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Item No. 13.2.2
Audit & Finance Standing Committee
September 20, 2023

TO: Chair and Members of Audit & Finance Standing Committee

SUBMITTED BY: **-ORIGINAL SIGNED-**

Cathie O'Toole, Chief Administrative Officer

DATE: September 11, 2023

SUBJECT: **Risk and Resiliency Reserve Withdrawals & Emergency Funding**

ORIGIN

In light of the recent hurricanes, wildfires and flooding that have occurred in the region.

LEGISLATIVE AUTHORITY

Halifax Regional Municipality Charter, S.N.S. 2008, c. 39 as amended

79A (1) Subject to subsections (2) to (4), the Municipality may only spend money for municipal purposes if

- (a) the expenditure is included in the Municipality's operating budget or capital budget or is otherwise authorized by the Municipality;
- (b) the expenditure is in respect of an emergency under the Emergency Management Act; or
- (c) the expenditure is legally required to be paid.

(2) The Municipality may expend money provided for in an operating budget or capital budget for a purpose other than that set out in the operating budget or capital budget for that fiscal year if the expenditure does not affect the total of the amounts estimated for the operating budget and the capital budget.

(3) The Municipality may authorize expenditures from its operating budget or transfer money from the operating budget to its capital budget if the total amount of such expenditures and transfers for the fiscal year does not exceed the total amount of estimated revenue from all sources in excess of the amount estimated for those sources in the operating budget for that fiscal year.

(4) The Municipality may authorize capital expenditures that are not provided for in its capital budget if the total of such expenditures does not exceed the greater of

- (a) the amount authorized to be transferred from the operating budget to the capital budget under subsection (3);
- (b) the borrowing limits established for the Municipality under Section 109; or

(c) the amount withdrawn from a capital reserve fund under subsection 120(4).

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Administrative Order One, the Procedures of Council Administrative Order, Schedule 2 - Audit and Finance Standing Committee Terms of Reference

8. The Audit and Finance Standing Committee shall review and make recommendations on proposals coming to the Council outside of the annual budget or tender process including:

- (a) new programs or services not yet approved or funded;
- (b) programs or services that are being substantially altered;
- (c) proposed changes in any operating or project budget items;
- (d) the commitment of funds where there is insufficient approved budget;
- (e) new or increased capital projects not within the approved budget;
- (f) increases in project budget due to cost sharing; and
- (g) the creation or modification of reserves and withdrawals not approved in the approved budget.

Administrative Order Number 2014-015-ADM, Respecting Reserve Funding Strategies

5. The Audit and Finance Standing Committee shall review and recommend to the Council for its consideration all impacts to the Reserves.

9(3). A contingency fund for risk recognizes that:

- (a) the financial risk of unforeseen events involving substantial costs, such as emergencies or economic events, and that a Reserve can mitigate this risk by providing funding for sufficient public safety or preventing service interruptions.
- (b) a withdrawal from a contingency fund for risk must be quantifiable or subject to estimate based on assumptions.

RECOMMENDATION

It is recommended that the Audit & Finance Standing Committee, recommend to Regional Council to:

1. approve a transfer of \$15,000,000 from the Capital Funds Reserve, Q526 into the Risk and Resiliency Reserve, Q416;
2. approve an unbudgeted withdrawal of up to \$25,000,000 from the Risk and Resiliency Reserve, Q416;
3. approve the full, remaining balance of the Risk and Resiliency Reserve, Q416, (after the withdrawal of the \$25,000,000 as set forth in Recommendation 2) be used toward unbudgeted costs for remediation and replacement expenditures related to emergency and disaster events which are more fully described in this report; and,
4. direct that any funding that is received from other external sources, such as provincial or federal government relief programs, be reallocated to the Risk and Resiliency Reserve, Q416.

