HALIFAX

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Item No. 6.1
Budget Committee
March 3, 2023

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

SUBMITTED BY: Original Signed

Cathie O'Toole, Chief Administrative Officer

DATE: February 22, 2023

SUBJECT: **Proposed 2023/24 Fiscal Budget and Business Plan**

ORIGIN

As per Administrative Order 1 and the Budget and Business Plan consultation schedule presented to Regional Council on November 8, 2022, staff are required to present the draft 2023/24 Business Unit Budget and Business Plans to the Budget Committee for review and discussion prior to consideration by Regional Council.

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.

RECOMMENDATION

It is recommended that the Budget Committee direct the Chief Administrative Officer to:

1) Incorporate the Fiscal proposed 2023/24 Budget and Business Plan, as set out and discussed in the accompanying plan and supporting presentation, into the Draft 2023/24 Operating Budget.

2) Amend the business case for the Strategic Initiative Reserve – Capital (Q666) to provide funding to any Strategic Initiative project that is capital in nature as outlined in Attachment 5.

BACKGROUND

On January 12, 2021, Regional Council adopted a Strategic Planning Framework, establishing priority outcomes for their term, and directed staff to develop plans to advance these outcomes.

As part of the design of the 2023/24 Budget and Business Plan development process, the Budget Committee is reviewing each business unit's budget and proposed plans, in advance of completing detailed HRM Budget and Business Plan preparation.

This recommendation does not include the addition/removal of any proposed Budget Adjustment List (BAL) options.

DISCUSSION

Staff has prepared the proposed 2023/24 Fiscal Budget and Business Plan consistent with the 2021- 2025 Strategic Priority Framework approved on December 1, 2020, as well as the 2023/24 Budget Direction provided on November 25, 2022.

Following direction from the Budget Committee, staff will proceed to prepare the detailed Budget and Business Plan for inclusion in the proposed 2023/24 HRM Budget and Business Plan documents to be presented to Regional Council's Budget Committee, as per the process and schedule approved on November 8, 2022.

As part of the budget process, Regional Council may be provided with a list of possible service increases and decreases that will allow them to more fully direct changes to the budget.

Budget Reductions

On November 25, 2022, Budget Committee directed staff to prepare a budget to set the average tax bill for residential and commercial properties at a four per cent increase. Within the Fiscal Business Unit, three reductions have been identified for budget committee to consider:

- BN068 - Supplementary Education Funding Allocation. Estimated reduction of $1.8 million in 2024/25.
- BN069 – Terminate and re-negotiate Taxation Agreement with Halifax International Airport Authority. Estimated reduction of $1 million - $2 million in 2024/25.
- BN070 – Increase interest rate on overdue accounts from 10% to pre-pandemic rate of 15%. Estimated reduction of $1.3 million in 2023/24.

Strategic Initiative Reserve – Capital Business Case Change

Staff are recommending that the business case for Strategic Initiative Reserve – Capital (Q666) be revised to remove the restriction that funding can only be applied to fund debt costs on Strategic Initiative projects. This change is recommended as further details around Strategic Initiative & HalifACT projects have indicated that there are some pieces of projects that will not be eligible to be part of a debenture issuance. Items such as sustainability strategies within the HalifACT small bundles account does not qualify to be part of debenture. In order to have the project fully funded and give more flexibility for funding, the reserve business case needs to be revised.

FINANCIAL IMPLICATIONS

The recommendations in this report will lead to the development of a proposed 2023/24 Budget. There are no immediate financial implications from this recommendation. The broader financial implications will be discussed and debated as the budget is developed in more detail.

RISK CONSIDERATION

Although there is no immediate risk associated with this report, there may be risks associated with individual decisions during the budget debate that could favour short-term results over longer-term strategic outcomes. Individual decisions made during budget debate will, however, be considered for both short and long-term impacts to levels of service, asset condition, and cost.

