

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

Table 3
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		0.089%
Average Tax Bill	**$43,270**	**$45,823**
Increase $		$2,553
Increase %		5.9%

Conclusions:

The 2022/23 Fiscal Framework is designed to deal with the triple challenge of emerging from the pandemic; facing the mounting challenges of sudden population growth and the resulting infrastructure costs; and, funding long term strategic initiatives, in particular climate change.

FINANCIAL IMPLICATIONS

This report provides direction on to how to proceed for the development of the overall budget including the establishment of tax levies for 2022/23.

There is direction is this report to update reserve business cases and transfer existing reserve balances within the reserve funds. There are also updated debt and capital from operating guidelines.

Significant funds are being directed towards strategic initiatives in order to ensure their successful completion. The concentration on SI may mean there are fewer reserve funds available in the future for mid-year budget changes or contingencies.

RISK CONSIDERATION

There is still considerable uncertainty that exists due to the pandemic. This has created considerable difficulty making assumptions and forecasts for the 2022/23 fiscal year. There are several key areas of risk in the Fiscal Framework.

- There are risks related to the underlying economic assumptions.The pandemic has created historical uncertainty for firms, households, and governments. The unprecedented response by governments to shorten the recession caused by Covid-19 through fiscal stimulus has caused short-medium term pressure on inflation and caused rising prices of products and services. These rising prices are affecting costs paid by government leading to uncertainty in budgeting. In addition, it has caused pressure for taxpayers. As such, there is price risk for both infrastructure costs but also the cost of many goods and services including such items as insurance, fuel or other supplies and materials.

- The fiscal framework has assumed a return to normal levels of economic activity, meaning that non-tax revenues in most cases return to pre-pandemic levels. While staff believe this is a reasonable assumption based on what is know at this time, there is no assurance as to how certain this outcome is.
- Deed Transfer Tax continues to be cyclical in nature. The Framework assumes 2022/23 revenues of $80M, with funds in excess of $68M going to the Strategic Initiative Reserve. Staff have mitigated this by making deposits to the reserve contingent upon achieving the revenues. However, in the event the revenues are not achieved there will be an impact on the reserve balance that may affect HRM's ability to fund key capital projects.
- The final assessment roll will not be known until late December 2021. All tax projections are based on the forecast roll and are subject to change.

COMMUNITY ENGAGEMENT

Citizen engagement has been conducted to gauge citizen attitudes towards services and taxes. Budget Consultations will include an opportunity for the Public to virtually attend the Business Unit draft budget presentations to Committee of the Whole and provide their comments afterwards.

The 2021 Resident Survey is intended to inform policy and decision making, and investments in the community. It was conducted from September 1 to September 24, 2021, and asked residents about their priorities, service experiences, and expectations. Approximately 19,000 invitations were sent to random households across HRM, and the survey could be completed online, by telephone, and by paper copy. The survey received 1,766 responses representing an 9.3% response rate. Results will be provided in an information report to Regional Council on November 23rd, 2021.

ENVIRONMENTAL IMPLICATIONS

No environmental implications were identified.

ALTERNATIVES

Budget Committee could direct the Chief Administrative Officer to establish an average tax bill increase for Fiscal 2022/23 at rate other than 5.9% for residential and commercial taxpayers.

ATTACHMENTS

Attachment A – Updated Reserve Business Cases
Attachment B – Revised Debt Guidelines

A copy of this report can be obtained online at halifax.ca or by contacting the Office of the Municipal Clerk at 902.490.4210.

Report Prepared by: Bruce Fisher, Director, Financial Policy and Planning, Finance & Asset Management 902.490.4493
Angie Spinney, MBA, Senior Financial Consultant, Financial Policy and Planning, 782.641.4296

ATTACHMENT A

Reserve Business Cases

Risk and Resiliency Reserve, Q406
Reserve Business Case

Type of Reserve: Risk

Purpose
The intent of the Risk and Resiliency Reserve is to accumulate funds to deal with the risk of unforeseen events involving substantial costs, so that HRM can mitigate, adapt and recover from such an event. Risk events covered include economic, financial, environmental, service related, health and safety, and legal and compliance risks.

Source of Funds
Funding arises from:

a) amounts transferred to the fund as approved by Regional Council; and,
b) accumulated interest.

Conditions of Funding
Funds are allocated for:

a) funding of claims and settlements as appropriate,
b) covering the costs of risk events over and above any amounts budgeted,
c) the payment of principle, as it relates to a risk event,
d) the payment of interest, as it relates to a risk event, if the underlying funds are not raised by the sale of assets, and,
e) other operating and capital costs as related to a risk event, as appropriate.

Anticipated Balances
A maximum balance has been set equal to two months worth of operating costs, or 2/12th.

Review and Timeline
Reserve is to be ongoing. The Executive Director of Finance and Asset Management shall

a) review the reserve annually to ensure that funds are contributed and withdrawn according to the approved Reserve Business Case;
b) provide Regional Council an annual report on Reserve activity and balances;
c) review and report on targeted contributions and balances annually and recommend adjustments as appropriate; and,
d) review this Reserve every four years to ensure relevance and adequacy with the strategic direction of the Municipality.

Approval Process

As outlined in the Administrative Order 2014-015, withdrawals from the reserve will be approved by Regional Council, either through the annual budget process or by motion of Regional Council subsequent to the approved budget. Finance & Asset Management is responsible for ensuring availability of funds and appropriateness of withdrawals in accordance with the Reserve Business Case prior to recommendations to Audit & Finance Standing Committee and Regional Council.

Original Council Approval Date	September 20, 2016
Effective Date of Last Revision	
Business Unit Director Contact	Executive Director/CFO, Finance & Asset Management

Landfill Closure and Post Closure Costs Reserve, Q506
Reserve Business Case

Type of Reserve: Obligation

Purpose

To provide funding for the closure and post closure of landfills, as required by the Public Sector Accounting Board (PSAB). Currently, three landfill sites exist: Sackville, Otter Lake and Mengoni. Specific closure and post closure activities including environmental monitoring programs may be outlined in regulatory approvals for each site (issued by NS Environment).

