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

Item No. 15.3.1
Halifax Regional Council
December 13, 2022

TO: Mayor Savage Members of Halifax Regional Council

SUBMITTED BY: - Original Signed -

Councillor Paul Russell, Chair, Standing Committee of the Whole on Budget

DATE: November 28, 2022

SUBJECT: **2023/24 Budget Direction**

ORIGIN

November 25, 2022 meeting of the Standing Committee of the Whole on Budget, Item 6.

LEGISLATIVE AUTHORITY

Legislative Authority is outlined in the attached staff report dated November 17, 2022.

Administrative Order One, *Respecting the Procedures of the Council*, Schedule 4: Standing Committee of the Whole on Budget, Terms of Reference section 6:

6. The Standing Committee of the Whole on Budget shall:

(a) review the proposed budget for the next fiscal year;

(b) report to the Council on matters respecting the proposed budget arising from its review; and

(c) perform such other duties as directed by the Council.

RECOMMENDATION ON PAGE 2

RECOMMENDATION

The Standing Committee of the Whole on Budget recommends that Halifax Regional Council:

1. Rescind the direction from the 2022-23 fiscal budget to include $7 million in the 2023/24 budget to fund a sidewalk program from capital from operating; and

2. Reallocate $20 million included in the Strategic Initiative Operating Reserve (Q667) in 2019 as a potential capital contribution for the construction of a Community Stadium, to the following reserves:

    - Transfer $5 million to the Options Reserve (Q421) for the Solid Waste Facility capital project (CW190003);

    - Transfer $15 million to the Capital Fund Reserve (Q521) to fund over-commitments within the capital fund reserve; and

3. Approve revised debt policy of $1,500 per dwellings and amend capital-from-operating to be $64.922 million, by reducing $8 million from street recapitalization, for the 2023/24 budget.

BACKGROUND

The Standing Committee of the Whole on Budget received a staff recommendation report dated November 17, 2022 to consider the 2023/24 budget direction, reallocation of funds from the Strategic Operating Reserve, and revisions to the debt policy.

For further information refer to the attached staff report dated November 17, 2022.

DISCUSSION

The Standing Committee of the Whole on Budget considered the staff report dated November 17, 2022 and made amendments to the original motion during their November 25, 2022 meeting. The motion as amended was approved as follows:

“THAT the Budget Committee:

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 a 4.0 percent increase by preparing proposals for reductions to the operating budget and only use onetime expense to offset costs in the current fiscal year if matched with an operating budget reduction in subsequent years.

2. Recommend that Regional Council rescind the direction from the 2022-23 fiscal budget to include $7 million in the 2023/24 budget to fund a sidewalk program from capital from operating; and

3. Further recommend that Halifax Regional Council:

    - Reallocate $20 million included in the Strategic Initiative Operating Reserve (Q667) in 2019 as a potential capital contribution for the construction of a Community Stadium, to the following reserves:

        - Transfer $5 million to the Options Reserve (Q421) for the Solid Waste Facility capital project (CW190003);

- Transfer $15 million to the Capital Fund Reserve (Q521) to fund over-commitments within the capital fund reserve; and

- Approve revised debt policy of $1,500 per dwellings and amend capital-from-operating to be $64.922 million, by reducing $8 million from street recapitalization, for the 2023/24 budget."

As per the direction of the Standing Committee of the Whole on Budget at their November 25, 2022 meeting, only clauses 2 and 3 of the motion as passed require ratification by Halifax Regional Council.

FINANCIAL IMPLICATIONS

Financial implications are outlined in the attached staff report dated November 17, 2022.

RISK CONSIDERATION

Risk consideration is outlined in the attached staff report dated November 17, 2022.

COMMUNITY ENGAGEMENT

Meetings of the Standing Committee of the Whole on Budget are open to public attendance and members of the public are invited to address the Standing Committee for up to five (5) minutes during the Public Participation portion of the meeting. Meetings are live webcast on Halifax.ca. The agenda, reports, video, and minutes of the Standing Committee are posted on Halifax.ca.

For further information on Community Engagement refer to the attached staff report dated November 17, 2022.

ENVIRONMENTAL IMPLICATIONS

Environmental implications are outlined in the staff report dated November 17, 2022.

ALTERNATIVES

The Standing Committee of the Whole on Budget did not provide alternatives.

Alternatives are outlined in the attached staff report dated November 17, 2022.

ATTACHMENTS

Attachment 1 – Staff recommendation report dated November 17, 2022.

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: Annie Sherry, Legislative Assistant, Municipal Clerk's Office 902.943.9741.