In addition, the administration seeks to reduce these risks in three ways: by providing Regional Council with several fiscal options to assist in the achievement of longer-term strategic outcomes, by assessing both corporate and capital project risk, and by providing the opportunity to draw Regional Council's attention to project or program related risks when reports are presented for consideration.

Enterprise risks are reviewed as part of the strategic planning process and mitigating initiatives incorporated into business planning activities to reduce or eliminate the impact and likelihood of the risk occurring.

COMMUNITY ENGAGEMENT

The 2022 Municipal Services Survey was conducted from September 12 – 29, 2022. This survey was available online and by mail to all residents, and received 4,030 responses to a variety of budget, planning, and priorities questions. The results of the 2022 Resident Survey were provided in an information report presented to Regional Council on November 22, 2022.

The 2023/24 budget process also seeks to solicit public comment by inviting members of the public to provide feedback prior to each business unit budget and business plan presentation.

ENVIRONMENTAL IMPLICATIONS

No environmental implications were identified.

ALTERNATIVES

Budget Committee could choose to amend the Budget and Business Plan as proposed in the supporting presentation through specific motion and direct the Chief Administrative Officer to prepare the Budget and Business Plan for inclusion in the proposed 2023/24 HRM Budget and Business Plan documents.

Budget Committee could also choose to add an item to the BAL through the following motion(s):

1) That the Budget Committee include a reduction of $1,778,800 for Supplementary Education Funding Allocation as outlined the Briefing Note BN068 2024/25 Fiscal proposed budget to the Budget Adjustment List as an expense under budget option for consideration.

2) That the Budget Committee include a reduction of $1 million to $2 million to terminate and renegotiate the Taxation Agreement with Halifax International Airport Authority as outlined the Briefing Note BN069 as an option to increase revenues in the 2024/25 proposed Fiscal budget.

3) That the Budget Committee include a reduction of $1,300,000 for overdue interest rate increase as outlined the Briefing Note BN070 within the proposed 2023/24 Fiscal proposed budget to the Budget Adjustment List as an option to increase revenue for consideration.

ATTACHMENTS

Attachment 1 – 2023/24 Fiscal Proposed Budget and Business Plan
Attachment 2 – Briefing Note (BN068) - Supplementary Education Funding Allocation
Attachment 3 – Briefing Note (BN069) - Taxation Agreement with Halifax International Airport Authority
Attachment 4 – Briefing Note (BN070) - Overdue Interest Rate Increase
Attachment 5 – Revised Business Case for Strategic Initiative Reserve – Capital (Q666)

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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HALIFAX

Attachment 1

FISCAL SERVICES

2023/24 BUDGET AND BUSINESS PLAN

FISCAL SERVICES OVERVIEW

Fiscal Services is not a business unit and has no services or initiatives per se. Rather it includes HRM's financial responsibilities and obligations that are not directly related to any specific business unit as well as organization-wide costs and revenues not fully allocated to business units. Fiscal Services includes:

- Property and Other Taxes
- Deed Transfer Tax
- Non-departmental Revenues
- Private Roads, Other Area Rates
- Debt Charges
- Capital from Operating
- Reserves
- Provincial Mandatory Costs
- Supplementary Education
- Transfers such as Fire Protection, Stormwater and the Halifax Convention Centre
- Contingencies, Including for Compensation
- Other Compensation Costs
- Grants and Tax Relief
- Valuation Allowance
- Summary Office Ticket Revenues

OPERATING - BUDGET BY SERVICE AREA

Service Area	2021/22 Actual	2022/23 Budget	2022/23 Projections	2023/24 Budget	2023/24 Δ 22/23 Budget	2023/24 Δ %
Debt Servicing	$ 26,380,623	$ 36,145,400	$ 35,220,600	$ 37,845,400	$ 1,700,000	4.7
Transfers To Outside Agencies	8,003,496	7,240,000	7,240,000	7,540,000	300,000	4.1
Other Fiscal Services	60,483,442	39,726,300	32,011,100	44,282,300	4,556,000	11.5
Transfers to/fr Other Funds	57,274,034	97,074,900	97,344,900	106,734,100	9,659,200	10.0
Non-Departmental Revenue	(670,056,097)	(709,753,000)	(713,481,500)	(756,174,700)	(46,421,700)	6.5
Net Total	**$ (517,914,502)**	**$ (529,566,400)**	**$ (541,664,900)**	**$ (559,772,900)**	**$ (30,206,500)**	**5.7**