Source of Funds

Funding arises from:

a) transfers from the Solid Waste Resources operating budget.
b) amounts transferred to the fund as approved by Council; and,
c) interest accumulated in accordance with the Corporate Guidelines respecting Reserves.

Conditions of Funding

Funds are allocated for costs related to closure and post-closure care and include, but are not limited to:

a) purchase of equipment and site assets.
b) development, construction, and removal of infrastructure.
c) maintenance and upgrades for all site assets.
d) landfill cover (capping)
e) environmental monitoring; and,
f) leachate and gas management.

Anticipated Balances

A maximum balance has not been set for this reserve.

Review and Timeline

Reserve is to be ongoing. The Executive Director of Finance & Asset Management shall

a) review the reserve annually to ensure that funds are contributed and withdrawn according to the approved Reserve Business Case;
b) provide Regional Council an annual report on Reserve activity and balances;
c) review and report on targeted contributions and balances annually and recommend adjustments as appropriate; and,
d) review this Reserve every four years to ensure relevance and adequacy with the strategic direction of the Municipality.

Approval Process

As outlined in the Administrative Order 2014-015, withdrawals from the reserve will be approved by Regional Council, either through the annual budget process or by motion of Regional Council subsequent to the approved budget. Finance & Asset Management is responsible for ensuring availability of funds and appropriateness of withdrawals in accordance with the Reserve Business Case prior to recommendations to Audit & Finance Standing Committee and Regional Council.

Original Council Approval Date	September 20, 2016
Effective Date of Last Revision	
Business Unit Director Contact	Executive Director, Transportation & Public Works Executive Director, Finance & Asset Management

Municipal Election Reserve, Q511
Reserve Business Case

Type of Reserve: Obligation

Purpose
To provide funding to conduct regular and special Municipal elections.

Source of Funds
Funding arises from:

a) an annual allocation of 25% of the estimated cost of the next municipal election and any anticipated by-elections;
b) an annual allocation for the estimated costs of the District Boundary Review;
c) any plebiscite or any other election for which HRM has responsibility;
d) amounts transferred to the fund as approved by Council; and,
e) accumulated interest.

Condition of Funds
Funds are allocated for:

a) conducting special and regular municipal elections pursuant to legislation;
b) legal and other costs for any required District Boundary Review; and,
c) routine maintenance of election data, systems and election initiatives deemed necessary to ensure critical information is current and in place for special and regular elections.

Anticipated Balances
The reserve has been established to provide funds for the municipal election. The Maximum balance is established as the estimated cost of the upcoming municipal election times two.

Review and Timeline
Reserve is to be ongoing. The Executive Director of Finance & Asset Management shall

a) review the reserve annually to ensure that funds are contributed and withdrawn according to the approved Reserve Business Case;
b) provide Regional Council an annual report on Reserve activity and balances;
c) review and report on targeted contributions and balances annually and recommend adjustments as appropriate; and,
d) review this Reserve every four years to ensure relevance and adequacy with the strategic direction of the Municipality.

Approval Process

As outlined in the Administrative Order 2014-015, withdrawals from the reserve will be approved by Regional Council, either through the annual budget process or by motion of Regional Council subsequent to the approved budget. Finance & Asset Management is responsible for ensuring availability of funds and appropriateness of withdrawals in accordance with the Reserve Business Case prior to recommendations to Audit & Finance Standing Committee and Regional Council.

Original Council Approval Date	September 20, 2016
Effective Date of Last Revision	
Business Unit Director Contact	Office of the CAO Executive Director/CFO, Finance & Asset Management

Convention Centre Reserve, Q521
Reserve Business Case

Type of Reserve: Obligation

Purpose

To provide funding to reimburse the Province of Nova Scotia for capital costs (through an annual base rent payment) for the construction of the Halifax Convention Centre (Nova Centre) and to provide funding to pay HRM's equal share of operating costs of the Halifax Convention Centre for 25 years per a Memorandum of Understanding Agreement ("MOU") between the Province of Nova Scotia and HRM.

Source of Funds

Funding arises from:

a) all property taxes, including areas rates but excluding the BIDC rate, raised from the full site (convention centre, hotel, office tower, retail, and parking).
b) amounts transferred to the fund as approved by Council; and
c) interest accumulated in accordance with the Corporate Guidelines respecting Reserves.

Condition of Funding

Funds are allocated for:

a) rent payments to cover HRM's share of the capital costs amortized over 25-year lease; and,
b) HRM's share of annual operating costs of the Halifax Convention Centre (Nova Centre).

Anticipated Balances

In accordance with the Administrative Order 2014-015 a maximum balance has not been set for this reserve.

Review and Timeline

Reserve is to be ongoing. The Executive Director of Finance & Asset Management shall

a) review the reserve annually to ensure that funds are contributed and withdrawn according to the approved Reserve Business Case;
b) provide Regional Council an annual report on Reserve activity and balances;
c) review and report on targeted contributions and balances annually and recommend adjustments as appropriate; and,
d) review this Reserve every four years to ensure relevance and adequacy with the strategic direction of the Municipality.

Approval Process

As outlined in the Administrative Order 2014-015, withdrawals from the reserve will be approved by Regional Council, either through the annual budget process or by motion of Regional Council subsequent to the approved budget. Finance & Asset Management is responsible for ensuring availability of funds and appropriateness of withdrawals in accordance with the Reserve Business Case prior to recommendations to Audit & Finance Standing Committee and Regional Council.