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

Attachment 1

Item No. 6

Budget Committee
November 25, 2022

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

Original Signed by

SUBMITTED BY:

Jacques Dubé, Chief Administrative Officer

DATE: November 17, 2022

SUBJECT: **2023/24 Budget Direction**

ORIGIN

Requirement to establish the direction from Council for the 2023/24 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 Budget Committee:

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 percent increase.
2. Recommend that Regional Council rescind the direction from the 2022-23 fiscal budget to include $7 million in the 2023/24 budget to fund a sidewalk program from capital from operating; and
3. Further recommend that Regional Council:
   - Reallocate $20 million included in the Strategic Initiative Operating Reserve (Q667) in 2019 as a potential capital contribution for the construction of a Community Stadium, to the following reserves:
     - Transfer $5 million to the Options Reserve (Q421) for the Solid Waste Facility capital project (CW190003)
     - Transfer $15 million to the Capital Fund Reserve (Q521) to fund over-commitments within the capital fund reserve; and
   - Approve revised debt policy of $1,500 per dwellings and amend capital-from-operating to be $72.922 million for the 2023/24 budget

BACKGROUND

Budget Direction (formerly known as Fiscal Framework) is the beginning of the 2023/24 Budget Process. Budget Direction sets the underlying assumptions that each Business Unit will build their proposed operating & capital budget on. Following, approval of Budget Direction, each Business Unit will present their proposed budget to Budget Committee. Budget Committee can make changes to the budgets via the Budget Adjustment List (BAL), which, will either lower or increase the overall tax increase for 2023/24.

In April of 2022 Regional Council approved the 2022/23 Budget which saw an increase to the average tax bill by 4.6 percent. Part of this increase, 3.0 percent, was directed specifically to HalifACT, HRM's climate action strategy. The remaining 1.6 percent was used to fund the operations of the municipality. As the budget was approved inflation began to become more prevalent in HRM, Canada, as well as the global economy. To hedge off the impact of inflation to the 2022/23 budget, staff recommended using $8M in surplus funds from the 2021/22 fiscal year.

As the municipality begins to build its budget and business plans for 2023/24, it is forced to tackle the inflation that began in early 2022 and has since escalated. The mitigation efforts employed during 2022/23 are now depleted and the municipality is faced with balancing increasing cost of services with households already coping with inflation.

DISCUSSION

Budget Direction was designed as HRM faces significant economic headwinds. Inflation has gripped the municipality and the municipality's once strong financial position is showing signs of erosion. As a result, 2023/24 Budget Direction is designed this year to address three key areas:

- coping with expenditure growth;
- the path to becoming fiscally sustainable; and
- maintain funding for strategic initiatives and base capital funding.

Economic Headwinds & Growth

Halifax's population continues to grow and is expected to increase by over 9,000 residents in 2023. The municipality's population is expected to reach half a million residents before the end of the decade. With this growth, comes increasing expectations and demands on the municipality to provide services. The cost of the services that the municipality provides is increasing as inflation reaches levels not seen since amalgamation. As outlined in Table 1, the impact from inflation is expected to be felt until 2025/26. The Bank of Canada has begun to take steps to rein in inflation; its actions will have a resulting impact to the financial situation of the municipality.

The labour market has become extremely competitive following the pandemic. Labour shortages are being seen across all sectors. The Halifax Partnership's Halifax Index has highlighted that job vacancies were at their highest ever in the region (at over 10,000) at the end 2021. This has caused havoc on the municipality's services. Positions within HRM are taking longer to fill than ever before and as a result there have been service disruptions (such as in transit).

Table 1

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 August 2022 Update)

Deed Transfer Tax Revenue Decreases

Over the last several years HRM has relied on Deed Transfer Tax (DTT) as a method to mitigate sizeable tax increases. Since the 2017/18 budget, DTT has nearly doubled, from $42 million to $81 million in 2021/22, and increasing again to $83 million expected in 2022/23. Over that same period, DTT has been responsible for the majority of the general rate surplus, accounting from 35% to 92% of the surpluses that the municipality has realized over the past five years as documented in Table 2.

Table 2

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*

The Bank of Canada has taken to interest rate increases to combat inflation. This has resulted in cooling the housing market and, thus, putting pressure onto DTT. For the first time in five years, DTT is expected to decrease. The current projection for 2023/24 is an expected decline of $7 million or 8.4 percent below 2022/23. If the current environment persists, it is expected that DTT will stagnate for several years and will not recover to the level expected in 2022/23 as seen in Table 3.

Table 3

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 Region Economic Outlook August 2022 Update)
[1] Internal HRM budget estimate

The municipality has relied on DTT in the past to fund operations in an effort to mitigate increases in property taxes. As DTT decreases, this operational funding will need to be made up either though increases to property taxes, user fees or though reductions to services.

