HALIFAX

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Item No. 6.2
Budget Committee
November 28, 2023

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

Original Signed

SUBMITTED BY: ____
Cathie O'Toole, Chief Administrative Officer

DATE: November 22, 2023

SUBJECT: **2024/25 Budget Direction**

ORIGIN

Requirement to establish the direction from Council for the 2024/25 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 2024/25 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 9.7 percent increase; and,

2. Approve revised debt policy of $1,800 per dwelling.

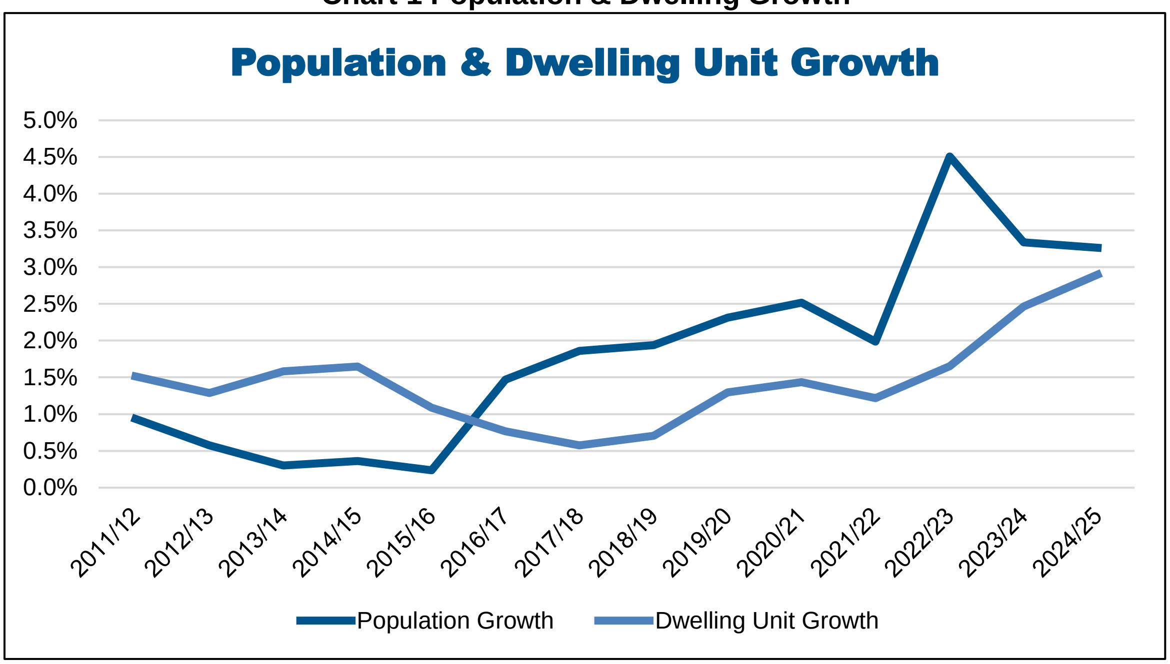
BACKGROUND

In April of 2023 Regional Council approved the 2022/23 Budget which saw an increase to the average tax bill by 5.9 per cent. The increase was to combat rising inflation and lower non-tax revenues. As the municipality begins to build its budget and business plans for 2024/25, much of the same themes continue as it is forced to tackle ongoing inflation and continued population growth.

DISCUSSION

The municipality's population is expected to surpass 500,000 residents in the upcoming fiscal year. This represents an over 3% increase, which will be the eighth consecutive year which population growth has outpaced dwelling growth in the municipality (outlined in chart 1). The gap represents an increasing demand on services provided by the municipality whilst the base which tax is levied on is not growing at the same pace; the growth is not paying for growth or inflation.

Chart 1 Population & Dwelling Growth



Population growth, often a symbol of progress and vitality, brings with it an array of opportunities and challenges. As the municipality attracts new residents, the strain on public services, infrastructure, and resources becomes increasingly evident. Simultaneously, inflation and scarcity of resources continue to have a cascading effect on the cost of goods and services for the municipality.