Original Council Approval Date	September 20, 2016
Effective Date of Last Revision	
Business Unit Director Contact	Executive Director/CFO, Finance & Asset Management

Central Library Recapitalization Reserve, Q536
Reserve Business Case

Type of Reserve: Obligation

Purpose

The intent of the Central Library Recapitalization Reserve is to accumulate funds to upgrade and replace the Halifax Central Library. By doing so the reserve enables the municipality to plan for the replacement and upgrade of a significant community facility while maintaining a stable, predictable property tax level.

Source of Funds

Funding arises from:

a) an annual contribution from the operating budget of 2% of the building costs, escalated annually to reflect inflation,
b) amounts transferred to the fund as approved by Regional Council; and,
c) accumulated interest.

Conditions of Funding

Funds are allocated for:

a) construction, design and build of the Halifax Central Library,
b) the payment of principle, and,
c) the payment of interest, if the underlying funds are not raised by the sale of assets.

For greater certainty, operating costs, ongoing repair and maintenance are ineligible.

Anticipated Balances

Future contributions have been estimated based on a fifty year life of the currently facility, hence requiring annual contributions of 2% of value plus inflation. By ensuring the reserve is adequately funded, amounts are available to fund projects. Based on the hypothetical life and future costs a maximum reserve balance has been set of $75M.

Review and Timeline

Reserve is to be ongoing. The Executive Director of Finance & Asset Management shall

a) review the reserve annually to ensure that funds are contributed and withdrawn according to the approved Reserve Business Case;
b) provide Regional Council an annual report on Reserve activity and balances;
c) review and report on targeted contributions and balances annually and recommend adjustments as appropriate; and,
d) review this Reserve every four years to ensure relevance and adequacy with the strategic direction of the Municipality.

Approval Process

As outlined in the Administrative Order 2014-015, withdrawals from the reserve will be approved by Regional Council, either through the annual budget process or by motion of Regional Council subsequent to the approved budget. Finance & Asset Management is responsible for ensuring availability of funds and appropriateness of withdrawals in accordance with the Reserve Business Case prior to recommendations to Audit & Finance Standing Committee and Regional Council.

Original Council Approval Date	September 20, 2016
Effective Date of Last Revision	
Business Unit Director Contact	Executive Director/CFO, Finance & Asset Management

Multi-District Facilities Recapitalization Reserve, Q546
Reserve Business Case

Type of Reserve: Obligation

Purpose

The intent of the Multi-District Facilities Recapitalization Reserve is to accumulate funds to upgrade, renovate and replace the various multi-district facilities including the Scotiabank Centre. By doing so the reserve enables the municipality to plan for the replacement and upgrade of significant community facilities while maintaining a stable, predictable property tax level.

The Multi-District facilities include event, and some indoor sport facilities as designated by Council. Currently, the Multi-District facilities include the following HRM owned assets: Alderney Landing, Halifax 4 Pad, Canada Games Centre, Cole Harbour Place, Zatsman Sportsplex, Halifax Forum, Sackville Sports Stadium, Scotiabank Centre and St. Margaret's Centre. Council may adjust the Multi-District Facilities listing to include other facilities.

Source of Funds

Funding arises from:

a) amounts transferred to the fund from Multi-District Facilities including as per operating agreements and naming rights,
b) amounts transferred to the fund as approved by Regional Council; and,
c) accumulated interest.

Conditions of Funding

Funds are allocated for:

a) construction, design and build of Multi-District facilities,
b) renovation of Multi-District facilities,
c) the payment of principle, and,
d) the payment of interest, if the underlying funds are not raised by the sale of assets.

For greater certainty, operating costs, ongoing repair and maintenance are ineligible.

Anticipated Balances

No decision has been made on the future design of replacement facilities hence expected contributions and balances are based on indicative numbers and possible approaches. As such, the reserve represents contingency funding for what may be a significant financial requirement. Once longer-term decisions and strategies are formulated, the reserve can be reviewed and the funds accumulated can form the basis of a more focused financial strategy. As future costs are unknown but expected to be significant, a maximum balance has not been set for this reserve.

Review and Timeline

Reserve is to be ongoing. The Executive Director of Finance & Asset Management shall

a) review the reserve annually to ensure that funds are contributed and withdrawn according to the approved Reserve Business Case;
b) provide Regional Council an annual report on Reserve activity and balances;
c) review and report on targeted contributions and balances annually and recommend adjustments as appropriate; and,
d) review this Reserve every four years to ensure relevance and adequacy with the strategic direction of the Municipality.

Approval Process

As outlined in the Administrative Order 2014-015, withdrawals from the reserve will be approved by Regional Council, either through the annual budget process or by motion of Regional Council subsequent to the approved budget. Finance & Asset Management is responsible for ensuring availability of funds and appropriateness of withdrawals in accordance with the Reserve Business Case prior to recommendations to Audit & Finance Standing Committee and Regional Council.

Original Council Approval Date	September 20, 2016
Effective Date of Last Revision	
Business Unit Director Contact	Executive Director/CFO, Finance & Asset Management

Solid Waste Recapitalization Reserve, Q556

Reserve Business Case

Type of Reserve: Obligation

Purpose

The intent of the Solid Waste Recapitalization Reserve is to accumulate funds to upgrade and replace solid waste facilities. By doing so the reserve enables the municipality to plan for the replacement and upgrade of solid waste facilities while maintaining a stable, predictable property tax level.

Source of Funds

Funding arises from:

a) amounts transferred to the fund as approved by Regional Council;
b) the Capital Cost Charge (CCC's) for Solid Waste Facilities as incorporated into Bylaws C-600, respecting Regional Capital Cost Charges and C-800, respecting Regional Capital Cost Charges for Solid Waste; and,
c) accumulated interest.

Conditions of Funding

Funds are allocated for:

a) construction, design and build of solid waste facilities,
b) the payment of principle, and,
c) the payment of interest, if the underlying funds are not raised by the sale of assets.