OPERATING - SUMMARY OF CHANGES

Change Description / Service Impact	Amount
Approved 2022/23 Budget	$ (529,566,400)
Compensation Changes:	
Salary Adjustment Provision	4,654,800
Revenue Adjustments:	
Decrease in Deed Transfer Funding	7,000,000
Increase in Tax Revenue (Including Grants in Lieu)	(47,161,700)
Increase in Interest Revenue	(6,485,000)
Other Budget Adjustments:	
One-time Surplus funding	12,765,000
Contractual & Inflation Increases	1,767,500
Insurance cost	400,000
Non-Profit redesign	738,600
Net increase in debt payment & interest	1,688,600
Decrease to Capital from Operating	(3,218,000)
Decrease in Valuation Allowence	(1,000,000)
Other Changes	(8,000)
Budget Transfers:	
Internship program to HRCC	(1,348,300)
Total Proposed Changes	$ (30,206,500)
2023/24 Budget	**$ (559,772,900)**

OPERATING- SUMMARY OF EXPENDITURE & REVENUE

Expenditures	2021/22 Actual	2022/23 Budget	2022/23 Projections	2023/24 Budget	2023/24 Δ 22/23 Budget	Δ %
Compensation and Benefits	$ 12,645,626	$ 23,636,300	$ 25,601,600	$ 26,942,800	$ 3,306,500	14.0
Office	375,308	8,500	8,500	8,500	-	-
External Services	7,514,946	8,524,800	5,789,800	10,128,300	1,603,500	18.8
Supplies	25,664	3,000	3,000	3,000	-	-
Materials	6,061	-	-	-	-	-
Building Costs	697,347	419,300	419,300	419,300	-	-
Equipment & Communications	255,888	4,200	4,200	4,200	-	-
Vehicle Expense	6,517	10,000	10,000	10,000	-	-
Other Goods & Services	3,383,481	4,496,000	5,496,700	4,660,000	164,000	3.6
Interdepartmental	254,285	500,000	500,000	520,000	20,000	4.0
Debt Service	37,615,531	44,191,500	43,371,100	45,879,800	1,688,300	3.8
Other Fiscal	324,160,112	327,476,900	320,769,500	349,700,700	22,223,800	6.8
Total Expenditures	**386,940,765**	**409,270,500**	**401,973,700**	**438,276,600**	**29,006,100**	**7.1**

Revenues	2021/22 Actual	2022/23 Budget	2022/23 Projections	2023/24 Budget	2023/24 Δ 22/23 Budget	Δ %
Tax Revenue	$ (613,663,439)	$ (646,441,700)	$ (643,541,700)	$ (682,712,700)	$ (36,271,000)	5.6
Area Rate Revenue	(198,180,148)	(204,405,300)	(204,405,300)	(221,229,600)	(16,824,300)	8.2
Tax Agreements	(12,507,856)	(12,692,200)	(12,947,200)	(12,953,700)	(261,500)	2.1
Payments in Lieu of taxes	(39,313,938)	(41,619,200)	(41,378,700)	(45,509,900)	(3,890,700)	9.3
Transfers from other Govts	(17,019,371)	(3,981,000)	(7,851,400)	(3,600,000)	381,000	(9.6)
Interest Revenue	(5,223,868)	(8,883,100)	(12,924,100)	(15,368,100)	(6,485,000)	73.0
Fee Revenues	-	(1,872,500)	(1,872,500)	(1,872,500)	-	-
Other Revenue	(18,946,646)	(18,941,900)	(18,717,700)	(14,803,000)	4,138,900	(21.9)
Total Revenues	**(904,855,266)**	**(938,836,900)**	**(943,638,600)**	**(998,049,500)**	(59,212,600)	6.3
Net Total	**$ (517,914,502)**	**$ (529,566,400)**	**$ (541,664,900)**	**$ (559,772,900)**	**$ (30,206,500)**	**5.7**

