Re: Item No. 6

HALIFAX

2023/24 Budget Direction

Committee of the Whole on Budget

11/25/2022

Overview

- What is Budget Direction?
- Historical Budgets
- Economic Outlook
- Financial Outlook
- Future Budgets
- Recommendation

What is Budget Direction?

Budget Direction is the beginning of the Budget Process

- Previously known as “Fiscal Framework”
- This is setting direction on how to build Capital and Business Unit (BU) budget(s)
- Budget Committee will have opportunity to adjust each BU Budget
- Items can be added or removed via the Budget Adjustment List (BAL)
- Following the BU budgets staff will return with the BAL
  - Each item will include its individual tax implications
  - Items added/removed via the BAL will determine the final tax change

Past Budget Review

Past Budget

2022/23 Budget Included Several Key Changes:

- 4.6% Average Tax Bill Increase
  - Climate Action Tax Implemented 3.0% of the total increase
  - Remaining 1.6% was used to fund on-going operations which was 2.3% below inflation
- Debt Policy was increased to $1,200 per dwelling
- Deed Transfer Tax increased 38% from $60M to $83M removing any reasonable expectation of generating a surplus in that account like past years
- Capital-from-Operating funding guidelines implemented
- Reserves were restructured to reflect Strategic Projects
  - SI Operating & Capital Reserves created to fund over $1B of projects
- Identified several risks: Deed Transfer Tax, Capital-from-Operating, and Departmental Revenues

Significant Budget Impacts

2019/20
- “Pre-Pandemic” Budget
- Transit Revenues growing

2020/21
- “Covid Recast” Budget
- Fee revenues decrease
- Expenditure restraint
- Service reductions

2021/22
- “Mid-Pandemic” Budget
- $31M Re-Start Funding
- Fee revenues remain low
- Services begin to return

2022/23
- “Recovery Budget”
- Fee Revenues return
- Record High Deed Transfer
-Climate Action Tax Created
-Russian Invasion of Ukraine

2023/24
- Inflation episode
- Labour shortages
- Deed Transfer deceleration
- Rising interest rates

Capital Budget Challenges

$4B Infrastructure to Maintain & Replace

- Pre-2019, annual state-of-good-repair budget average 40% of total

Growth of Large Capital-Intensive Projects

- 2014 Planned & Potential Strategic Projects
- 2017 Integrated Mobility Plan
- 2020 HalifACT Climate Action Plan

Economic Influences

- Inflation (projects seeing 30-100% increases over past)
- Staffing shortages (10,000 vacancies in Halifax)
- Prolonged supply chain wait times

Climate Action Tax (CAT)

CAT was introduced in the 2022/23 Budget as a separate tax rate

- The CAT raises $18M annually to fund the following projects:
  - ✓ Climate Mitigation/Adaptation Projects (years 1-4)
  - ✓ EV Buses (phase 1)
- For 2023/24 Budget and onward, the CAT is a part of the base budget and does not factor into the tax increase required to balance the budget.

What's Changed Since 2022/23 Budget

The Financial & Economic Environment has Shifted

- Inflation is expected to average 7.0% in 2023
- Fuel costs have remained high due to commodity market shocks
  - 2022/23 Budget Assumed $0.72/L now assuming $1.56/L for 2023/24
- Interest rates have been increasing
  - Cost of borrowing is increasing
  - Investment income is also increasing
- Deed Transfer Tax Deceleration tied to housing market volumes
  - $83M in 2022/23 now projecting $76M for 2023/24