Anticipated Balances

No decision has been made on the future design of replacement solid waste facilities hence expected contributions and balances are based on indicative numbers and possible approaches. As such, the reserve represents contingency funding for what is expected to be an enormous financial requirement. Once longer-term solid waste decisions and strategies are formulated, the reserve can be reviewed and the funds accumulated can form the basis of a more focused financial strategy. As future costs are unknown but expected to be significant, a maximum balance has not been set for this reserve.

Review and Timeline

Reserve is to be ongoing. The Executive Director of Finance & Asset Management shall

a) review the reserve annually to ensure that funds are contributed and withdrawn according to the approved Reserve Business Case;
b) provide Regional Council an annual report on Reserve activity and balances;
c) review and report on targeted contributions and balances annually and recommend adjustments as appropriate; and,

d) review this Reserve every four years to ensure relevance and adequacy with the strategic direction of the Municipality.

Approval Process

As outlined in the Administrative Order 2014-015, withdrawals from the reserve will be approved by Regional Council, either through the annual budget process or by motion of Regional Council subsequent to the approved budget. Finance & Asset Management is responsible for ensuring availability of funds and appropriateness of withdrawals in accordance with the Reserve Business Case prior to recommendations to Audit & Finance Standing Committee and Regional Council.

Original Council Approval Date	September 20, 2016
Effective Date of Last Revision	
Business Unit Director Contact	Executive Director/CFO, Finance & Asset Management

Business Industrial Park Expansion Reserve, Q616
Reserve Business Case

Type of Reserve: Obligation

Purpose
The intent is to ensure HRM has flexibility to purchase and improve infrastructure for select strategic land to ensure improved functioning of the local land market. Funding to come through sale of land in HRM business and industrial parks.

Source of Funds
Funding arises from:

a) Net revenues from applicable land sales
b) Amounts transferred by Council resolution/decision
c) Accumulated interest as per corporate guidelines.

Conditions of Funding
Funds are allocated for:

a) Business and industrial park land acquisition
b) Infrastructure expenditures necessary to ensure lands are marketable.
c) principal and interest costs incurred related to debentures for business park projects, as identified by Regional Council

Anticipated Balances
Reserve balances will vary with timing of relevant land sales and guidance from Real Estate on need for expenditures to up-fit land for marketability. No maximum balance has been set for this reserve.

Review and Timeline
Reserve is to be ongoing. The Executive Director of Finance & Asset Management shall

a) review the reserve annually to ensure that funds are contributed and withdrawn according to the approved Reserve Business Case;
b) provide Regional Council an annual report on Reserve activity and balances;
c) review and report on targeted contributions and balances annually and recommend adjustments as appropriate; and,
d) review this Reserve every four years to ensure relevance and adequacy with the strategic direction of the Municipality.

Approval Process

As outlined in the Administrative Order 2014-015, withdrawals from the reserve will be approved by Regional Council, either through the annual budget process or by motion of Regional Council subsequent to the approved budget. Finance & Asset Management is responsible for ensuring availability of funds and appropriateness of withdrawals in accordance with the Reserve Business Case prior to recommendations to Audit & Finance Standing Committee and Regional Council.

Original Council Approval Date	September 20, 2016
Effective Date of Last Revision	
Business Unit Director Contact	Executive Director/CFO, Finance & Asset Management

Community Events Reserve, Q621
Reserve Business Case

Type of Reserve: Obligation

Purpose
To provide funding to attract and host exceptional large-scale sporting and tourism events that create economic benefit, promote Halifax as major event destination, and improve tourism flows to HRM.

To provide funding to community non-profit and public institutions in support of major capital initiatives by facilitating the development of significant community infrastructure to realize tangible cultural, sectoral, and economic impacts on a national, provincial, regional, or sectoral scale.

To provide funding to support the principles and objectives of the Cultural Plan and the HRM Public Art Policy.

Source of Funds
Funding arises from:

a) a transfer of 40% of the Provincial Hotel Sales Tax (Marketing Levy).
b) a transfer from Fiscal Services operating budget.
c) amounts transferred to the fund as approved by Council; and,
d) interest accumulated in accordance with the Corporate Guidelines respecting Reserves.

Conditions of Funding
Funds are allocated for:

a) support to events that support tourism and economic development through the Marketing Levy grant program.
b) Cultural/Heritage projects.
c) significant community infrastructure (non-profit and public institutions); and,
d) Public Art.

Anticipated Balances
A maximum balance of $2 Million has been set for this reserve.

Review and Timeline
Reserve is to be ongoing. The Executive Director of Finance & Asset Management shall

a) review the reserve annually to ensure that funds are contributed and withdrawn according to the approved Reserve Business Case;
b) provide Regional Council an annual report on Reserve activity and balances;

c) review and report on targeted contributions and balances annually and recommend adjustments as appropriate; and,
d) review this Reserve every four years to ensure relevance and adequacy with the strategic direction of the Municipality.

Approval Process

As outlined in the Administrative Order 2014-015, withdrawals from the reserve will be approved by Regional Council, either through the annual budget process or by motion of Regional Council subsequent to the approved budget. Finance & Asset Management is responsible for ensuring availability of funds and appropriateness of withdrawals in accordance with the Reserve Business Case prior to recommendations to Audit & Finance Standing Committee and Regional Council.

Original Council Approval Date	September 20, 2016
Effective Date of Last Revision	
Business Unit Director Contact	Executive Director, Parks & Recreation Executive Director/CFO, Finance & Asset Management

Master Plan Reserve
Reserve Business Case

Type of Reserve: Obligation

Purpose
The intent of the Master Plan Reserve is to accumulate funds that are levied as part of the Master Plan process, including Regional and specific Master Plan Area charges.