FISCAL SERVICES PLAN (2023/24)

DEBT SERVICING

Debt charges in the operating budget consist of payments made on outstanding debentures (principal) and the interest costs associated with those debentures. Also included in the debt charges are bank charges, debenture discount and interest payments to Agencies, Boards & Commissions. For management purposes, debt charges can be classified as to how the funds are repaid:

- **Tax Supported Debt** – repaid through the general and transit tax rates;
- **Other Municipal Debt** – repaid through Local Improvement Charges (LICs), Area Rates and Development Charges;
- **Halifax Water Debt** – funds borrowed on behalf of Halifax Water Commission, and which are repaid through their rate base; and
- **Repayable Debt** – debt borrowed for and repaid by outside organizations.

PROVINCIAL AREA RATES

Like all municipalities, HRM is legally required by the Province of Nova Scotia to provide funding for education costs, and for other services that are the responsibility of the Province of Nova Scotia. The funding source for the transfers is a separate Provincial Area Rate on the tax bill. Any increase in that budget amount has zero net impact to the overall HRM budget.

Mandatory Education

This mandatory education contribution is set by the Province of Nova Scotia at the value of the Provincial Education Rate times the Uniform Assessment. The estimate for 2023/24 is $173.8 million, an increase of $12.7 million from the prior year.

Assessment

Property Valuation Services Corporation (PVSC) is mandated under the Nova Scotia Assessment Act to assess every property in Nova Scotia. HRM is required to pay a share of the cost of operating this provincial assessment system. The estimate for 2023/24 is $7.3 million, a decrease of $21 thousand from the prior year.

Correctional Services

HRM is required to make a mandatory contribution to the Province of Nova Scotia to fund the cost of correctional services. The contribution amount is set by Provincial formula based on Uniform Assessment and the number of dwelling units in each municipality. The estimate for 2023/24 is $6.8 million, an increase of $33 thousand from the prior year.

Housing

HRM is required to pay a portion of the Metropolitan Regional Housing Authority operating deficit each year. The estimate for 2023/24 is $4.5 million, an increase of $100 thousand from the prior year.

Provincial Area Rates	2022/23 Budget	2023/24 Budget	Δ 22/23 Budget	Δ %
Mandatory Education	161,102,500	173,821,800	12,719,300	7.9%
Assessment	7,324,000	7,303,000	(21,000)	-0.3%
Correctional Services	6,837,000	6,870,000	33,000	0.5%
Housing	4,400,000	4,500,000	100,000	2.3%
Total	**$179,663,500**	**$192,494,800**	**$ 12,831,300**	**7.1%**

OTHER TRANSFERS

Halifax Convention Centre (HCC)

HRM has an agreement with the Province of Nova Scotia to fund the Halifax Convention Centre (HCC). This includes its share of the Provincial lease and the annual operating costs, which are paid to Events East. The HCC costs are to be paid from a reserve which is funded from the property tax revenues collected from the new Nova Centre plus those funds which would have been paid to the former World Trade and Convention center (WTCC). The Nova Centre is a private development that includes not only the HCC but also offices, a hotel, retail and parking. For the 2023/24 fiscal year, HRM has budgeted an amount of $8.6 million (before reserve withdrawals) for the HCC. This is $0.5 million lower than 2022/23, which continues the trends of decreasing from the previous year as HCC recovers following the pandemic. This will be funded from the HCC reserve.

Supplementary Education

Under the Halifax Charter, HRM provides funding for local schools, including a payment to the province-wide Acadian school board, Conseil scolaire acadien provincial (CSAP). The Halifax Charter requires that the municipality provides a guaranteed amount for supplementary education, although it may reduce the guaranteed amount by 10% of the amount spent in 1995/96. In addition to the legal requirements of the Charter, this payment is governed by a Memorandum of Understanding (MOU) with the Halifax Regional Centre for Education (HRCE) which covers 2019/20 to 2023/24. The total payment for 2023/24 will be paid through a separate area rate. The estimate for 2023/24 is $14.4 million, an increase of $387 thousand from the prior year.