BACKGROUND

Over the course of the last year, we have seen unprecedented weather and emergency events throughout the municipality. Wildfires, hurricanes and flooding rarely seen in the region have caused damage to the municipality's assets and required a significant emergency operational response. To date, these events

have seen HRM incur costs of around \$10M, with additional costs still to be determined and major road work still to be completed. While some of these costs may be recovered either through insurance or Provincial Disaster Assistance claims, those funds are not expected to be received for a significant period of time.

DISCUSSION

The purpose of the Risk and Resiliency Reserve is to deal with the risk of unforeseen events involving substantial costs, so that the municipality can mitigate, adapt and recover from such an event. The events that have occurred thus far in 2023 meet this criteria. As a result of these events, staff are recommending that Audit & Finance Standing Committee (AFSC) recommend that Regional Council approve a full withdrawal of all funds from the Risk and Resiliency Reserve. The funding that is withdrawn from this reserve will be used to fund the following:

- Capital remediation of damaged assets (such as repairing buildings, roads, vehicle repairs/replacements, etc.),
- Unbudgeted and extraordinary operating expenditures that occurred as a result of the events (such as overtime costs, security, or additional fuel costs).

Where the total amounts of funding required for the events that have occurred are not yet known, staff are looking for approval of the balance in the reserve. This allows staff to have access to the reserve to ensure funding is available. As the staff are looking for authority to spend without any set project or expense, to ensure complete transparency on how the funding is used, staff will include a summary expenditure from this reserve as part of the future quarterly financial reports.

Staff will complete a \$15 million transfer into the Risk and Resiliency Reserve from the Capital Funds Reserve. This transfer will help facilitate the cash-flow of expenditures that are coming forward. Currently, there is a significant cost for fencing (approximately \$10M) that will need to be covered by the municipality. However, it is expected this expenditure will eventually be recovered. The Capital Funds Reserve currently has capacity for the transfer, but the reserve balance will need to be closely monitored to ensure that there is funding available for future needs of the capital plan.

Currently, the municipality is estimating the following expenditures for the events that have occurred:

- \$4.4 million Hurricane Fiona
- \$13.7 million Wildfires
- \$2.4 million Flooding

These expenditures are still preliminary. Work on remediation for the damage caused by the events is still ongoing and the final cost is still settling.

The Risk and Resiliency Reserve does not have a recurring funding source. In its current state, once the funding is used it is not replenished. Therefore, staff are recommending that if any funds used from the reserve are recovered through insurance or a disaster relief claim, that they be directed back to the reserve. As these severe events become more frequent, staff will be coming forward with a funding plan for the Risk and Resiliency Reserve along with an overall funding plan for all reserves (including the Capital Funds Reserve).

FINANCIAL IMPLICATIONS

Budget Summary: Option Reserve, Q416

Projected Net Available Balances, as of Q1, 23/24 \$ 10,446,254

Transfer from Capital Fund Reserve (Q526)	\$ 15,000,000
Unbudgeted Withdrawal(s)	<u>\$(25,000,000)</u>
Projected Net Available Balances	\$ 446,254

A series of new capital project accounts will be created by staff as asset remediation or replacement is identified, to distinguish this unplanned scope of work for transparency purposes. Project account names will identify the disaster event and asset category (i.e. Flood 2023 – Vehicles & Equipment). The total budget assigned to all new capital project accounts will not exceed the value of approved cumulative withdrawals from the Risk and Resiliency Reserve, Q416 recommended for approval in this report.

RISK CONSIDERATION

As severe weather events become more frequent, depleting the Risk and Resiliency Reserve exposes the municipality to some risk if there is another event in the near future. As mentioned in the discussion section of this report, finance will be creating a funding plan for the Risk and Resiliency Reserve. A report will be coming in advance of the 2024/25 Budget discussions.

COMMUNITY ENGAGEMENT

No community engagement required.

ENVIRONMENTAL IMPLICATIONS

No environmental implications were identified.

ALTERNATIVES

1. Audit & Finance Standing Committee may choose not to approve the proposed recommendations.

ATTACHMENTS

No attachments.

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.

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