Source of Funds
Funding arises from:

a) amounts transferred to the fund as approved by Regional Council;
b) any amount levied as part of a capital cost contribution or development charge, other than solid waste levies under by-law C-600, which are contributed to the Solid Waste Reserve, and funds collected on behalf of Halifax Water;
c) accumulated interest.

Conditions of Funding
Funds are allocated for the purposes allowed under legislation and any by-law that establishes a master plan levy. This may include:

a) land purchases,
b) growth-related capital projects,
c) studies relating to the establishment of a specific capital charge or to a growth-related capital project,
d) the payment of principal and interest related to a) and b) above.

Anticipated Balances
A maximum balance has not been set for this reserve.

Review and Timeline
Reserve is to be ongoing. The Director of Finance and Asset Management shall

a) review the reserve annually to ensure that funds are contributed and withdrawn according to the approved Reserve Business Case;
b) provide Regional Council an annual report on Reserve activity and balances;
c) review and report on targeted contributions and balances annually and recommend adjustments as appropriate; and,
d) review this Reserve every four years to ensure relevance and adequacy with the strategic direction of the Municipality.

Approval Process

As outlined in the Administrative Order 2014-015, withdrawals from the reserve will be approved by Regional Council, either through the annual budget process or by motion of Regional Council subsequent to the approved budget. Finance & Asset Management is responsible for ensuring availability of funds and appropriateness of withdrawals in accordance with the Reserve Business Case prior to recommendations to Audit & Finance Standing Committee and Regional Council.

Original Council Approval Date	n/a
Effective Date of Last Revision	
Business Unit Director Contact	Executive Director/CFO, Finance & Asset Management

Options Reserve, Q421
Reserve Business Case

Type of Reserve: Opportunity.

Purpose
To provide resources for changes or additions to services or for grants to outside agencies.

Source of Funds
Funding arises from:

a) amounts transferred to the fund as approved by Regional Council; and,
b) accumulated interest.

Conditions of Funding
Funds are allocated for:

a) operating costs, including grants; and,
b) capital projects;

Anticipated Balances
The maximum balance should be set at 2% of total HRM budgeted expenditures, including transfers to outside agencies.

Review and Timeline
Reserve is to be ongoing. The Director of Finance and Asset Management shall

a) review the reserve annually to ensure that funds are contributed and withdrawn according to the approved Reserve Business Case;
b) provide Regional Council an annual report on Reserve activity and balances;
c) review and report on targeted contributions and balances annually and recommend adjustments as appropriate; and,
d) review this Reserve every four years to ensure relevance and adequacy with the strategic direction of the Municipality.

Approval Process
As outlined in the Administrative Order 2014-015, withdrawals from the reserve will be approved by Regional Council, either through the annual budget process or by motion of Regional Council subsequent to the approved budget. Finance & Asset Management is responsible for ensuring availability of funds and appropriateness of withdrawals in accordance with the Reserve Business Case prior to recommendations to Audit & Finance Standing Committee and Regional Council.

Original Council Approval Date	September 20, 2016
Effective Date of Last Revision	
Business Unit Director Contact	Executive Director/CFO, Finance & Asset Management

Capital Fund Reserve, Q526
Reserve Business Case

Type of Reserve: Opportunity

Purpose
The intent of the Capital Fund Reserve is to accumulate funds from the operating surplus and the sale of municipal assets, as well as other funds for the renewal and expansion of its asset base. These funds will supplement available capital funding from capital from operating and debt.

Source of Funds
Funding arises from:

a) amounts transferred to the fund as approved by Regional Council;
b) any municipal surplus, other than any amount otherwise designated by Regional Council for a different reserve;
c) sale of all municipal assets, other than the sale of Business/Industrial Parks land, the sale of land conveyed to HRM for parks, playgrounds or other similar public purposes under section 282 of the Halifax Regional Municipality Charter and any amount otherwise designated by Regional Council for a different reserve;
d) all funds designated for the Capital Reserve Fund, as per Section 120 of the *Halifax Charter*, other than the current fiscal year's accrual for landfill closure and post closure costs and any amount otherwise designated by Regional Council for a different reserve; and,
e) accumulated interest.

Conditions of Funding
Funds are allocated for:

a) capital projects, including cost overruns and changes in scope,
b) land purchases,
c) the payment of principle,
d) the payment of interest, if the underlying funds are not raised by the sale of assets, and,
e) landfill closure and post-closure costs.

Anticipated Balances
The reserve has been established both to fulfill the legal requirements of Section 120 of the Halifax Charter and to provide funds for capital projects that are supplementary to any capital from operating funding or anticipated debt funding. As the sale of assets and any surplus amounts are generally unplanned and irregular in nature and are not being set-aside for a specific purpose, a targeted reserve level cannot be easily estimated. As such, a maximum balance has not been set for this reserve.

Review and Timeline

Reserve is to be ongoing. The Director of Finance and Asset Management shall

a) review the reserve annually to ensure that funds are contributed and withdrawn according to the approved Reserve Business Case;
b) provide Regional Council an annual report on Reserve activity and balances;
c) review and report on targeted contributions and balances annually and recommend adjustments as appropriate; and,
d) review this Reserve every four years to ensure relevance and adequacy with the strategic direction of the Municipality.

Approval Process

As outlined in the Administrative Order 2014-015, withdrawals from the reserve will be approved by Regional Council, either through the annual budget process or by motion of Regional Council subsequent to the approved budget. Finance & Asset Management is responsible for ensuring availability of funds and appropriateness of withdrawals in accordance with the Reserve Business Case prior to recommendations to Audit & Finance Standing Committee and Regional Council.

Original Council Approval Date	September 20, 2016
Effective Date of Last Revision	
Business Unit Director Contact	Executive Director/CFO, Finance & Asset Management

Parkland Development Reserve, Q611
Reserve Business Case

Type of Reserve: Opportunity

Purpose
The intent of the Parkland Development Reserve is to accumulate funds from the parkland dedication fees (cash-in-lieu) received through the development and subdivision process and for the acquisition of, and capital improvements to, parks, playgrounds and similar public purposes. The Reserve is governed by Halifax Regional Municipality Charter Section 283.