Economic Outlook

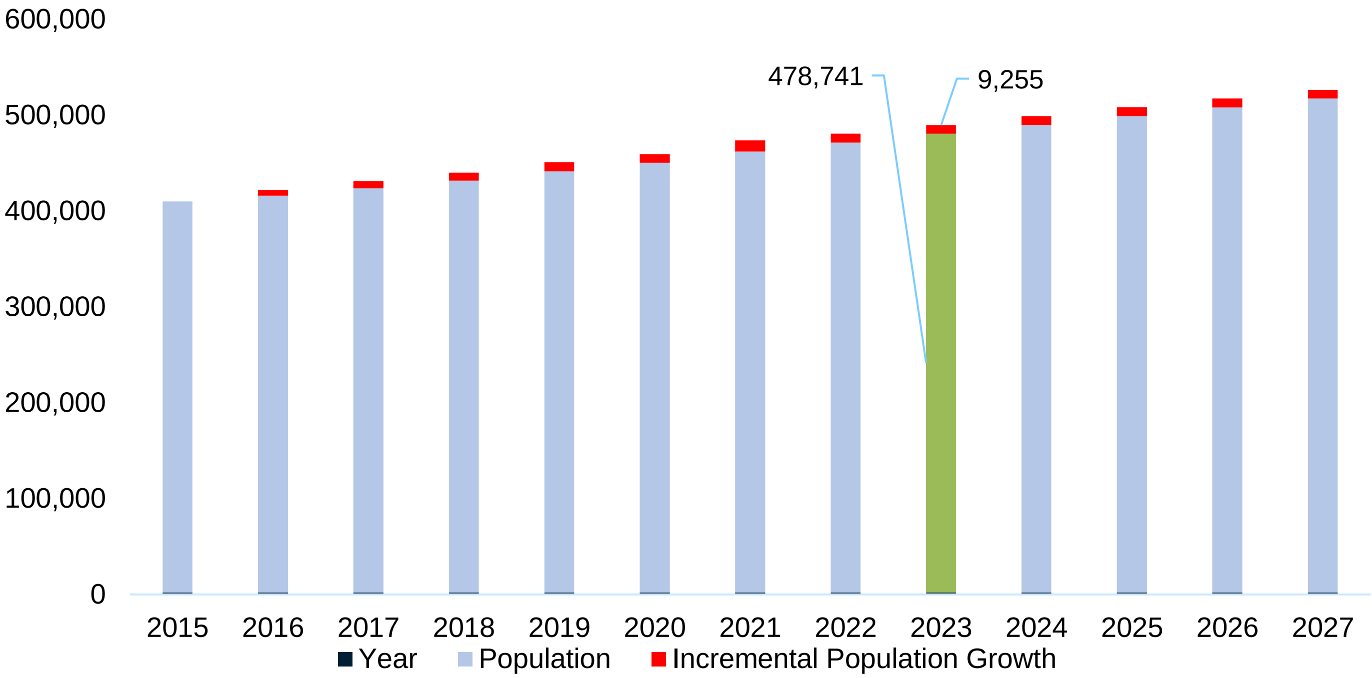
Economic Update

Halifax Region Macro Outlook Tables - 2021 - 2026 - % Change

	2022	2023	2024	2025	2026
Gross Domestic Product (Millions Chained 2012$)	2.12	2.52	2.63	2.63	2.63
Labour Force (Thousands)	1.25	1.52	1.48	1.48	1.48
Employment (Thousands)	4.05	0.88	1.11	1.10	1.29
Unemployment Rate	(34.65)	12.16	6.19	6.00	2.91
Consumer Price Index (2002=100)	3.88	7.01	5.00	2.85	2.10

Source: Canmac Economics (Halifax Region Economic Outlook, September 2022 Update)

Economic Update



Population expected to grow by 9,255 in 2023

Federal immigration policy implies continuation of underlying growth trend

Quick Tax Comparisons

Many Municipalities have just begun their budget processes

- Calgary 3.7% annually for 4 years[1]
    - Will also increase fees on many services
- Moncton expecting property tax revenue growth 10% in 2023[2]
    - Assessment growth allowed for a tax rate reduction
- Edmonton 3.9% annually for 4 years[3]

[1] https://pub-calgary.escribemeetings.com/filestream.ashx?DocumentId=225866
[2] https://www5.moncton.ca/docs/budget/BUDGET_2023.PDF
[3] https://www.edmonton.ca/sites/default/files/public-files/2023-2026ProposedOperatingBudget.pdf?cb=1669054563

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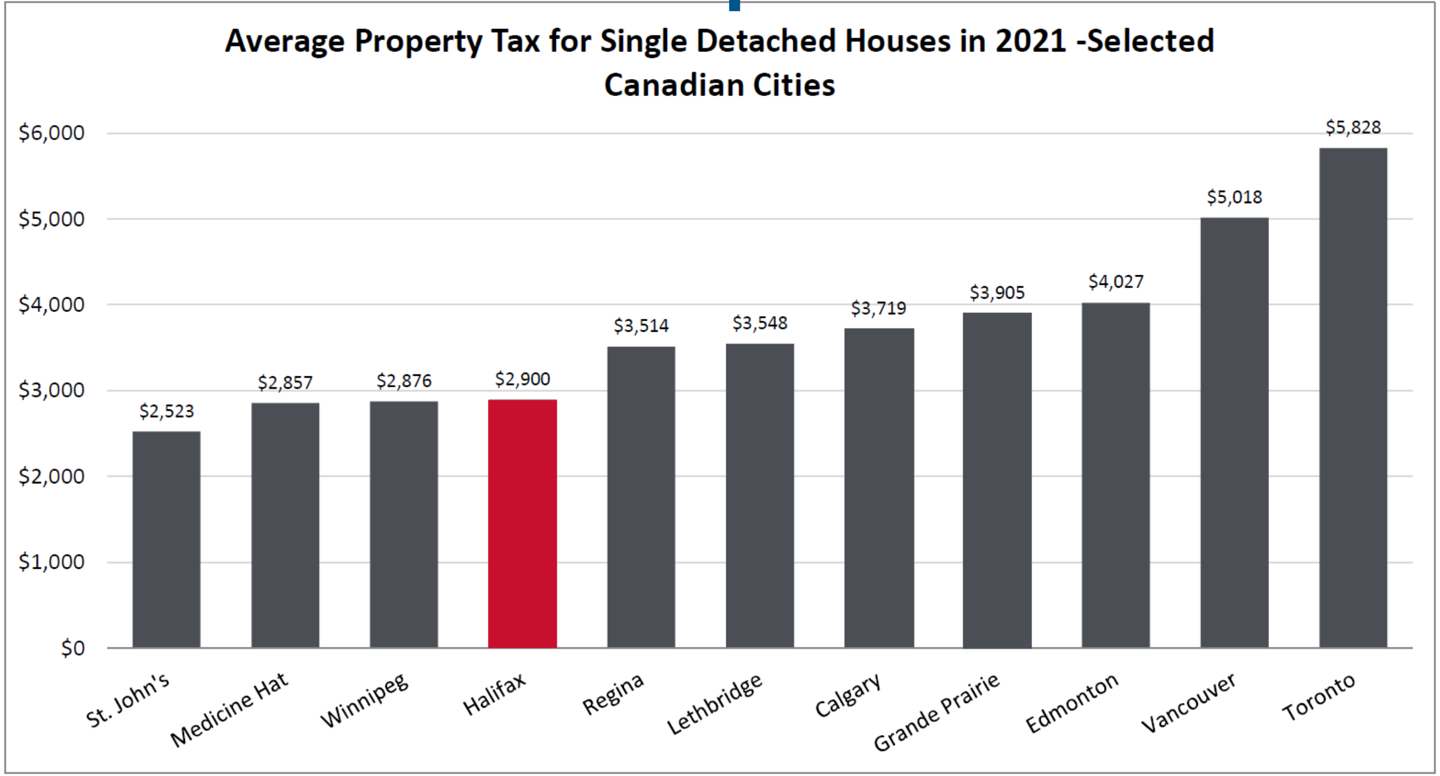
Tax Comparisons



Source: *City of Calgary 2021 Residential Property Taxes and Utility Charges Survey*

