

Re: Item No. 6

HALIFAX

2023/24 Budget Direction & Assessment Update

Committee of the Whole on Budget

01/25/2023

Budget Direction Update

Motion/Direction November 25, 2022

Staff Proposed 8.0% average tax bill increase for 2023/24

- Motion was amended to a 4.0% increase in 2023/24
- Motion amended further to:
 - Proposals for reductions for a 4.0% increase
 - Onetime expense reductions only used if matched with reductions in subsequent years

Budget Direction Update

Reduce tax increase to 8.0% with proposals for a 4.0% increase

- This requires \$25.1M of reductions/changes to balance
- Budget committee approved one-year \$8M reduction in paving budget
- Growth in new assessments provided \$1.8M
- \$15.3M remaining to find in 2023/24
- \$23.3M of sustainable reductions required into future years

Reductions

Staff has proposed over 90 reductions for 2023/24 & onward:

- 38 of the reductions (\$2.8M) have been “built in” to the proposed budget
- 58 of sustainable reductions are more significant changes for consideration:

Reductions for Consideration*	2023/24	2024/25
One-time	(520,000)	-
Sustainable	(19,861,366)	(33,821,601)
Total	\$ (20,381,366)	\$(33,821,601)

** Does not include any reductions to the Capital Budget or Police budget*

- List of reductions included with the report is preliminary
 - Final reductions and briefing notes will be included with each BU’s Business Plan & presentation
- Budget Committee can add further reductions as it sees fit

Reductions By Business Unit

New "Built-In" Reductions			
Business Unit	Reduction Type	2023/24	2024/25
Finance	Sustainable	(450,000)	(770,000)
HR & Corp. Comms	One-time	(208,100)	-
	Sustainable	(321,900)	(321,900)
Library	One-time	(15,000)	
	Sustainable	(10,000)	(10,000)
Planning & Development	One-time	(300,000)	
Prop. Fleet & Environment	One-time	(330,000)	
	Sustainable	(190,000)	(290,000)
Parks & Rec.	One-time	(415,400)	
	Sustainable	(224,500)	(224,500)
Public Works	Sustainable	(375,000)	(375,000)
Total Built-In Reductions		\$ (2,839,900)	\$ (1,991,400)

Reductions for Consideration ¹			
Business Unit	Reduction Type	2023/24	2024/25
CAO	Sustainable	(443,200)	(443,200)
Finance	Sustainable	(145,000)	(145,000)
HRFE	Sustainable	(1,338,900)	(2,760,300)
Fiscal	Sustainable	(3,950,000)	(6,750,000)
HR & Corp. Comms	Sustainable	(700,000)	(700,000)
Police ²	Sustainable	(237,500)	(237,500)
Transit ³	Sustainable	(6,660,266)	(9,331,101)
Library	One-time	(50,000)	
Planning & Development	Sustainable	(290,000)	(290,000)
Prop. Fleet & Environment	Sustainable	(350,000)	(350,000)
Parks & Rec.	One-time	(470,000)	
	Sustainable	(1,569,000)	(1,569,000)
Public Works	Sustainable	(4,415,000)	(11,483,000)
Total Reductions for Consideration		\$ (20,618,866)	\$ (34,059,101)

¹ Does not include reductions to the capital budget

² Reductions decided by BoPC; total budget approved by Budget Committee

³ Contains a reduction that has 2 options; the sustainable option has been included in the total

Process

BUs will include reductions in their budget presentations:

Reductions added directly to Budget

- Budget Committee can add reductions directly to the BU's budget by an amended motion
 - BU's budget will be adjusted to include reduction
 - These items will not come back for further debate on the BAL
 - These can be revisited; requires vote to undo

Reductions added directly to BAL

- Budget Committee can add reductions directly to the BAL by an amended motion
 - BAL items are not immediately reflected in BU's budget
 - BAL items will return for further debate on March 29 & 31