Source of Funds
Funding arises from:

a) funds received under Halifax Regional Municipality Charter Section 283(1) and the Regional Subdivision By-law;
b) funds received from sale of property no longer needed for parks, playgrounds or similar public purposes, pursuant to Halifax Regional Municipality Charter Section 283(14);
c) amounts transferred to the fund as approved by Regional Council; and,
d) accumulated interest.

Conditions of Funding
Funds are allocated for:

a) capital improvements to parks, playgrounds, and capital projects with similar public purposes; and,
b) accumulated interest.

Anticipated Balances
The reserve has been established both to fulfill the legal requirements of Section 283 of the Halifax Charter. Funds received as Parkland Dedication Fees and any sale of assets are generally unplanned and subject to development trends. As such, a targeted reserve level cannot be easily estimated and a maximum balance has not been set for this reserve.

Review and Timeline
Reserve is to be ongoing. The Director of Finance and Asset Management shall

a) review the reserve annually to ensure that funds are contributed and withdrawn according to the approved Reserve Business Case;
b) provide Regional Council an annual report on Reserve activity and balances;
c) review and report on targeted contributions and balances annually and recommend adjustments as appropriate; and,
d) review this Reserve every four years to ensure relevance and adequacy with the strategic direction of the Municipality.

Approval Process

As outlined in the Administrative Order 2014-015, withdrawals from the reserve will be approved by Regional Council, either through the annual budget process or by motion of Regional Council subsequent to the approved budget. Finance & Asset Management is responsible for ensuring availability of funds and appropriateness of withdrawals in accordance with the Reserve Business Case prior to recommendations to Audit & Finance Standing Committee and Regional Council.

Original Council Approval Date	September 20, 2016
Effective Date of Last Revision	
Business Unit Director Contact	Executive Director/CFO, Finance & Asset Management

Canada Community Building Reserve, Q626

Reserve Business Case

Type of Reserve: Opportunity

Purpose

The intent of the Canada Community Building Reserve is to accumulate funds from the Canada Community Building Fund, more commonly known as the Gas Tax. These funds will supplement available capital funding from capital from operating and debt.

Source of Funds

Funding arises from:

a) amounts transferred to the fund from the Canada Building Community Fund;
b) amounts transferred to the fund as approved by Regional Council; and,
c) accumulated interest.

Conditions of Funding

Funds are allocated for projects that meet the eligibility criteria of the Canada Community Building Fund, including:

a) capital projects,
b) land purchases,
c) the payment of principle,
d) the payment of interest, if the underlying funds are not raised by the sale of assets, and,
e) landfill closure and post-closure costs.

Anticipated Balances

The reserve has been established to fulfill the requirements of the Canada Community Building Fund and is dependent upon transfers from that fund. While there is a baseline of predictable transfers to the Municipality there have been, and may continue to be, additional transfers on top of this baseline that cannot always be anticipated. As such, a maximum balance has not been set for this reserve.

Review and Timeline

Reserve is to be ongoing. The Director of Finance and Asset Management shall

a) review the reserve annually to ensure that funds are contributed and withdrawn according to the approved Reserve Business Case;
b) provide Regional Council an annual report on Reserve activity and balances;
c) review and report on targeted contributions and balances annually and recommend adjustments as appropriate; and,
d) review this Reserve every four years to ensure relevance and adequacy with the strategic direction of the Municipality.

Approval Process

As outlined in the Administrative Order 2014-015, withdrawals from the reserve will be approved by Regional Council, either through the annual budget process or by motion of Regional Council subsequent to the approved budget. Finance & Asset Management is responsible for ensuring availability of funds and appropriateness of withdrawals in accordance with the Reserve Business Case prior to recommendations to Audit & Finance Standing Committee and Regional Council.

Original Council Approval Date	September 20, 2016
Effective Date of Last Revision	
Business Unit Director Contact	Executive Director/CFO, Finance & Asset Management

Density Bonus Reserve, Q640
Reserve Business Case

Type of Reserve: Opportunity

Purpose

The reserve allocates resources for the implementation of the incentive or bonus zoning policies as contained in applicable municipal planning strategies and land use by-laws.

An effective reserve will improve transparency and simplify (bonus zoning) funding for affordable housing, heritage properties, public art, municipal parks, and community or cultural space, in additional to other Municipal funding sources and reserves.

Source of Funds

Sources of funds will include:

a) incentive or bonus zoning money-in-lieu payments as required by the applicable land use by-laws.
b) amounts transferred to the fund as approved by Council; and
c) interest accumulated in accordance with the Corporate Guidelines respecting Reserves.

Conditions of Funding

a) As per the Halifax Regional Municipality Charter Subsection 245A (6), the Municipality shall use any money accepted in-lieu of a contribution for the purpose for which the money was accepted.
b) Funding allocation for the public benefits will be in accordance with theapplicable land use by-laws; and
c) Fund expenditures will be in accordance with any Administrative Orders approved by Council.

Anticipated Balances

The maximum balance will be $20 Million to allow funds to accumulate and support large projects.

Review and Timeline

Reserve is to be ongoing. The Executive Director of Finance & Asset Management shall

a) review the reserve annually to ensure that funds are contributed and withdrawn according to the approved Reserve Business Case;
b) provide Regional Council an annual report on Reserve activity and balances;
c) review and report on targeted contributions and balances annually and recommend adjustments as appropriate; and,

d) review this Reserve every four years to ensure relevance and adequacy with the strategic direction of the Municipality.