As a result of these pressures, the sum of the total budget shortfall in 2024/25 is nearing $105 million. To fund an increase of that size would have required an average tax bill increase of 15.2 per cent. To ease the overall pressure, two funding reductions are being taken to bring the overall increase to $68.7 million:

- $30 million reduction to capital-from-operating funding
- $7 million reduction to Strategic Initiative funding; (SI) reserves

To fund an increase of $68.7 million requires an increase to the average tax bill of 9.7%. Table 1 outlines the forecasted budget that is currently being worked through.

Table 1 Forecasted Outlook

Expenditures	2023/24 Budget	2024/25 Revisions	2024/25 Year 1	Yr/Yr % Change
Compensation and Benefits	481,701,600	39,559,400	521,261,000	8.2%
Office	13,647,716	580,500	14,228,216	4%
External Services	162,731,700	11,843,700	174,575,400	7%
Supplies	4,500,834	-	4,500,834	0%
Materials	3,609,800	-	3,609,800	0%
Building Costs	18,418,400	4,698,300	23,116,700	26%
Equipment & Communications	9,647,500	655,000	10,302,500	7%
Vehicle Expense	40,723,100	3,539,900	44,263,000	9%
Other Goods & Services	28,407,150	10,349,900	38,757,050	36%
Interdepartmental	(314,500)	-	(314,500)	0%
Debt Service	44,720,200	6,000,000	50,720,200	13%
Other Fiscal	364,762,550	(13,023,000)	351,739,550	-4%
Total Expenditures	**1,172,556,050**	**64,203,700**	**1,236,759,750**	**5%**

Revenues	2023/24 Budget	2024/25 Revisions	2024/25 Year 1	
Tax Revenue	(704,566,300)	11,000,000	(693,566,300)	-1.6%
Area Rate Revenue	(262,109,050)	-	(262,109,050)	0.0%
Tax Agreements	(13,028,100)	(2,500,000)	(15,528,100)	19.2%
Payments in Lieu of taxes	(45,682,000)	-	(45,682,000)	0.0%
Transfers from other Govts	(16,511,300)	-	(16,511,300)	0.0%
Interest Revenue	(16,650,400)	(2,000,000)	(18,650,400)	12.0%
Fee Revenues	(78,988,000)	(3,493,100)	(82,481,100)	4.4%
Other Revenue	(35,020,900)	1,500,700	(33,520,200)	-4.3%
Total Revenues	**(1,172,556,050)**	**4,507,600**	**(1,168,048,450)**	**-0.4%**
Net Total	**0**	**68,711,300**	**68,711,300**	