Finance will track all changes made to the budget

Proposed Capital BAL Impacts

		2023/24 Budget	2024/25 Plan	2025/26 Plan	2026/27 Plan
Approved Base Capital Plan		\$ 171,109,000	\$ 222,899,000	\$ 196,461,000	\$ 215,959,000
Capital BAL Items:					
Bedford Library Replacement *	BAL: Escalate 3yrs	500,000	10,000,000	5,000,000	-
	<i>Remove 23/24 Plan</i>	-	-	-	(500,000)
New Bedford West Fire Station & HQs Campus *	BAL: Escalate 2yrs	-	16,000,000	24,000,000	-
	<i>Remove 23/24 Plan</i>	-	-	-	(16,000,000)
Alderney Gate Library Renos	BAL: Escalate 2yrs	1,000,000	2,000,000	2,000,000	3,000,000
	<i>Remove 23/24 Plan</i>	-	-	(1,000,000)	(2,000,000)
Captain William Spry Library Renos	BAL: Escalate 1yr	-	-	1,000,000	2,000,000
	<i>Remove 23/24 Plan</i>	-	-	-	(2,000,000)
Halifax North Memorial Public Library	BAL: Escalate 4yrs	3,000,000	-	-	-
	<i>Remove 23/24 Plan</i>	-	-	-	-
Active Transportation (new sidewalks)	BAL: Increase	-	3,000,000	3,000,000	3,000,000
		-	-	-	-
MacDonald Park Ball Field Lighting *	BAL: Escalate 3yrs	-	300,000	-	-
		-	-	-	-
Sheet Harbour Recreation Centre	BAL: Escalate 1yr	-	7,000,000	8,000,000	-
	<i>Remove 23/24 Plan</i>	-	-	(7,000,000)	(8,000,000)
Sheet Harbour Fire Station	BAL: Escalate 1yr	-	6,000,000	4,000,000	-
	<i>Remove 23/24 Plan</i>	-	-	(6,000,000)	(4,000,000)
Adjusted Total 2023/24 Base Capital Plan		\$ 175,609,000	\$ 267,199,000	\$ 229,461,000	\$ 191,459,000
Net Funding Required for BAL Capital Items	(Net of Cost Share)	\$ 4,500,000	\$ 41,220,140	\$ 32,560,020	\$ (20,980,160)

* Cost represented above are based on current design and previous estimates; BAL Briefing Notes will address requested scope and design changes

2024/25 Preliminary Forecast

Expenditure pressures expected to continue:

- Compensation expected to increase \$17.3M
- Restoring Cap-from-Op Will require \$23.7M
- Inflation is slowing but will remain higher than normal
 - Contracts expected to increase \$4M
 - Debt and other cost expected to rise by \$3.5M

Revenues will struggle:

- Deed Transfer Tax will decline a further \$1.7M and will continue to decline into the future

Increase	Amount (\$M)	Tax bill impact (%)*
Compensation	17.3	2.8
Cap-Op (restore)	23.7	3.9
Contracts	4.0	0.7
Other (Debt/Inflation)	3.5	0.6
Deed Transfer	1.7	0.3
Total	\$ 50.2	8.3%

*Approximate - Increase is based on 2023/24 Assessment/Bill

2024/25 Preliminary SI Capital Forecast

	2023/24 Budget	2024/25 Plan	2025/26 Plan	2026/27 Plan
Approved Strategic Initiatives Capital Plan	\$ 145,242,000	\$ 215,319,000	\$ 350,380,000	\$ 316,211,000
22/23 Climate Action Tax Funding Plan	30,680,490	37,505,000	43,775,000	-
22/23 SI Reserve Funding Plan *	65,226,029	99,124,666	89,785,067	19,802,267
Confirmed Cost Share	45,685,481	10,435,334	17,499,933	4,377,733
Future Unfunded Strategic Initiatives Projects	\$ -	\$ 68,254,000	\$ 199,320,000	\$ 292,031,000
Future Climate Action Tax Funding Increase	-	2,760,480	-	39,688,150
Future SI Reserve Funding Increase	-	25,000,000	64,000,000	108,200,000
Potential Cost Share **	3,650,000	40,493,520	135,320,000	144,142,850
Tax Bill Impact	0.0%	4.6%	10.7%	24.6%

* If Cogswell future land sales are less than estimated, annual debt repayments will be added to the General Rate and increase the Unfunded Total

** Approved SI Projects will proceed when Cost Share applications are approved and land purchased, resulting in tax increases; 2024/25 Budget will propose Debt vs. SI Debt