Operating Pressures Increasing

Inflation is causing all expenditure categories to increase. Overall, total municipal expenditures are expected to increase by $55 million in 2023/24. Salary costs increase annually each year as part of collective bargaining, but other categories are also putting pressure on the operating budget:

- Compensation and benefits have increased by $20 million
- The cost of fuel has increased by $10 million from 2022/23

- Public Works contracts have increased by $2.9 million
- Operating Costs of Capital (OCC) for new capital assets has added over $1.5 million of new costs
- The employer portion of employment taxes (CPP/EI/WCB) has increased by approximately $2.1 million
- Utility costs are expected to increase by $1.2 million
- Various contractual increases have ranged anywhere from 5 to 50 percent
- One time funding from reserves of $7 million does not reoccur in 2023/24
- Capital-from-Operating is increasing by $8 million

Non property tax revenues, once seen as an opportunity, are expected to decline by over $600 thousand in 2023/24. Some revenue assumptions that were made in 2022/23 never materialized and some of the revenue budgets required right-sizing in 2023/24. Within these revenues there are several changes that nearly offset each other:

- As previously discussed, Deed Transfer Tax is expected decrease $7 million in 2023/24
- Planning & Development fees are decreasing by $5.5 million
- Transit fare revenue is expected to increase by $1.6 million
- Interest income will increase as interest rates rise providing $9 million in additional revenue
- Other one-time adjustments to revenues from 2022/23 have been added back such as one-time parking relief

The impacts of inflation are being felt in the current fiscal year. Currently, as of the second quarter projections, the municipality is running a deficit of $7.5 million. If this deficit continues into the end of 2022/23, the municipality will need to recoup the deficit in 2023/24. Currently, any deficit from 2022/23 has not been factored into 2023/24 budget direction.

Available Reserves Balances Nearing Capacity

Reserve balances are substantial, however, most of the reserves are committed toward current or future Capital or Strategic Initiative (SI) projects. While these balances are strong, they are reaching their funding capacity. However, they are not sufficient to deal with the funding required for HRM's Strategic Initiatives. Additionally, as the majority of the balances in reserves are committed to the Strategic Initiatives, there is little ability to respond to unexpected issues or opportunities.

Table 4

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

As of the second quarter of 2022/23, there was $8.3 million available as uncommitted in the Opportunity Reserves. Within the Opportunity Reserve category, the Capital Fund reserve is under significant pressure. As of Q2 is estimated that without future funding sources, this reserve will be over committed by 2025/26. This has arisen as operating surplus' have been used to fund one-time items and expected land sales are not materializing. As part of the recommendation of this report, it is recommended that funding within existing reserves be reallocated to help rebalance the capital fund reserve. Furthermore, there is a payment for harmonized sale tax on the solid waste facility that may be required earlier than expected. Therefore, staff is recommending $5 million be reallocated to the Options Reserve for this payment.

Strategic Initiatives & Climate Action

There is in excess of $1 billion worth of significant strategic city building programs such as HalifACT and the Integrated Mobility Plan (IMP) that are not fully funded within existing capital budget levels. In the 2022/23 budget, there were actions taken to begin funding these initiatives. The Strategic Capital reserve was created, with funds transferred in, to accumulate the funds that will be used to pay the principal and interest on the debt that will be issued to fund these strategic initiatives. Additionally, the Climate Action Tax (CAT) was passed with the goal of funding the first four years of HalifACT projects. Increasing project costs, as well as increasing debt borrowing costs will require future tax increases to complete these strategic initiatives. This is why staff are recommending to maintain current levels of funding to the SI projects.

Debt is a Limited Tool

HRM's issued debt is at roughly one-third of its debt capacity as defined by Municipal Affairs & Housing. However, taking on more debt to mitigate any tax increase is not possible. Unlike other levels of government, HRM is legislatively bound to approve a balanced budget and is not able to use debt to fund its on-going operations.

Capital projects can be funded through debt. This leads to the notion that Capital-from-Operating Expenditures (capital projects that are funded from the operating budget) could be reduced and projects funded from debt. However, the capital projects that this funding is allocated to are not debt eligible. Thus, reducing Capital-from-Operating will only result in projects being cancelled or delayed, primarily projects focused on maintaining existing assets in a state of good repair.

Capital Budget Challenges

Similar to previous budgets, the capital budget is facing several challenges:

- Municipal assets support the services directed by Regional Council. Condition assessments and improved planning have revealed that the municipality is not investing enough in renewal to maintain its assets. If willingness to pay for services does not match the cost to provide services and care for the related assets, service reliability will continue to decline as assets are taken out of service for safety reasons. Rapid population growth and demands for additional services are adding pressure to this imbalance.