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Financial Outlook

Expenditure Mitigation

Expenditure Adjustments ($ millions)		
Total Budget Pressure 2023/24		**$76.6**
Remove Side-Walk funding (Cap-from-Op)	-7.0	
Delay MFTP	-2.9	
Business Unit reductions	-6.9	
Assumption changes	-3.7	
Total changes		**-20.5**
Revised Budget Pressure		**$56.1**

- Total pressures in 2023/24 would have required over 11% increase in average tax bill
- Sidewalk enhancements to be removed
- Halifax Transit Moving Forward Together Plan (MFTP) to be phased in at end of 2023/24
- Each BU asked to reduce budget
    - Reduction was allocated based on size of budget

Expenditure Changes ($ millions)

Total 2022/23 Approved Expenditures		**$1,106**
Compensation Changes	20.4	
CPP, EI & WCB increases	2.1	
Operating Cost of Capital of new assets	1.5	
Building Utility Costs	1.2	
Fuel Costs	9.6	
Non-Profit Grants Redesign	1.2	
Cap-Op Increase	8.0	
One-time funding removed	7.0	
Contract Increases & Other	4.4	
Total Expenditure Changes		**55.4**
Total 2023/24 Budget Direction Expenditures		**$1,161**

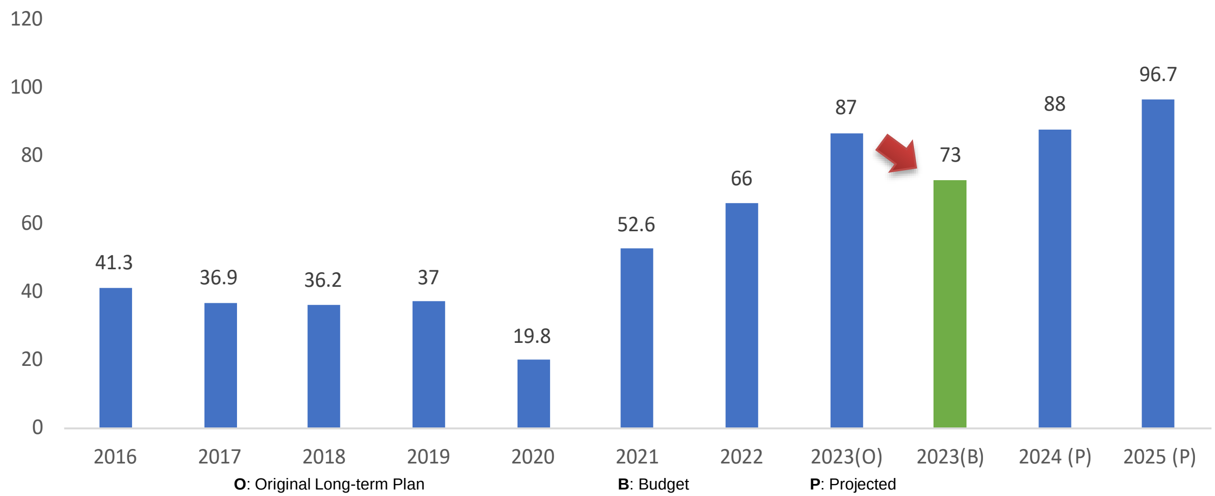
- Fuel expected to be $1.56/L
  - Fuel increase also includes a carbon tax of $0.16/L
- CPP/EI/WCB increasing
- Contracts have increased between 5 – 50%
- Non-Profit Grants redesign included $1.2M

Compensation Changes ($ millions)

Compensation changes from 2022/23 ($ millions)	
New positions funded in operating	5.8
Compensation adjustments	14.6
CPP/EI/WCB enhancements & increases	2.1
Total increase to compensation	**$22.5**

- Each Business Unit will present their position changes as part of their business plans
- Compensation increase is two pieces:
  - 75% of increase is salary adjustments
  - 25% is new positions
- Five collective agreements currently being negotiated

Capital from Operating



- $87M was expected in 2023/24
- Reduced to $73M to manage tax increase
- Funding is mainly used toward state-of-good-repair
- Majority of Capital-from-Operating funding not eligible to be replaced with debt

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Reserves Nearing Capacity

Reserve	Projected Closing Balance 2022/23	Projected Closing Balance 2023/24	Projected Balance 2024/25	Projected Balance 2025/26	Future Commitments	Projected Uncommited
TOTAL RISK RESERVES	10,105,147	10,266,847	10,431,147	10,598,047	-	10,598,047
TOTAL OBLIGATION RESERVE	62,428,233	63,546,658	33,842,283	33,004,808	33,004,808	-
TOTAL OPPORTUNITY RESERVE	212,097,151	217,264,599	256,248,847	282,545,195	274,234,132	8,311,063

- $8.3M is uncommitted in Opportunity Reserves
- Capital Fund Reserve is over committed in 2025/26
  - Will need to be addressed through reserve changes or tax increases
- $20M Stadium contribution is currently within Opportunity Reserves – Recommending it be reallocated to other Reserves
- SI Projects require additional funding (Mill Cove & BTC)