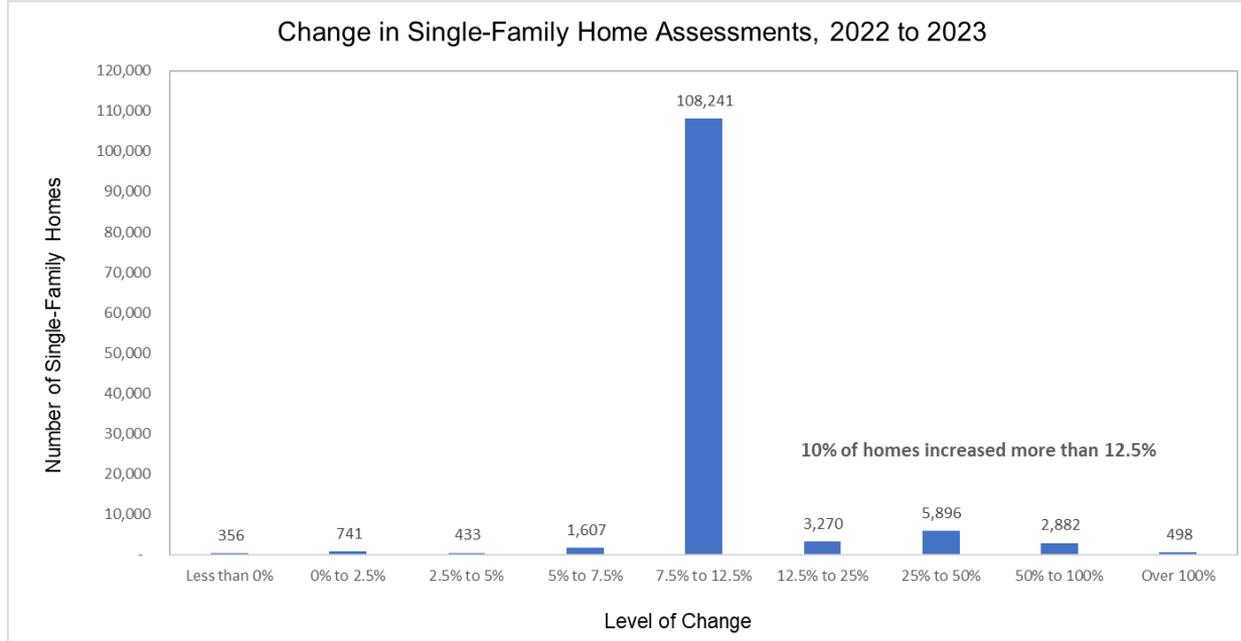
- Annual Climate Action Tax contributions (\$18M/yr for 10 yrs) to be updated in 2025/26 to incorporate future HalifACT budgets to accomplish net zero by 2030
- 2024/25 funding to be increased for Mill Cove Ferry Service and Burnside Transit Centre Eco-Rebuild projects, if cost sharing applications are approved

Assessment Update

PVSC Residential Assessment Roll

- HRM has experienced a period of historic residential assessment growth
- Overall assessment increase of 12.8%
- Prices of single-family households have risen dramatically since 2020
- Market Factors:
 - Above-trend HRM population growth rates
 - Supply inelasticity and demand growth
 - Nominal interest rates at or near zero prior to inflation episode of 2022
 - Pent-up demand post loosening of COVID-19

PVSC Residential Assessment Roll

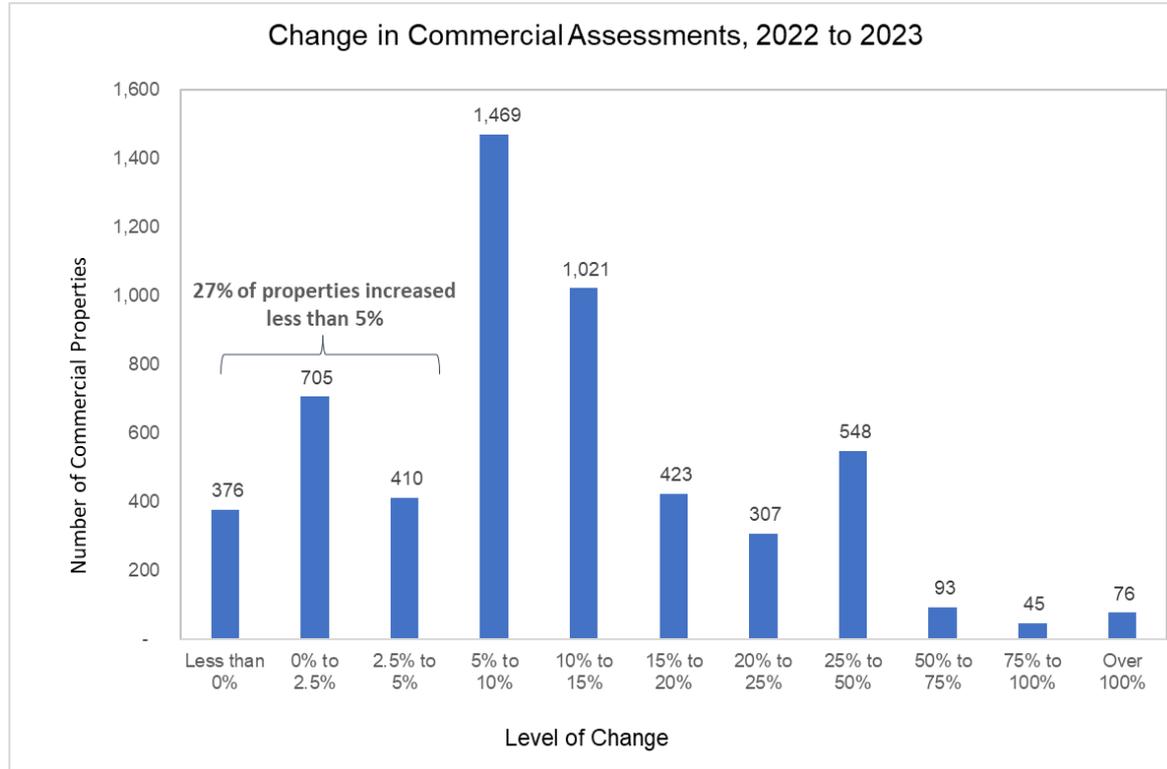


- In 2023, 85% of property tax revenue comes from Assessed values under \$450,000 versus 89% in 2022.