Fire Protection Services (Hydrants)

The Nova Scotia Utilities and Review Board (NSUARB) has established a formula that requires HRM to contribute to the Halifax Water Commission (HW) for the hydrant costs incurred by the Commission. These hydrant charges are recovered by HRM via a special Fire Protection Area Rate that HRM levies on all properties within 1,200 feet of a hydrant that is designed and operated for public fire protection purposes. The estimate for 2023/24 is $10.4 million, an increase of $456 thousand from the prior year.

Stormwater Right-of-Way (Halifax Water Commission)

The Nova Scotia Utilities and Review Board (NSUARB) requires HRM to pay Halifax Water the cost of the stormwater drainage in the right-of-way of HRM streets and roads. This became effective as of July 1, 2013. The estimate for 2023/24 is $5.3 million, an increase of $1.5 million from the prior year.

GRANTS AND TAX RELIEF

HRM operates a number of Grant programs. Fiscal services includes the Community Grants Program ($500,000), the Community Museums Grant Program ($220,000), the District Activity Fund ($72,000), and the Barrington Street Heritage Tax Grants Program ($154,300). Other grant programs are administered by individual business units. HRM also provides a number of tax relief programs including for low income homeowners ($1.8 million) and for non-profits ($6.3 million).

VALUATION ALLOWANCE

The Valuation Allowance is an account required by provincial rules as a contingency against uncollectible tax and other revenues. In 2023/24 it is budgeted at $2.0 million.

RESERVES

Reserves are utilized to ensure sustainability and improve the process of planning for HRM’s future needs. Reserve Funds are provided for under the Financial Reserves Administrative Order Number 2014-015-ADM and are intended to serve three specific purposes:

- Contingency Funds for Opportunities;

- Contingency Funds for Risk; and
- Savings Funds for Obligations.

Reserves deposits and withdrawals are budgeted for in both Fiscal Services and in individual business units.

CAPITAL FROM OPERATING

Capital from operating is used to fund the capital budget and helps reduce reliance on debt and other funding. A formula is used to help shift funds away from debt funding and into capital from operating. That guideline aims to increase capital from operating by 6% plus inflation per dwelling each year. For the 2023/24 Budget, that guidance was set aside to mitigate the tax increase. HRM wide capital from operating for 2023/24 has been decreased by $3.2 million or 4.9 per cent.

NON-DEPARTMENTAL REVENUE AND AREA RATES

This includes the municipality's revenues from Property Tax, Tax Agreements, Grants-in-Lieu payments, Deed Transfer Tax as well as income from investments.

Also included are the costs and revenues for community area rates, private organizations and private roads.

Budget Adjustment List Briefing Note

Supplementary Education Funding Allocation

COW Date: March 3, 2023 **Business Unit:** Fiscal Services

Tracking Id	Revenue, Expense, or Capital	2023/24 Amount (negative is savings/revenue)	2024/25 Amount (negative is savings/revenue)
BN068	Operating	$0	($1,778,800)

Four Year Impact	($5,336,400) – to 2026/27
Adjustment Description	This Briefing Note outlines projected savings and impacts associated with a forecasted reduction in Supplementary Education funding. Supplementary Education is funded by decision of Council through adoption of an MOU. The final year of the existing MOU ends effective fiscal year 2023/24. Staff recommend reducing the annual amount by the maximum set out in the existing MOU and will seek Regional Council approval for the next MOU (to be developed at the staff/technical level). As the MOU is in effect for the 2023/24 fiscal year, projected savings would start in 2024/25.
Priority Alignment	Responsible Administration - Financially Prepared

Supplementary Education is not a municipal service obligation and Halifax Regional Council cannot direct how the funding is used. Rather, it is funded by direction of Regional Council to help augment programming in Halifax Regional Centre for Education (HRCE) and Conseil scolaire acadien provincial (CSAP) schools. When amalgamation occurred in 1996, the province legislated that the new regional municipality must continue to provide supplementary education funding for at least the amount of such funding that was provided to the former Halifax and Dartmouth school boards in 1995-96, and not decrease such guaranteed amounts by more than 10 percent annually. Supplementary Education funding is unique to the Halifax Regional Municipality.