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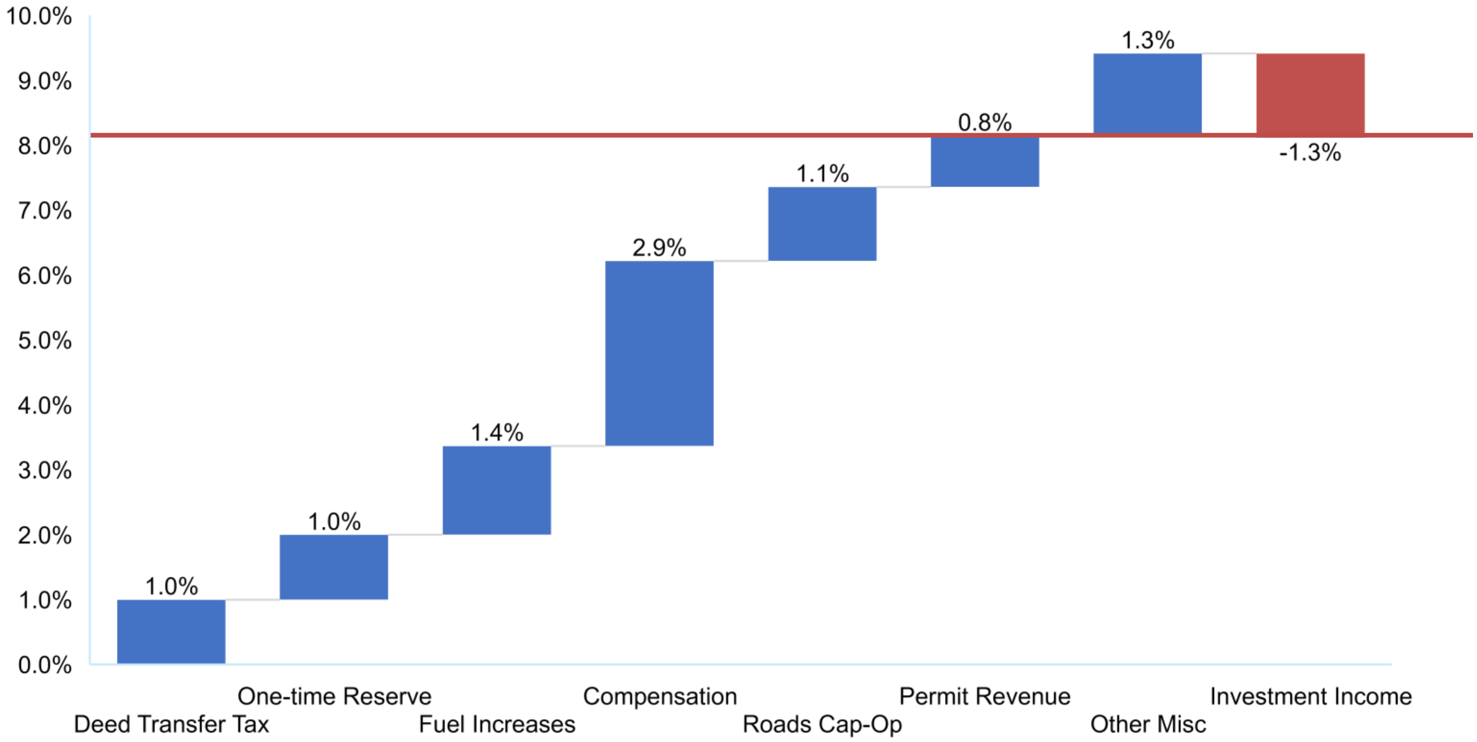
Tax Increase Drivers



8% Tax Increase

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Deed Transfer Tax (DTT) Revisions (000's)

DEED TRANSFER TAX HISTORY				
Year	Actual	Budget	Surplus	% of total Surplus
2022/23*	50,834	83,000	NA	NA
2021/22	81,369	60,000	21,369	72.8%
2020/21	59,587	40,850	18,737	56.9%
2019/20	60,181	39,000	21,181	60.3%
2018/19	46,097	37,000	9,097	34.9%
2017/18	41,971	33,000	8,971	91.5%

**As of Q2 Projections*

DEED TRANSFER TAX PROJECTIONS			
Year	Projection	Yr/Yr Change	% Change
2026/27	73,500	(300)	-0.4%
2025/26	73,800	(500)	-0.7%
2024/25	74,300	(1,700)	-2.2%
2023/24[1]	76,000	(7,000)	-8.4%
2022/23[1]	83,000	-	-

Source: Canmac Economics (Halifax Economic Outlook August 2022 Update)
[1] Internal HRM budget estimate

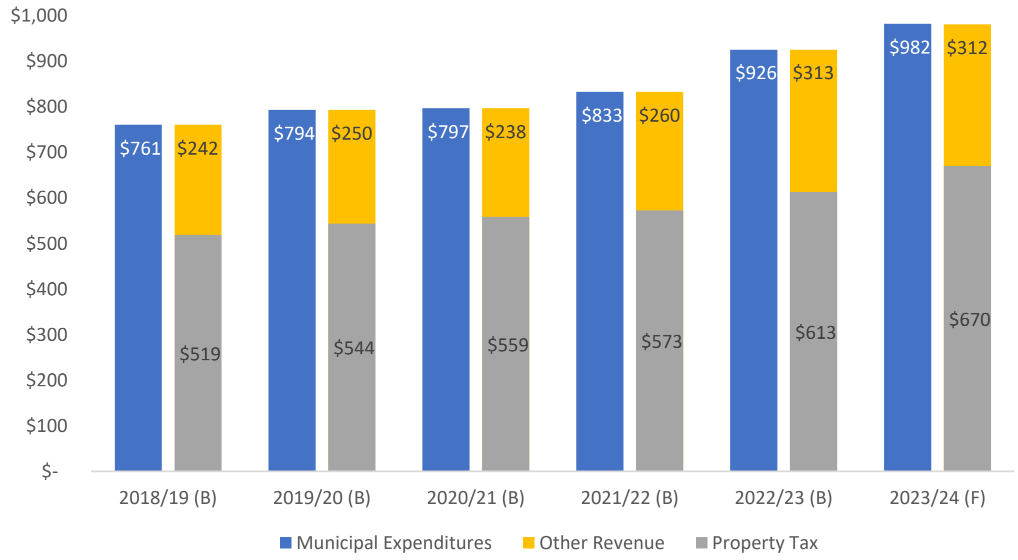
- DTT is projected to decline in 2023/24
- First significant decline in over 5 years
- DTT is 12.8% of total tax revenue (2022/23)
  - In 2017/18 was 6.6% of total tax revenue