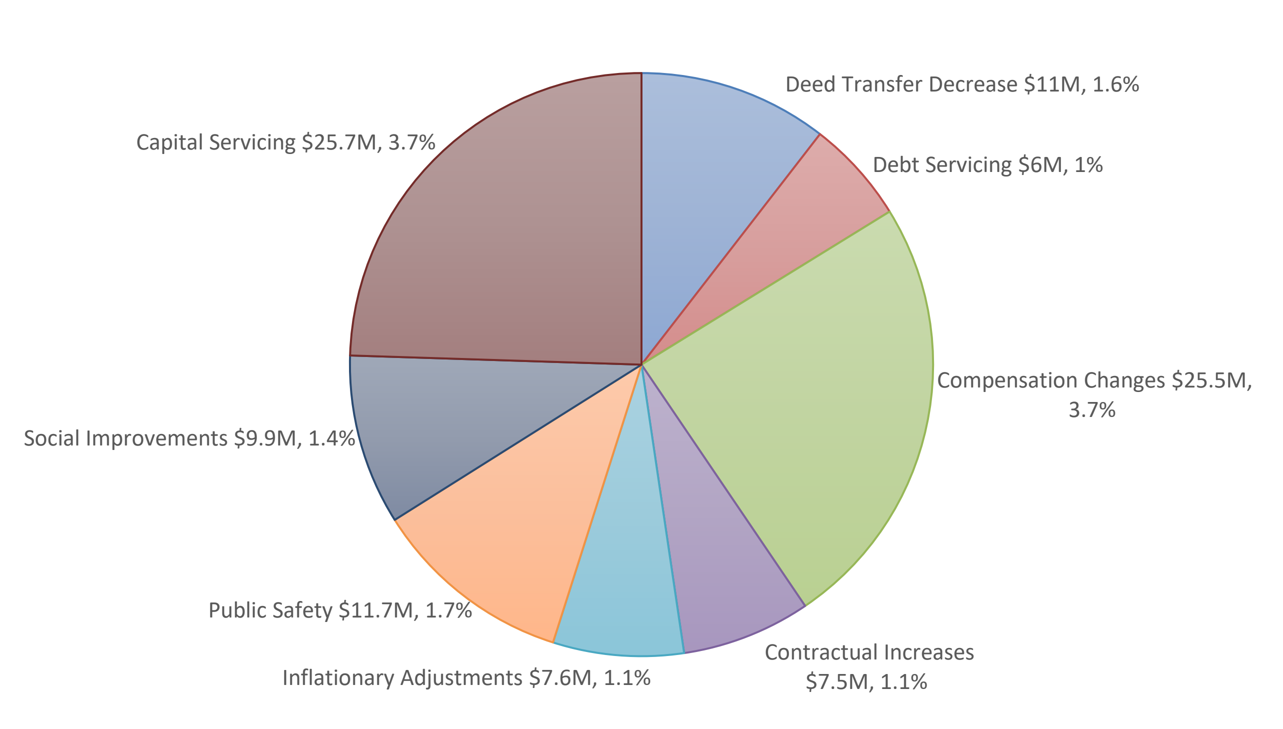
Key Pressures in the Operating Budget

Before any mitigation, there are five areas that represented over 70% of the $105 million shortfall in the 2024/25 outlook:

- $25.7 million Increasing Capital-from-Operating to preset guidelines,
- $25.5 million Compensation increases from settled collective agreements,
- $11.0 million decrease in deed transfer tax revenues,
- $7.5 million in contractual agreements,
- $6.0 million increase in debt payments and interest

The $105 million shortfall can be broken down further into eight categories as shown in Chart 2. The chart represents the shortfall before any mitigation efforts and how much of an increase each category would increase the average tax bill.

Chart 2 – Operating Budget Shortfall ($M)