Supplementary education is funded through area rates. Originally the funds were raised and spent solely in Halifax and Dartmouth. Since that time HRM has expanded supplementary education to include the entire Region. Due to changes in the Charter, funds are shared between HRCE and CSAP based on enrollment levels.

Budget Adjustment List Briefing Note

Terminate and Re-negotiate Taxation Agreement with Halifax International Airport Authority (HIAA)

COW Date: Friday, March 3, 2023 **Business Unit:** Fiscal Services

Tracking Id	Revenue, Expense, or Capital	2023/24 Amount (negative is savings/revenue)	2024/25 Amount (negative is savings/revenue)
BN069	Revenue	$0	~ ($1M - $2M)

Four Year Impact	The 2024/25 impact would be a revenue increase of approximately $1M-$2M (i.e. $4M-$8M over 4 years), growing annually at the prescribed property tax bill increase.
Adjustment Description	This briefing note outlines the revenue generated if the existing taxation agreement with the Halifax International Airport Authority is terminated and renegotiated. The agreement is in place until March 31, 2039 and can be terminated at HRM's discretion with 365 days' notice to HIAA.
Priority Alignment	Responsible Administration – Well-Managed

This briefing note is submitted to Budget Committee for consideration as an item to increase revenues beginning in 2024/25 by terminating the current taxation agreement with the Halifax International Airport Authority (HIAA) and renegotiating the terms of the agreement, the new terms to be effective April 1, 2024.

Halifax Stanfield International Airport is owned by Transport Canada and is leased to HIAA through a ground lease. HIAA is a not-for-profit, non-share capital corporation operating pursuant to the Airport Transfer (Miscellaneous Matters) Act.

In 2019, the Halifax Regional Municipality (HRM) entered into a 20-year taxation agreement with HIAA scheduled to end March 31, 2039. The agreement was entered in acknowledgement of the airport's contribution to maintaining and expanding economic activity in HRM and the wish to support HIAA in that endeavor.

This agreement is comprised of a base amount and a per passenger amount. The original base amount was ~$529K, which represented the Payments in Lieu of Taxes (PILT) due from the federal government (based on assessed value) at the time the airport authority entered the lease with Transport Canada. This base amount is increased annually by the Nova Scotia Consumer Price Index (NS-CPI). The passenger amount is based on a per passenger rate of $0.22.

Although the HRM Charter permits Regional Council to enter into a tax agreement with HIAA as per section 92A, it is at Council's discretion whether they wish to have a tax agreement in place and the terms of that agreement.

A summary of the relief provided to HIAA over the past 5 years is outlined below:

	2017	2018	2019*	2020	2021
Full Tax Payable if no tax agreement **	3,456,133	3,511,840	6,178,919	6,758,316	6,522,606
Actual tax paid by HIAA	1,517,333	1,596,094	1,627,238	1,665,695	1,648,031
Relief provided	1,938,800	1,915,746	4,551,681	5,092,621	4,874,575

***** Full payment had HIAA paid on assessed value. The assessed value increased substantially in 2019 when several large capital improvements were completed and became reflected in the assessed value.
****** The full tax payable represents the amount that would have been payable by HIAA if no tax agreement was in place.

The HIAA agreement has a clause that requires them to pay on the highest number of passengers over a several year period. The impact is that for 2020, 2021 and 2022 HIAA was required to pay the per passenger fee on the 2019 number of passengers, not the actual reduced COVID passenger volumes.