Revenue Changes ($ millions)

Total 2022/23 Approved Revenues		**$1,106**
Decrease in Deed Transfer	-7.0	
Reduction in P&D Fee Revenue	-5.5	
Increase in Investment Income	9.1	
Transit Fare Recovery to 82.5%	0.7	
Add-back free Transit	0.8	
Other fee & Revenue changes	1.2	
8% increase in Property Tax Revenue	56.1	
Total Revenue changes Change		**$55.4**
Total 2023/24 Budget Direction Revenues		**$1,161**

- Non-tax revenue has decreased $600K
- Planning & Development driven by lower value permits
- Transit predicting increase with new fare technology
- Investment income increasing as rates rise

Revenue Changes ($ millions)



- Non-Property Tax Revenue expected to decline in 2023/24
  - As expenditures increase property taxes will need to fill the gap
- Deed Transfer Tax has led most of the increases in past years
- 2020/21 Non-Property Tax Revenue declined due to COVID-19
  - Expenditure constraints were used to mitigate this decline

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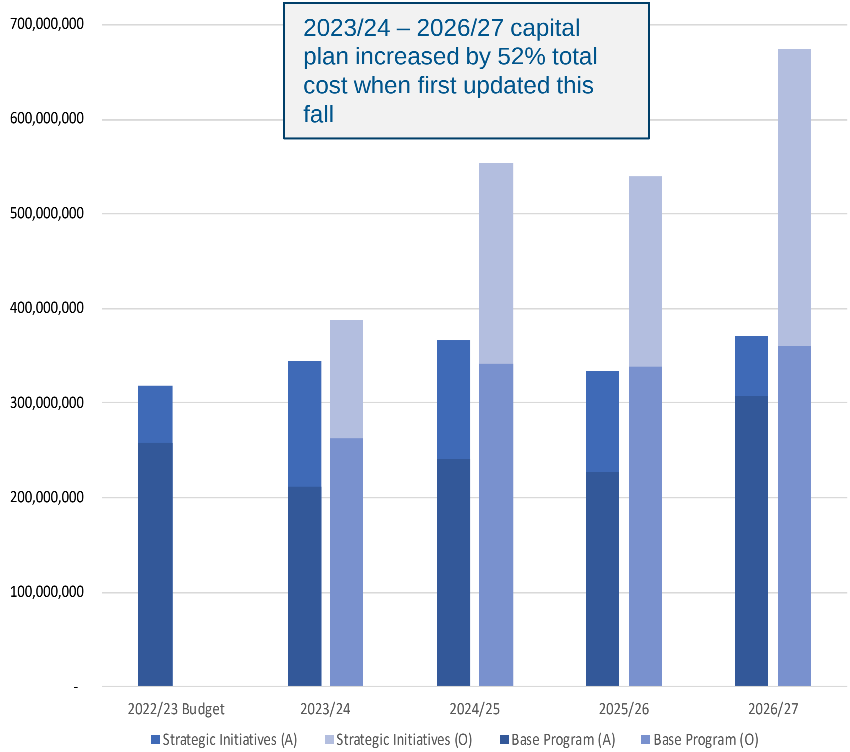
Budgeting for Tax Increases

Current Budget Assumption is an 8% Tax increase

- Estimated average tax bill for (municipal only) are:
  - $173 to the average single-family home
  - $3,955 to the average commercial property
- Official Assessment Roll from PVSC will come in late December
  - Assessment Update presentation in January
  - Will provide required tax rate for 8% tax increase based on new assessment

$$\frac{\text{Average Tax Bill}}{\text{Average Assessment}} = \text{Tax Rate}$$

Economic Impact on Capital Planning



Challenges: Inflation dynamics, Labour shortages, Supply chain logistics

Impacts: Cost escalations and scheduling delays

74% of Portfolio is Annual Programs or In-Flight Projects

Impacts: Limited ability to defer work without consequence; Funding programs have defined end dates and fixed contributions

Balancing: $840M reduction of 4 year Capital Plan to match available funding (8%); $50M debt capacity increase proposed

Capital-from-Operating Funded Projects

Asset Category	2023/24	2024/25	2025/26	2026/27	4Yr TOTAL	Annual Renewal Programs
Buildings/Facilities	22,907,000	30,570,000	25,245,000	37,700,000	$ **116,422,000**	71%
Business Systems	6,345,000	4,625,000	4,075,000	4,826,000	$ **19,871,000**	62%
Other Assets	3,094,000	1,504,000	1,504,000	1,504,000	$ **7,606,000**	0%
Outdoor Recreation	6,005,000	5,000,000	5,300,000	7,350,000	$ **23,655,000**	66%
Roads, Active Transportation & Bridges	17,531,667	32,334,850	46,735,000	40,530,000	$ **137,131,517**	63%
Traffic & Streetlights	1,100,000	1,650,000	1,400,000	2,200,000	$ **6,350,000**	69%
Vehicles, Vessels & Equipment	15,637,000	13,587,500	10,905,000	12,325,000	$ **52,454,500**	97%
Grand Total	**$ 72,619,667**	**$ 89,271,350**	**$ 95,164,000**	**$ 106,435,000**	**$ 363,490,017**	**69%**

- 108 Projects funded by Capital-from-Operating in 4-Year Plan
- 74% of costs = <u>not</u> debt eligible
- 69% of costs = proactive renewal work
  - ➢ Extends asset life
  - ➢ Prevents increased future costs
  - ➢ Increases service reliability and safety