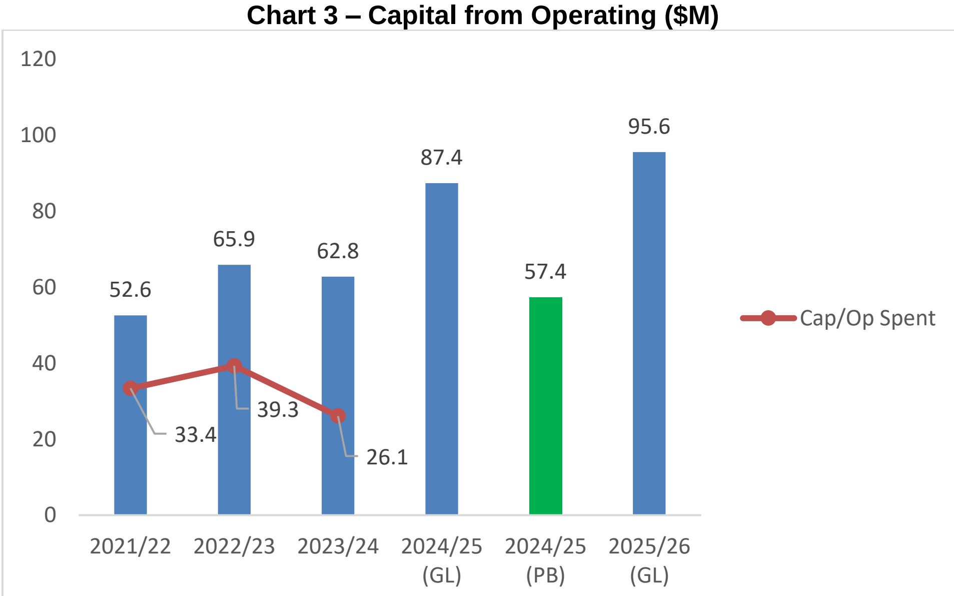


Capital from Operating

During the 2022/23 Budget guidelines were set for capital from operating. The goal of the guidelines was to help fund the capital budget and increase funding toward road projects. While the guideline was followed for the 2022/23 budget, in the 2023/24 Budget the guideline increase was not applied in order to mitigate the tax burden. Capital from operating was then further reduced by $8 million as the paving budget was lowered. For the 2024/25 budget, to restore capital from operating to the set guidelines, $25.7 million would need to be added. This increase would have been the largest single increase to the 2024/25 Budget.

Chart 3 outlines the trend of the Capital from Operating. Additionally, it shows the amount of capital from operating that has been used in completed projects. The gap between the budget and actual spend largely represents the capacity of the municipality and industry to deliver on these projects. As a result of these factors, for the 2024/25 budget, the recommendation is to deviate from the guidelines for capital at $87.4 million and set it at $57.4 million for the 2024/25 Budget.

Chart 3 – Capital from Operating ($M)



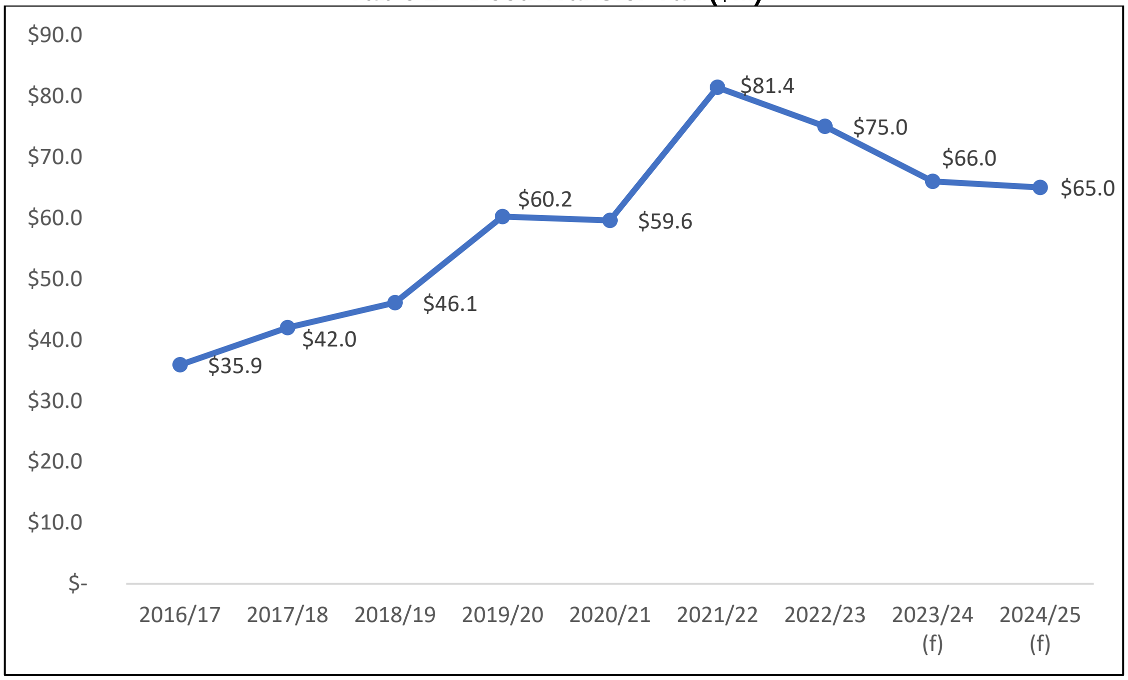
GL – Guideline
PB – Proposed budget
2023/24 YTD spending not a projected full year spend

Further reductions to capital from operating will be a challenge. There are projects that are not eligible for debt financing and their only possible source of funding is capital from operating. One such example is information technology projects.