- The portion of the capital budget funded directly from municipal revenues, Capital from Operating, is not keeping pace with needs. Capital funding from Operating has been set at $74 million for 2023/24. Although, this is an increase from 2022/23 of $8 million, the long-term plan expected $87 million for 2023/24. The $87 million plan included $7 million for an enhanced sidewalk program. This report recommends that the enhanced sidewalk program be rescinded to manage the tax increase for 2023/24. With the enhanced sidewalk program removed, the increase to Capital funding from Operating still falls short of the previous plan by $6 million. The proposed capital plan for 2023/24 has been reduced in response to this shortfall.

- 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 costs are doubling their original estimated costs. This is putting pressure on HRM's reserve balances and further deferring necessary maintenance activities.

To accommodate the capital plan, this report is recommending that debt ceiling be increased from $1,200 per dwellings to $1,500 per dwellings over four years. This would allow for an increase of $62 million of debt to fund capital projects. The revised debt policy is included as attachment A with this report.

Future Budget Considerations

The tax proposed tax increase for 2023/24 is significant. The decisions that are made to the 2023/24 budget have a direct consequence to 2024/25 budget and onward. Even with this increase in 2023/24, the municipality is expecting the base scenario for the 2024/25 budget will see over $40 million of pressures. This increase is still preliminary and does not yet include the impacts of a further year of inflation. Inflation is expected to begin to recede in 2024/25, however, it is expected to remain historically high in the 5 percent range. Additionally, capital-from-operating will need to increase to appropriately fund the capital budget.

As a result of this on-going pressure from inflation, it should be cautioned that any one-time efforts to reduce the tax increase will only increase cost pressures and the tax burden in the following year.

There are Three Key Actions included in this Framework

HRM is currently facing many pressures that have been unprecedented in recent history. To address this, there are three actions recommended:

1. **Average tax bill increases:** Property taxes need to increase 8.0 percent for HRM to cover off increasing costs. Taxes are the cost to pay for services, either higher costs or new services. HRM collects over 82 percent 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 $173 residential and $3,955 for commercial.

2. **Return to fiscal sustainability:** Expenditure growth has outpaced tax revenues. This was only sustainable due to the surge in Deed Transfer Taxes and use of one-time funding. Following the principles set out in the Fiscal Sustainability Strategy, one-time funding should be applied to one-time expenditures. As well, tax increases should by in sync with the expenditures it is funding.

3. **Maintain funding for existing SI projects:** The funding plan set for SI and climate projects that was set in the 2022/23 budget continues. Funding to the respective reserves for SI remains unchanged in 2023/24. This will keep the existing projects progressing in the short-term without increasing taxes further as the inflation wave passes.

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 2023/24 as well as debt.

RISK CONSIDERATION

There is considerable uncertainty that exists due to significant inflation and the current economic climate. This has created considerable difficulty making assumptions and forecasts for the 2023/24 fiscal year. Inflation has created historic uncertainty for firms, households, and governments. 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.

COMMUNITY ENGAGEMENT

The 2022 Municipal Services Survey was conducted between September 12 – September 29, 2022, and asked about residents' satisfaction with municipal services, where residents would like to see investments in municipal services and programs, as well as provided a section on HalifACT, the municipality's Climate Action Plan. Available to all residents in an online and paper-based format, the Municipal Services Survey is intended to be a 'pulse' survey supplementing the more rigorous Resident Survey. The survey provides information to support decision-making, however due to the non-random sampling approach, the survey cannot be used to draw inferences from the sample to the population of the Region. The results of the Municipal Services Survey were reported to Regional Council on November 22, 2022. The 2023/24 budget consultation process also seeks to solicit public comment by inviting members of the public to provide feedback following each business unit budget and business plan presentation.

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 2023/24 at rate other than 8.0 percent for residential and commercial taxpayers and provide direction on what services changes and adjustments staff can make to achieve the desired increase.

ATTACHMENTS

Attachment A – Revised Debt Policy

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: Tyler Higgins, Manager, Budget and Reserves, 902.220.9426,
Dave Harley, Director Accounting & Financial Reporting, 902.497.4260

HRM Debt Guidelines

ATTACHMENT A

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 $1,500 in 2022 dollars in approved debt to be issued, growing at the rate of growth in new homes plus prior year NS 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 gross revenues at any point during which these guidelines are in effect.

3. Other Debt Servicing costs will not rise above 2 per cent of gross 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:

    - The Department of Finance and Treasury Board 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 2021 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 Department of Finance and Treasury Board.

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.