PVSC Commercial Assessment Roll

- HRM Commercial sector shows modest signs of recovery
- Overall assessment increase of 8.5%
- **Base effects** present (total value of Roll in 2021/22 is only 8.3% less than 2023/24).
- Industrial and commercial leases had some of the highest growth
- Industrial and commercial vacant land account for incremental unit growth
- Commercial Tax Area Breakdown:
 - Business Park Area – 7.9%
 - Community Area – 14.2%
 - Downtown/Community Area – 6.3%
 - Industrial Area – 18.4%
 - Rural Area – 8.4%

PVSC Commercial Assessment Roll



Revenue Update

Property Taxation

- In a 4.0% average tax bill increase scenario
 - Municipal tax rate would decline 6.0% residential and 4.0% commercial
 - Average residential tax bill would increase \$86 and commercial would increase \$1,831

Table 2
Average Residential Tax Bill

	2022/23	2023/24	%
	Approved	Proposed	Change
Assessment	272,100	301,100	10.7%
Mun. Tax Rate	0.794%	0.746%	-6.0%
Average Tax Bill	\$2,160	\$2,246	
Increase \$		\$86	
Increase %		4.0%	

Table 3
Average Commercial Tax Bill

	2022/23	2023/24	%
	Approved	Proposed	Change
Assessment	1,471,900	1,594,000	8.3%
Mun. Tax Rate	3.105%	2.982%	-4.0%
Average Tax Bill	\$45,702	\$47,533	
Increase \$		\$1,831	
Increase %		4.0%	

Commercial Taxation AO

- *ADMINISTRATIVE ORDER 2022-003-ADM RESPECTING COMMERCIAL PROPERTY TAXATION IN CERTAIN AREAS OF THE MUNICIPALITY* becomes effective on April 1, 2023
 - Five new tax areas will replace the previous urban, suburban, rural areas
 - Each tax area will be split into three separate tier groups
 - Rate example using 2022/23 commercial rates shown

Tiered Rates for Five Tax Areas

	Up to \$1M	\$1M to \$2M	Over \$2M
Business Park Area	2.866	2.716	3.566
Industrial Park Area	2.866	2.716	3.166
Downtown/Community Area	2.866	2.716	3.016
Community Area (outside CDD)	2.866	2.716	3.016
Rural Area	2.662	2.662	2.662
	Up to \$1M	\$1M to \$2M	Over \$2M
Current (urban/suburban)	3.016	3.016	3.016
Current (rural)	2.662	2.662	2.662

Commercial Assessment Averaging

- The Assessment Averaging (Commercial Development District) By-Law was reviewed by Regional Council on March 22, 2022, and approved by Regional Council on May 3, 2022
- The by-law has been provided to the Minister of Municipal Affairs and Housing (MHA) for review
- MHA has provided notification on January 11, 2023, that the By-Law has not been approved

Commercial Tax AO: High Level Impacts by Area

Area	Average of Net Commercial Taxation Impact (\$)	Sum of Net Commercial Taxation Impact (\$)
Business Park Area	17,647	4,994,058
Community Area	(606)	(219,312)
Downtown/Community Area	(1,326)	(4,153,584)
Industrial Park Area	(719)	(611,049)
Rural Area	(2)	(2,099)
Grand Total	1	8,015

Commercial Tax AO: High Level Impacts: Per Property

Impacts vary by property, however analysis by finance shows the following:

- Most any property saves : **(\$4,500)**
- Highest Increase for any property : **\$283,000**
- Highest increases are concentrated in the *Business Park Area*

Commercial Taxation AO

Internal modelling using 2023/24 budget estimates finds the following:

- **Revenue neutral** but at substantial cost to “Business Park Area” (\$5M in tax payable relative to status-quo)
- **Policy rationale:** Regional Council interest to support "small businesses" in certain areas of HRM
- Ultimately: directed staff to combine options (Tiers and zones) in December 2021.

Commercial Taxation AO: Policy Analysis

- Simplicity and credibility go hand in hand; the more complicated the system, the less transparent it is for the public.
- Equity concerns should not be addressed through property tax levies; best left for other policy tools.
- Current structure has produced a relative and absolute decline in the share of property taxes paid by commercial relative to residential (%).
 - 50/50 at amalgamation, now almost 63/37.
- Economic implications may appear limited, however sentiment in the business community may be impacted, particularly for those paying property tax in the Business Park area.

HALIFAX

Questions