Deed Transfer Tax

Deed transfer tax revenue, which had in recent years experienced significant growth, has declined quicker than expected. As presented last year with the 2023/24 Budget Direction, the estimate for deed transfer tax in 2023/24 and 2024/25 was $76 million and $74.3 million respectively. The latest forecast is $66 million and $65 million for 2023/24 and 2024/25. This sharper than expected decrease has resulted in $11 million of pressure to the 2024/25 operating budget.

Table 2 – Deed Transfer Tax ($M)



Public Safety

The Public Safety category largely represents enhancements that fall within public and community programs which includes:

- $2.6M RCMP contractual costs
- $1.4M HRP service enhancements (pending BoPC)
- $1.3M New HRFE positions
- $1.6M HRP & HRFE supplies & other non-comp costs
- $1.5M Volunteer honorarium increase
- $1.2M Fleet enhancements (24hr shifts & fire fleet)
- $1.1M Public safety projects & food action plan
- $0.9M New positions & related costs (Xing Guards, Safety Positions, 24hr investigators, & analysts)
- $0.1M Various – security & site cleanup costs

Not included in 2024/25 outlook is any enhancements requested by the RCMP to their officer complement.

Social Improvements

Social Improvements category includes budget increases tied to programs or contracts that could be considered to improve the social wellbeing of the municipality and include:

- $2.6M Living wage adjustments
- $2.4M MFTP & transit improvements
- $1.0M Centre Plan & cultural priorities
- $1.3M Events & other
- $0.5M Micro mobility projects
- $0.6M Non-profit redesign
- $0.5M Increase to affordable access

- $0.3M Library Collections

Inflationary Pressures

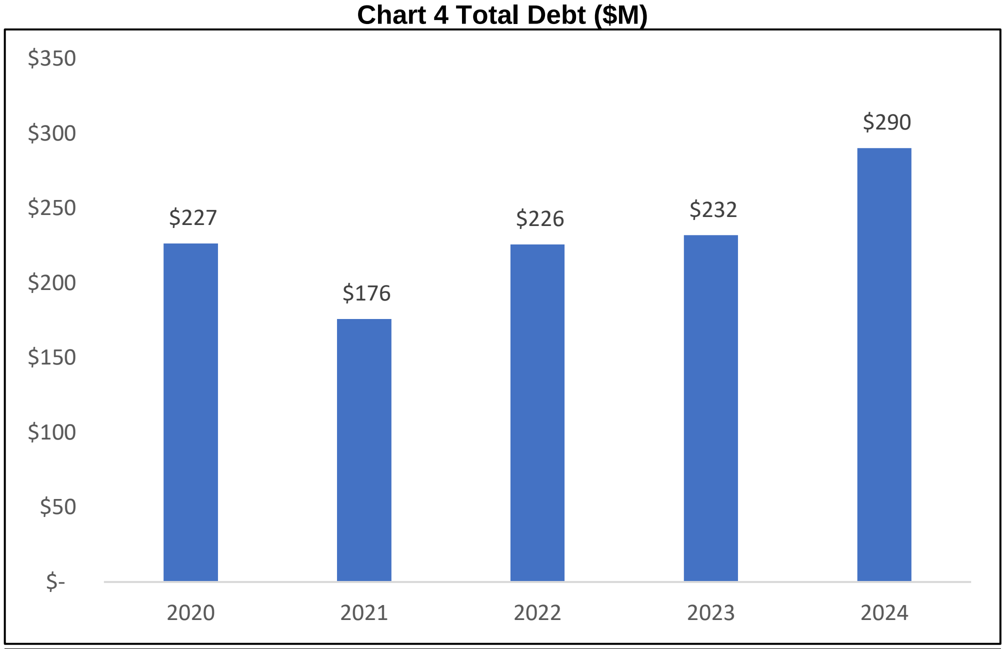
Although inflation has begun to recede, it remains high. Rate increases at Nova Scotia Power, Eastward Energy and Halifax Water have all resulted in substantial increases to building costs. Additionally, consumables used to maintain the transit and municipal vehicle fleet have seen sharp increases. Specifically, the following increases are causing pressure in the 2024/25 budget:

- $2.8M Utility increases and buildings costs
- $1.3M Transit pressures (repairs & maintenance)
- $0.9M Fleet inflation (fuel consumption and R&M)
- $0.7M Parks materials & building costs
- $0.5M State of good repair in Public Works
- $0.6M Operating Cost of Capital for new assets
- $0.8M Various increases across the organization

Debt

During 2023 the municipality issued $80 million of debt as part of funding its capital program. Overall, the municipality's debt has reached $290 million going into the 2024/25 Fiscal Year (the increase is net of the $80 million issuance and older debentures that have been retired). Total debt is outlined in Chart 4. The debt issued in 2023 carried an over 5% interest rate. The new debt issuance will result in a $6 million increase to payments and interest costs in the 2024/25 Budget.

Chart 4 Total Debt ($M)



Strategic Initiative Reserve Funding

During the 2022/23 Budget the Strategic Initiative (SI) funding plan was approved. The SI capital reserve is funded by $32 million annually, which can be broken down as follows:

- $18.0 million of funding from the Climate Action Tax (CAT),

- $7.0 million is from the general rate (often referred to as “one cent on the rate”)
- $7.0 million is from the operating budget and was tied to Deed Transfer Tax

The recommendation is to reduce the funding to the SI capital reserve by $7 million. The reduction would be the portion that is tied to Deed Transfer Tax. Where Deed Transfer tax has fall from its highs, this funding has been lost. The loss of funding to the reserve will result in less reserve funds available to fund principal and interest payments for the debt used to fund SI projects. To mitigate this, some of the SI projects may be pushed out to later years or risk having to fund this debt from the general tax rate. Staff is preparing to review the SI funding plan and will be returning to council with an overall reserve strategy in advance of the 2025/26 Budget.

Further Reductions

Further reductions to the operating budget will be challenging. Of the $68.7 million increase nearly $60 million would be considered “fixed” or “non-controllable”. These costs are tied to contracts, collective agreements, utility costs and debt costs:

- $25.5 million Compensation changes
- $11.0 million Deed Transfer Tax decrease
- $7.5 million Contractual increases (such as solid waste & winter works)
- $7.6 million Inflationary (such as utility costs)
- $6.0 million Debt servicing

Areas that could be considered for some reductions would fall with the Public Safey & Social Improvement categories. Where some of these programs are just launching, consideration can be given to scaling back, delaying or cancelling these initiatives. Further reductions could be considered by delaying hires to the municipality. However, the impact of this is likely to have a minimal impact to the overall increases and would likely result in some service disruptions.

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 2024/25 as well as debt.

RISK CONSIDERATION

All budgets deal with a level of uncertainty, the 2024/25 Budget Outlook is no different. Budget assumptions changing can pose a risk to the overall financial plan. Changes in assumptions could stem from unforeseen economic fluctuations, geopolitical events, or even internal factors like major projection shifts or unexpected expenses. Such changes can quickly make even the best budget obsolete.

As of the timing of this report, the Q2 financial report projected that the municipality running a deficit in 2023/24. If the municipality does run a deficit, it will need be funded in the 2024/25 fiscal year. Funding any deficit would require a further increase to the average tax increase.

COMMUNITY ENGAGEMENT

No community engagement was required. In previous years to inform the development of the Budget Direction Report, surveys were conducted to understand resident priorities and where they would like to see municipal budgets directed. The most recent Resident Survey results were made available to Regional Council through an information report provided on November 23, 2021.

The 2024/25 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 forFiscal 2024/25 at rate other than 9.7 per cent 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.

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Dave Harley, Director Accounting & Financial Reporting, 902.497.4260

HRM Revised Debt Policy

Finance & Asset Management (FAM)
Date: November 25, 2023

Purpose

The purpose of the debt policy 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. These 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 dwelling unit is set to a maximum of $1,800 in 2024/25 of approved debt to be issued. 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 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.