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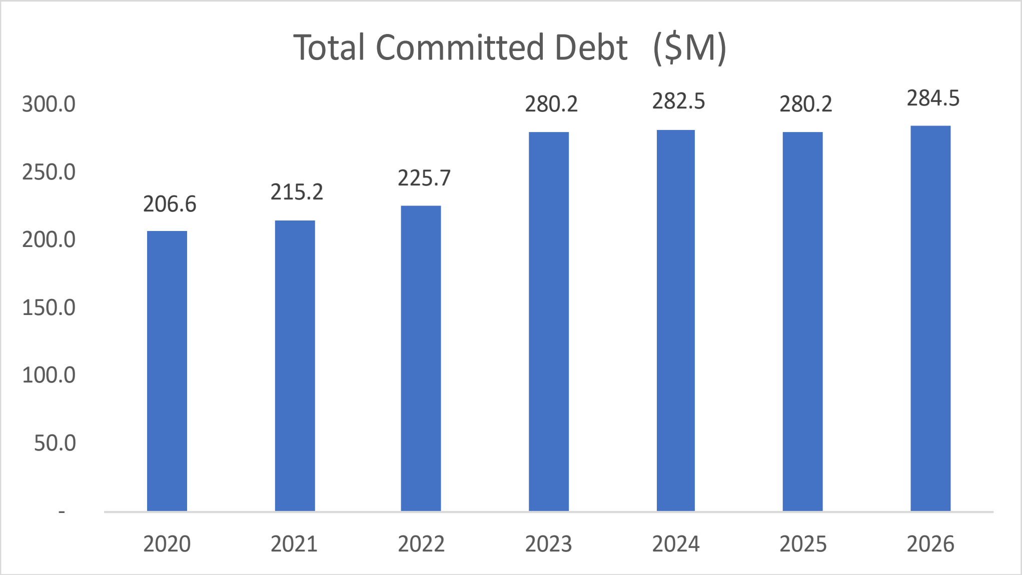
Budgeted/Forecasted Debt



Total committed debt is allotted toward projects, available debt is how much debt can be issued before the target is reached

- Debt is still below its high of $347M post amalgamation
- Debt stock will increase as more is used to fund Capital
- Recommend that debt target be increased to $1,500 per dwelling unit
- Operating expenditure cannot be funded from debt

Future Budgets

2024/25 Preliminary Forecast

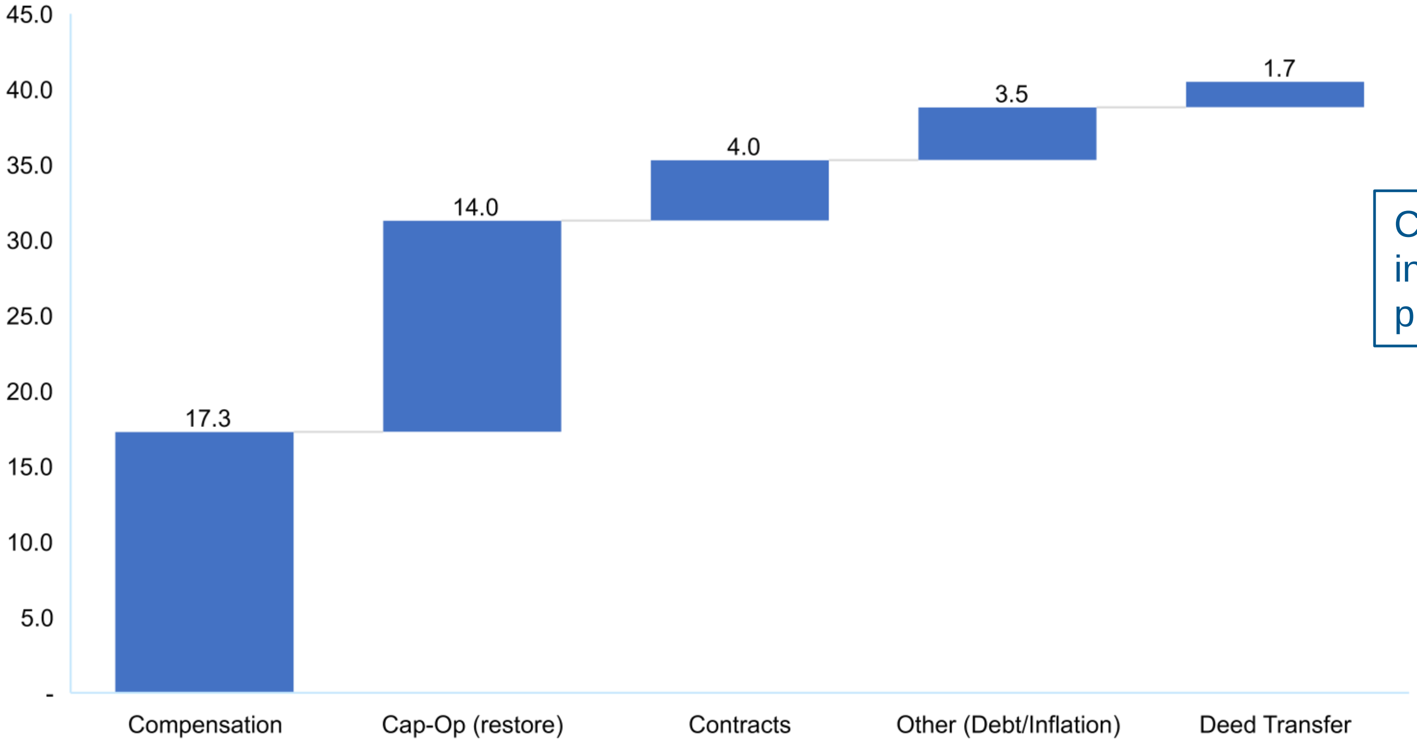
Expense pressures expected to continue

- Compensation/collective agreements will continue to compound
- Restoring Capital-from-Operating will require $14M
- Moving Forward Together Plan costs pushed out will impact 2024/25 $2.9M
- Inflation is slowing but will remain higher than normal
  - Contract costs increase as a result

Revenues will struggle

- Deed Transfer Tax will decline a further $2.0M and will continue to decline

Forecasted Pressures 2024/25 ($ millions)