It is difficult to compare the property tax treatment of other Canadian airports due to legislative differences across the country. Many airports appear to pay property tax based solely on their assessed value (Moncton, Regina, Calgary, Edmonton, Vancouver, and Victoria).

Two examples of a per passenger rate (with no additional base rate) were found:
- Toronto Pearson's rate per passenger is $0.94
- Ottawa International airport is $1.08 per passenger.

In 2019, the municipality of St. John's, Newfoundland signed a tax agreement with the St. John's International Airport which set the property taxes at $1M (increasing annually by CPI) and included a settlement for prior years that was based on a per passenger rate of ~$0.72 per passenger for the prior years subject to the settlement.

The $0.22 per passenger rate appears low when compared to other airports who have such an arrangement, although HRM is additionally compensated by the inclusion of the base rate component of the agreement. The base amount indexed to CPI means that certain capital improvements that increase the overall airport value (e.g. that permit additional cargo volumes to be processed) do not result in an increased tax payment to the municipality. Council may wish to renegotiate the agreement to revise the terms to increase the per passenger rate to a higher rate and perhaps removing the base rate.

This table shows what the tax revenue would have been under a $0.50, $0.75 and $1.00 per passenger rate (no base rate component and based on actual passengers) over the past 5 years, compared to the actual amount of tax paid.

Year	Passenger Count	Actual Tax Paid	Potential Payment with Updated Passenger Rates and no Base Amount		
			$0.50	**$0.75**	**$1.00**
2022	3,107,119	$1,668,356	$1,553,560	$2,330,339	$3,107,119
2021	1,076,458	$1,648,030	$ 538,229	$ 807,344	$1,076,458
2020	995,426	$1,665,695	$ 497,713	$ 746,570	$ 995,426
2019	4,188,443	$1,627,238	$2,094,222	$3,141,332	$4,188,443
2018	4,316,079	$1,596,094	$2,158,040	$3,237,059	$4,316,079

In the absence of an agreement by the parties to renegotiate the existing agreement, HRM would need to provide HIAA with notice of termination of the existing agreement by March 31, 2023, and then enter into renegotiations with HIAA with the intent to have a revised agreement in place effective April 1, 2024.

HRM has one additional tax agreement (By-Law T-1100), however that agreement has specific termination clauses that have not been met which is why it has not been brought as a potential adjustment item.

Budget Adjustment List Briefing Note

Overdue Interest Rate Increase

COW Date: March 3, 2023 **Business Unit:** Fiscal Services

Tracking Id	Revenue, Expense, or Capital	2023/24 Amount (negative is savings/revenue)	2024/25 Amount (negative is savings/revenue)
BN070	Revenue	($1,300,000) (Ongoing)	($1,300,000)
Four Year Impact	$5.2M over 4 years		
Adjustment Description	This Briefing Note outlines the revenue that would be associated with increasing the interest on overdue accounts from 10% to 15%.		
Priority Alignment	Responsible administration		

In response to COVID, on April 14, 2020, Council reduced the rate of interest charged on arrears from 15% per annum to 10% per annum effective June 2, 2020. This was intended to provide immediate, short-term relief to customers experiencing an income shock due to COVID.

At the time, the bank prime rate in Canada was 2.45%. The bank prime rate is now 6.70%. Best practice is to set the overdue interest rate strategically. If the rate is set too low, it encourages customers (residential as well as commercial) to delay payment to the municipality as they deploy their funds elsewhere. If all customers did this the municipality would not take in sufficient revenue to continually meet our obligations. Conversely, a high penalty interest rate hurts customers who are financially vulnerable and who fall behind on their payments. To curb undesirable late payment behaviour while alleviating the interest burden on vulnerable customers, HRM currently uses a dual interest rate structure:

1. The general late payment interest rate is set per AO14 and applied against all overdue accounts.

2. Low income customers who qualify for the HRM deferral program are able to defer their taxes, which accumulate interest at a rate of prime minus 2%.

With the COVID recovery underway and interest rate environment being much higher than it was in 2020, staff are bringing forward this recommendation to restore the rate on overdue interest from 10% to its pre-COVID level of 15%. Staff are not recommending a change to the interest rate structure for low income customers who qualify for a deferral under the low income exemption and deferral program.