Approval Process

As outlined in the Administrative Order 2014-015, withdrawals from the reserve will be approved by Regional Council, either through the annual budget process or by motion of Regional Council subsequent to the approved budget. Finance & Asset Management is responsible for ensuring availability of funds and appropriateness of withdrawals in accordance with the Reserve Business Case prior to recommendations to Audit & Finance Standing Committee and Regional Council.

Original Council Approval Date	September 22, 2020
Effective Date of Last Revision	
Business Unit Director Contact	Executive Director, Planning & Development Executive Director/CFO, Finance & Asset Management

Strategic Initiative Reserve - Capital Reserve Business Case

Type of Reserve: Opportunity

Purpose

The intent of the Strategic Initiatives Reserve is to accumulate funds to pay for the principal and interest costs associated with Strategic Initiatives. By doing so the reserve enables the municipality to achieve its Strategic Initiatives through leveraging debt while maintaining a stable, predictable property tax level.

Strategic Initiatives were identified in Regional Council's *Fiscal Sustainability Strategy* (December 15, 2020)) and the *Strategic Initiative Funding Plan* (January 20, 2021). They are defined as "those whose implementation would require a discernible increase to the tax rate in order to move forward".

Strategic Initiatives often share certain common characteristics:

- *They represent an element of a key strategy approved by Regional Council;*
- *They are most likely capital and may represent a family of capital projects;*
- *They are significant financial investments that cannot be accommodated within the existing budget without an unintended service disruption or a tax increase;*
- *Their implementation requires significant planning over multiple fiscal years;*
- *They represent new initiatives and are not ongoing in nature;*
- *The issuance of debt for these initiatives that would be above the current debt policy targets and may require special reserve business cases;*
- *if debt is issued, then the term of the debt should match the life of the asset; and,*
- *They require ongoing review and oversight as many of the future costs and savings cannot yet be ascertained.* (Strategic Initiative Funding Plan, January 20, 2021)

Source of Funds

Funding arises from:

a) amounts transferred to the fund as approved by Regional Council;
b) annual transfer from Fiscal Services operating budget in the amount that equals one cent of property tax (commercial, residential and resource); and,
c) accumulated interest.

Conditions of Funding

Funds are allocated for:

a) to fund principal and interest costs incurred related to debentures on Strategic Initiative projects, as identified by Regional Council,
b) projects must be eligible for debentures and be capital in nature, and,

c) as per the Halifax Charter, any funds transferred to the reserve from the sale of an asset may be used for the payment of principle, but not the payment of interest.

Anticipated Balances

Future contributions have been estimated as to defease anticipated principal and interest costs based on assumed debenture dates for Strategic Initiatives. By ensuring the reserve is adequately funded, amounts are available to offset debt payments. This provides the municipality with the ability to pay for a higher level of debt than it would otherwise while maintaining stable and predictable tax levels. As target reserve levels are based on anticipated debenture dates and amounts, a maximum balance has not been set for this reserve.

Review and Timeline

Reserve is to be ongoing. The Executive Director of Finance & Asset Management shall

a) review the reserve annually to ensure that funds are contributed and withdrawn according to the approved Reserve Business Case;
b) provide Regional Council an annual report on Reserve activity and balances;
c) review and report on targeted contributions and balances annually and recommend adjustments as appropriate; and,
d) review this Reserve every four years to ensure relevance and adequacy with the strategic direction of the Municipality.

Approval Process

As outlined in the Administrative Order 2014-015, withdrawals from the reserve will be approved by Regional Council, either through the annual budget process or by motion of Regional Council subsequent to the approved budget. Finance & Asset Management is responsible for ensuring availability of funds and appropriateness of withdrawals in accordance with the Reserve Business Case prior to recommendations to Audit & Finance Standing Committee and Regional Council.

Original Council Approval Date	
Effective Date of Last Revision	
Business Unit Director Contact	Executive Director/CFO, Finance & Asset Management

Strategic Initiative Reserve - Operating Reserve Business Case

Type of Reserve: Opportunity

Purpose

The intent of the Strategic Initiatives Reserve is to accumulate funds to pay for the operating costs associated with Strategic Initiative Projects. By doing so the reserve enables the municipality to achieve its Strategic Initiatives while maintaining a stable, predictable property tax level.

Strategic Initiatives were identified in Regional Council's *Fiscal Sustainability Strategy* (December 15, 2020)) and the *Strategic Initiative Funding Plan* (January 20, 2021). They are defined as "those whose implementation would require a discernible increase to the tax rate in order to move forward".

Strategic Initiatives often share certain common characteristics:

- *They represent an element of a key strategy approved by Regional Council;*
- *They are most likely capital and may represent a family of capital projects;*
- *They are significant financial investments that cannot be accommodated within the existing budget without an unintended service disruption or a tax increase;*
- *Their implementation requires significant planning over multiple fiscal years;*
- *They represent new initiatives and are not ongoing in nature;*
- *The issuance of debt for these initiatives that would be above the current debt policy targets and may require special reserve business cases;*
- *if debt is issued, then the term of the debt should match the life of the asset; and,*
- *They require ongoing review and oversight as many of the future costs and savings cannot yet be ascertained.* (Strategic Initiative Funding Plan, January 20, 2021)

Source of Funds

Funding arises from:

a) amounts transferred to the fund as approved by Regional Council; and,
b) accumulated interest.

Conditions of Funding

Funds are allocated for:

a) to fund costs incurred related to completion of Strategic Initiative projects, as identified by Regional Council,
b) funding is for project costs but exclude any ongoing operating costs.

Anticipated Balances

Future contributions have been estimated so as to complete Strategic Initiative projects based on estimated costs and completion dates. By ensuring the reserve is adequately funded, amounts are available to fund projects. As target reserve levels are based on anticipated costs and completion dates, a maximum balance has not been set for this reserve.