Current projections indicate over $40M of pressure in 2024/25

Fiscal Sustainability

Fiscal Sustainability Risks

- Without changing services, 8.0% sustains current operations
- Use of one-time funding will increase and shift pressure to 2024/25
- Tax increases need to mirror changes in expenditures
- Need more focus on longer view of budgeting

Becoming Over Reliant on One-Time Funding

- One-time funding has helped mitigate past increases
    - Requires tax increase in next year to maintain service
- Relying more on Deed Transfer Tax causes more volatility in revenue

Debt is a Useful but Limited Tool

- Debt capacity is available; lending environment is highly restrictive
- Projects that are debt eligible are limited
- Operations are unable to be funded through debt
- Interest rates are at historic highs

Recommendation

1. Direct the Chief Administrative Officer to develop the 2023/24 Budget according to Council's approved priorities, and preliminary fiscal direction, including setting the average property tax bill for residential and commercial properties at an 8.0 per cent increase.

2. Recommend that Regional Council:

- Rescind direction to include $7 million in the 2023/24 budget to fund sidewalk program from capital from operating
- Reallocate $20 million that was committed in 2019 for the construction of a Community Stadium, in the Strategic Initiative Operating Reserve (Q667) to the following reserves:
    - $5 million to the Options Reserve (Q421) for the Solid Waste Facility capital project (CW190003)
    - $15 million be transferred to the Capital Fund Reserve (Q521) to fund over-commitments within the capital fund reserve
- Approve a revision to the debt policy of $1,500 per dwelling unit and amend capital-from-operating to be $72.922 million for the 2023/24 budget

Tax Reduction Options

Options to Reduce from 8%

- Reallocate reserve funding
  - Any one-time funding will equate to a tax increase in the following year
- Further reduction to Capital-from-Operating

These are not recommended options for long-term sustainability and asset management

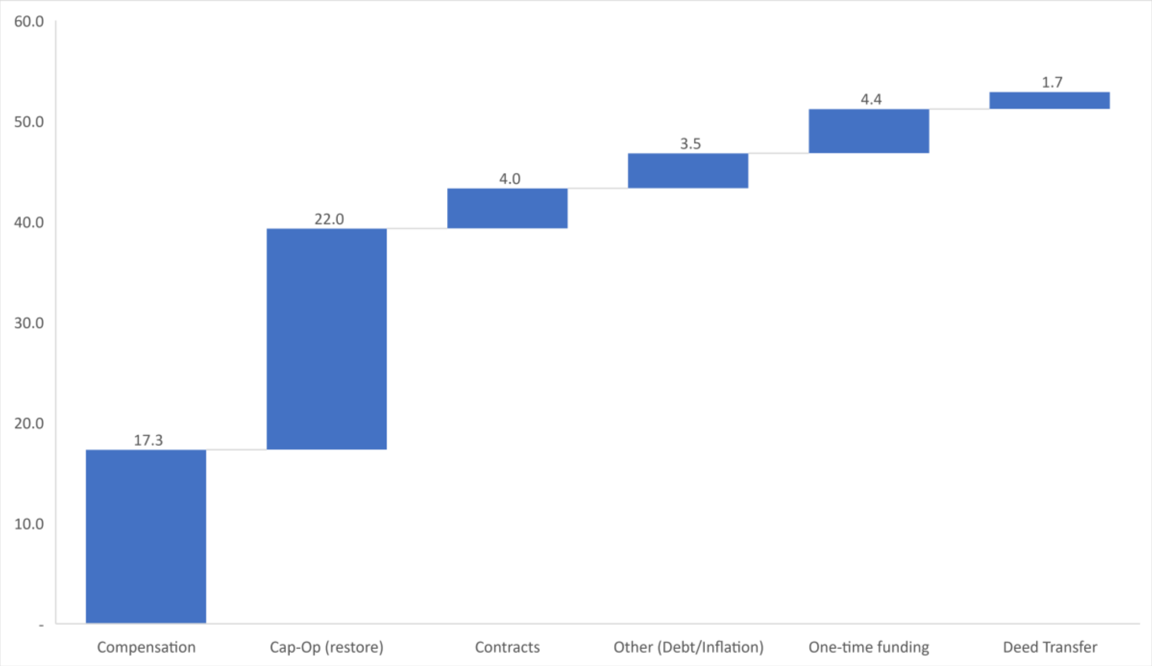
- Service reductions are an option
  - Is more financially sustainable in the long-term
  - Municipality is growing and demand for services is increasing

6% Tax Increase (Option 1)

8% Budget Increase Starting	**$56.1**
One-time Reserve Funding (Stadium)	-10.2
One-time Reserve Funding (AGNS/Studies)	-2.0
Revised Budget Increase 6% (Option 1)	**$43.9**

- Significant use of one-time funding
- Will move pressure into next year
- Does not address Capital Reserve issue which will need a new funding plan

6% Tax Increase (Option 1) Implications



Year 2 requires $53M of funding (over 7% tax increase)

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6% Tax Increase (Option 2)

8% Budget Increase Starting	$56.1
One-time Reserve Funding (Stadium)	-2.2
Cut from Op – Roads/Other	-8.0
One-time Reserve Funding (AGNS/Studies)	-2.0
Revised Budget Increase 6% (Option 2)	**$43.9**

- Relies less on one time funding
- Shifts pressure into Capital-from-Operating
- Leaves some funding to address Capital Fund Reserve