This would result in an estimated $1.3M of interest income each year.

A cross jurisdictional scan indicates an interest rate of 15% is reasonable and in line with other municipalities' practices.

Location:	**Overdue Interest rate:**
CBRM	10% annually
East Hants	10% annually
Truro	15% annually
Town of Yarmouth	14% annually
West Hants	15% annually
Queens Municipality, NS	12% annually
New Brunswick	9.5% annually
Toronto	15% annually
Hamilton	15% annually
Edmonton	15% annually

Strategic Initiative Reserve – Capital, Q666

Reserve Business Case

Type of Reserve

Opportunity

Purpose

The intent of the Strategic Initiatives Reserve is to accumulate funds to pay for the principal and interest costs associated with Strategic Initiatives. By doing so the reserve enables the municipality to achieve its Strategic Initiatives through leveraging debt while maintaining a stable, predictable property tax level.

Strategic Initiatives were identified in Regional Council's *Fiscal Sustainability Strategy* (December 15, 2020)) and the *Strategic Initiative Funding Plan* (January 20, 2021). They are defined as "those whose implementation would require a discernible increase to the tax rate in order to move forward". Strategic Initiatives often share certain common characteristics:

- *They represent an element of a key strategy approved by Regional Council;*
- *They are most likely capital and may represent a family of capital projects;*
- *They are significant financial investments that cannot be accommodated within the existing budget without an unintended service disruption or a tax increase;*
- *Their implementation requires significant planning over multiple fiscal years;*
- *They represent new initiatives and are not ongoing in nature;*
- *The issuance of debt for these initiatives that would be above the current debt policy targets and may require special reserve business cases;*
- *if debt is issued, then the term of the debt should match the life of the asset; and,*
- *They require ongoing review and oversight as many of the future costs and savings cannot yet be ascertained.* (Strategic Initiative Funding Plan, January 20, 2021)

Source of Funds

Funding arises from:

a) amounts transferred to the fund as approved by Regional Council;
b) annual transfer from Fiscal Services operating budget in the amount that equals one cent of property tax (commercial, residential and resource); and,
c) accumulated interest.

Conditions of Funding

Funds are allocated for:

a) to fund principal and interest costs incurred related to debentures on Strategic Initiative projects, as identified by Regional Council,
b) projects must ~~be eligible for debentures and~~ be capital in nature,
c) as per the Halifax Charter, any funds transferred to the reserve from the sale of an asset may be used for the payment of principle, but not the payment of interest.

Anticipated Balances

Future contributions have been estimated so as to defease anticipated principal and interest costs based on assumed debenture dates for Strategic Initiatives. By ensuring the reserve is adequately funded, amounts are available to offset debt payments. This provides the municipality with the ability to pay for a higher level of debt than it would otherwise while maintaining stable and predictable tax levels. As target reserve levels are based on anticipated debenture dates and amounts, a maximum balance has not been set for this reserve.

Review and Timeline

Reserve is to be ongoing. The Director of Finance and Asset Management shall

a) review the reserve annually to ensure that funds are contributed and withdrawn according to the approved Reserve Business Case;
b) provide Regional Council an annual report on Reserve activity and balances;
c) review and report on targeted contributions and balances annually and recommend adjustments as appropriate; and,
d) review this Reserve every four years to ensure relevance and adequacy with the strategic direction of the Municipality.

Approval Process

As outlined in the Administrative Order 2014-015, withdrawals from the reserve will be approved by Regional Council, either through the annual budget process or by motion of Regional Council subsequent to the approved budget. Finance and Asset Management is responsible for ensuring availability of funds and appropriateness of withdrawals in accordance with the Reserve Business Case prior to recommendations to Audit & Finance Standing Committee and Regional Council.

Original Council Approval Date	
Effective Date of Last Revision	
Business Unit Director Contact	Director, Finance and Asset Management/CFO