Review and Timeline

Reserve is to be ongoing. The Executive Director of Finance & Asset Management shall

a) review the reserve annually to ensure that funds are contributed and withdrawn according to the approved Reserve Business Case;
b) provide Regional Council an annual report on Reserve activity and balances;
c) review and report on targeted contributions and balances annually and recommend adjustments as appropriate; and,
d) review this Reserve every four years to ensure relevance and adequacy with the strategic direction of the Municipality.

Approval Process

As outlined in the Administrative Order 2014-015, withdrawals from the reserve will be approved by Regional Council, either through the annual budget process or by motion of Regional Council subsequent to the approved budget. Finance & Asset Management is responsible for ensuring availability of funds and appropriateness of withdrawals in accordance with the Reserve Business Case prior to recommendations to Audit & Finance Standing Committee and Regional Council.

Original Council Approval Date	
Effective Date of Last Revision	
Business Unit Director Contact	Executive Director/CFO, Finance & Asset Management

HRM Debt Guidelines

ATTACHMENT B

Financial Policy & Planning, Finance & Asset Management (FAM)
Date: November 23, 2021

Purpose

The purpose of the debt guidelines is to provide appropriate guidance on the amount of debt and capital from operating that can be approved by HRM. This provides certainty in planning the operating and capital budgets and ensuring that HRM's financial plans are sustainable. The guidelines are also intended to reflect growth in the economy and the population and to ensure adequate debt and capital from operating is available to fund growth related issues.

Types of Municipal Debt

HRM classifies its debt into five main types, each distinguished as to the source of repayment. For the purposes of these guidelines, capital leases are treated as debt.

1. **Tax Supported (General Rated) Debt:** This is municipal debt, funded by the general tax rate and used to fund capital projects across HRM. This funds capital projects that are eligible for debenture that are not Strategic Initiatives (SI).

2. **Strategic Initiative (SI) Debt:** This is debt funded by the SI Reserve, not via general rate. Projects eligible for SI debt are those designated as Strategic Initiatives, i.e. transformative projects that would require a substantial increase in general tax rates to fund using current revenues.

3. **Local Improvement Charge Debt (LIC):** Debt issued for capital projects that are funded by LIC charges. For example, a limited group of properties in a confined geographic area where earmarked revenue pays for local capital expenditures. The debt is serviced by LIC revenues.

4. **HRWC Debt (Halifax Water):** Funds borrowed on behalf of HRWC and repaid through the HRWC rate base.

5. **Repayable Debt:** Debt borrowed on behalf of and fully paid for by outside organizations, that are typically operating HRM assets or are community owned.

Debt Limits and Ceiling

Provincial guidelines provide 15 per cent of gross revenues as a maximum for tax-supported debt-service charges. HRM sets the following guidelines:

1. The tax supported debt target per homes (dwelling unit) is set to a maximum of $1,200 in 2021 dollars in approved debt to be issued, growing at the rate of growth in new homes plus prior year HRM CPI.[1] This target is a ceiling (maximum) for outstanding tax-supported debt per home.

2. Strategic Initiative Debt Servicing costs will not rise above 10 per cent of revenues at any point during which these guidelines are in effect.

3. Other Debt Servicing costs will not rise above 2 per cent of revenues at any point during which these guidelines are in effect.

Debt Guidelines

1. Guidelines for Usage:

    - As per the Fiscal Sustainability Strategy (FSS), debt can only be issued for longer dated assets (10-years and beyond) and for those projects eligible to be debt funded in the capital budget.

    - HRM approved debt should (if possible) be leveraged for use in cost-sharing federal or provincial programs for spending on intangible or tangible infrastructure with a low cost/benefit ratio.

    - Projects can be funded by debt, irrespective of any debt targets, if any projected cost savings or additional revenues are sufficient to offset the additional debt carrying costs during the life of the asset, subject to Regional Council approval.

2. Other Financial Restrictions and Principles:

    - Nova Scotia Municipal Finance Corporation (NSMFC) through the NSMFC Act, carefully lays out what type of debt, borrowing options, maturities are to be set and manages market rates for NS municipalities. HRM is subject to the same criteria.

    - Municipal Debt is not purchased directly by international or institutional investors but by the Provincial Government to ensure liquidity and lower net borrowing rates. Municipal debentures are a form of provincial debt, which is owned by

[1] Tax Supported Debt per home is currently $1,177 in 2020 dollars.

larger market entities including pension funds, institutional entities, and the Bank of Canada.

- Municipal debt is provincially backed in capital markets. HRM's flexibility is through how much debt it can request through Temporary Borrowing Resolutions (TBRs) and what it can request/have approved.

- Subject to Regional Council approval, and any legal or other restrictions, debt may be issued in a manner other than debentures through the MFC.

3. Tax Supported Municipal Debt should be benchmarked through a combination of:

    - Debt per dwelling unit (primary measure)
    - Debt per capita,
    - Debt service payments as a percentage of general tax revenues or expenditures.
    - Tax Supported Debt as percentage of Net Book Value (NBV), taken from Audited Financial Statements at Year-End.

4. Determination of Eligible Projects for Debt Proceeds

    Capital projects eligible for debenture should:

    - Be classified as "Growth" projects per Capital Budget criteria, multi-year in nature or be classified as "Strategic Initiative (SI)" projects.
    - Have a minimum 10-year useful life.
    - Have a public benefit beyond routine rehabilitation or maintenance projects.

5. Other:

    - Nothing in these guidelines prevents the CAO from recommending, or Regional Council approving, an alternative approach or amount for either debt or capital from operating.

Capital from Operating Targets

1. Capital from Operating is targeted to grow at 6 per cent per year plus the per cent growth in dwelling units. This is intended to transfer the burden of funding ongoing annual capital expenditures to current year revenues, and away from debenture proceeds.

2. This is subject to annual budget approval from Regional Council.

Review

These guidelines will be reviewed by Finance & Asset Management every four years and any changes will be approved by Regional Council.