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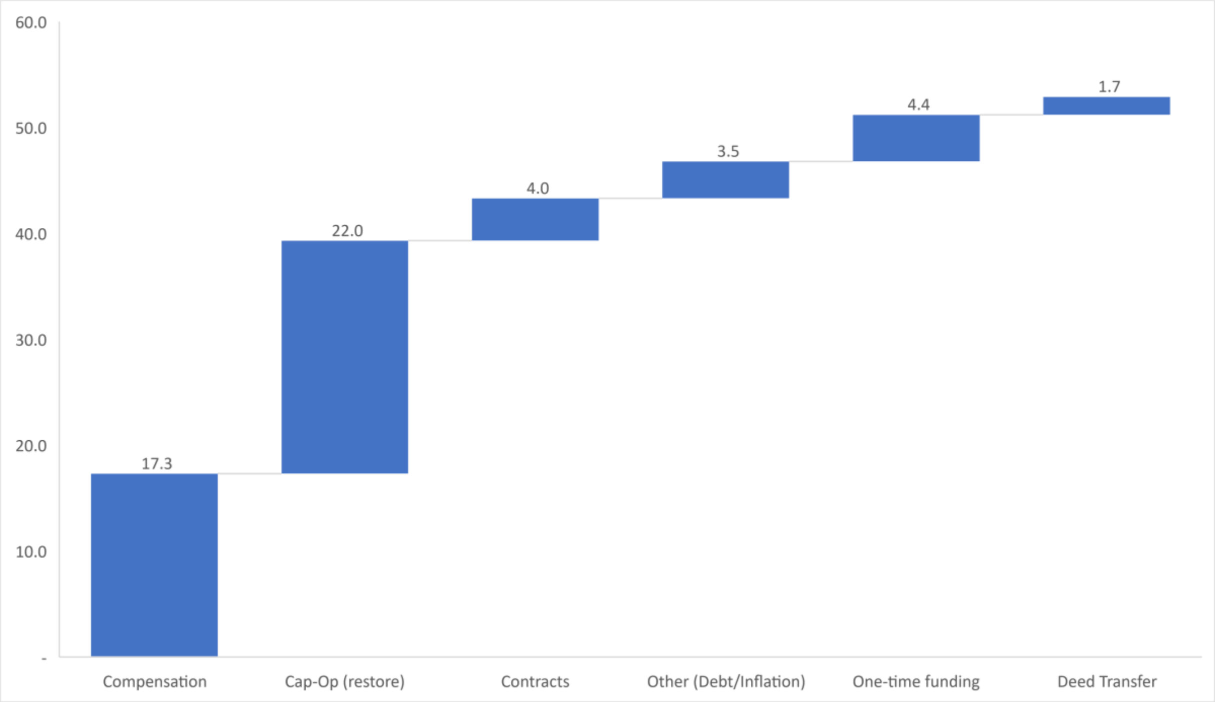
6% Tax Increase (Option 2) Implications



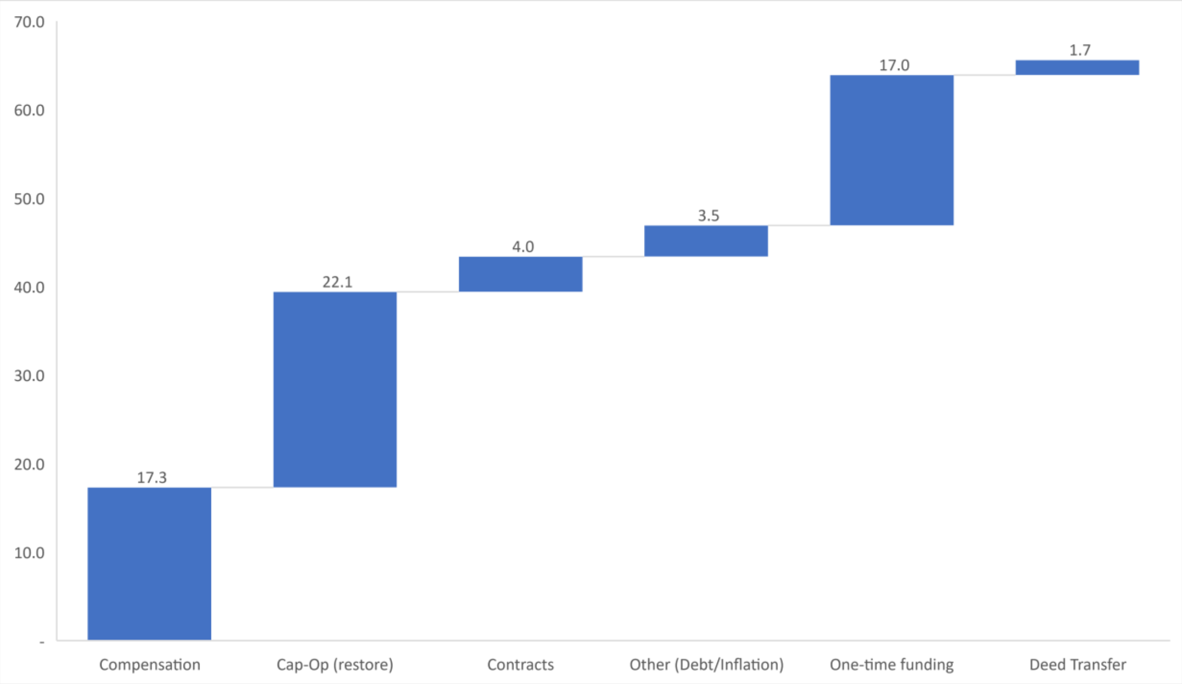
Year 2 requires $53M of funding If Cap-from-Op is restored (over 7% tax increase)

4% Tax Increase (Option 3)

8% Budget Increase Starting	**$56.1**
One-time Reserve Funding (Stadium)	-15
Cut from Op – Roads/Other	-8.1
One-time Reserve Funding (AGNS/Studies)	-2.0
Revised Budget Increase 4% (Option 3)	**$31.0**

- Uses all one-time funding
- Capital Fund Reserve will continue to have a funding issue
- Capital-from-Operating is reduced to less than 2022/23 Budget

4% Tax Increase (Option 3) Implications



Year 2 requires $66M of funding if Capital-from-Operating is restored (over 8.5% tax increase)

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Questions