

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

SUBMITTED BY: Original Signed by 
Jacques Dubé, Chief Administrative Officer

DATE: May 19, 2020

SUBJECT: Supplemental Budget Report

SUPPLEMENTAL INFORMATION REPORT

ORIGIN

At the May 13, 2020 Committee of the Whole on Budget the following motion was put and passed,

THAT the Budget Committee requests a supplementary staff report that outlines an operating budget alternative that retains funding for all proposed hiring and restores vacancy management to normal levels, volunteer firefighter recognition, grants, and programs, up to no more than \$33 million dollars, with funding through a combination of reduction in debt charge by up to \$15 million, conversion of capital from operating to debt by up to \$20.5 million, 2019/20 end of year surplus, and reduction of increase in reserves this year by up to \$12 million.

LEGISLATIVE AUTHORITY

Halifax Regional Municipality Charter, clause 35 (1) (b), section 93,

35 (1) The Chief Administrative Officer shall... (b) ensure that an annual budget is prepared and submitted to the Council;"

Estimates of required sums

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 do allowance for

(a) the abatement and losses that might occur in the collection of the taxes; and

(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.

BACKGROUND

Regional Council was prepared to vote on the 20/21 Operating and Capital Budgets on March 24, 2020. On March 22 the Province of Nova Scotia, through the Public Health Office declared a state of emergency in response to the COVID-19 pandemic.

Staff have recast the Operating and Capital budgets in response to the financial impacts of COVID-19. Budget deliberations for the recast budget began May 12, 2020.

DISCUSSION

Staff will respond to each of the items in the motion separately. The impact of each is illustrated as a change to the tax rate, some of the items will have an impact beyond the 20/21 fiscal year. For clarity staff are not suggesting a tax rate increase, as stated it is to show the impact.

Proposed Hiring and Vacancy Management

Vacancy management is often referred to as churn or gapping. It is the natural lag between the time a position becomes vacant either through resignation, retirement, promotion or a new position being created. Virtually all business units in HRM experience some vacancies throughout the year. Some business units with a higher number of entry level or hard to fill positions tend to have higher levels of vacancy than others. As an example, Finance Asset Management & ICT tends to have a high vacancy level due to entry level positions in accounting, revenue and procurement coupled with highly technical positions in ICT.

When reviewing the motion staff interpreted normal levels to be the amount of vacancy management levels that had been in the March 24th budget. The proposed vacancy levels in the March 24, 2020 budget was \$8.1 M (see attachment A for a break down by business unit).

As part of HRM's response to the financial impacts of COVID-19 the CAO ordered a hiring freeze for all vacant positions. This was in addition to measures already taken in April when approximately 1,400 casual and term positions were laid off, or notified they were not being recalled. These positions tended to be positions that because of the nature of their work, the service they supported was cancelled or they were unable to work from home, such as recreation programmers. The total dollar amount of the proposed hiring freeze is \$15.9 M over the March 24th proposed budget, see attachment B for a break down by business unit.

Compensation is the largest expense in the municipality's budget, it accounts for approximately 42% of the operating budget. In order to close the budget gap a reduction in compensation is necessary. The impact

of adding back the funding from the hiring freeze will be compounded in the future as these positions receive salary and wage increases along with the accompanying benefit costs.

Volunteer Firefighter Recognition, Grants and Programs

The recast budget contained reductions to grants and programs totaling \$11.359 M, table 3 of the staff report dated May 12, 2020 (this includes adding back a reduction of \$100 K for the BIDC, the decision to reverse the reduction was made after the report was produced). Firefighter recognition program is included on the Programs reduction and is \$770 K.

The programs and grants that were put forward for reduction generally fall into three categories

- a) those programs that can not go forward due to public health orders such as the cancellation of Spring/Summer Programming and Facility Closures (\$4 M), Hotel Levy Revenue Transfer (\$1.36 M), grants to organizations that are forced to close (community and museum grants \$260 K) a number of these reductions assume a six month closure,
- b) ones where the item was originally funded on the BAL and is essentially a new program such as hiring of 3 six-month positions for HalifACT2050 (\$137 K revised), Accessible Taxi Grant program development (\$100 K), citizen survey (\$75 K), Rural Transit funding program (\$400 K), and
- c) reductions to meet the budget target such as tree planting and pruning (\$1.082 M), senior snow removal (\$600 K), ferry service reduction (\$283 K).

When developing the recast budget, assumptions were made about when certain activities would be allowed to resume under the public health order. As an example, it was assumed that there would not be formal spring and summer recreation programs allowed. At the time of starting the recast budget deliberations public beaches were still closed by order of the Province, they have since been opened, staff recommended keeping funding in the Parks and Recreation budget in the event the beaches were opened, this would allow Parks and Rec to hire lifeguards and to maintain the parks and beach infrastructure.

In the event other services could resume, staff was recommending that transfers from reserves be used to fund the service, this would give Regional Council flexibility and at the same time not have to fund programs that may not go forward.

If Budget Committee wished to fund the grants and programs it is recommended that each item be brought forward separately so staff can do an analysis of which items could go forward under the current public health orders and detail assumptions and costing of when other service may begin.

Reduction of Debt Charges \$15 M

Staff have interpreted this item to be the short term borrowing programming that the Province has established through the Nova Scotia Municipal Finance Corporation (MFC). In April staff carried out an analysis of the likelihood of those businesses and residents that would not be able to pay their 20/21 property taxes due to the financial impacts of COVID-19. HRM estimated that the impact could be as high as \$188 M.

In May, the Province announced a short-term borrowing program to assist municipalities. Municipalities could borrow from the MFC at a rate 1.1% for a three-year term. Staff are recommending that as part of the budget process the repayment for the first six months of the program be "set aside". There is no requirement by the Province to repay the principal within the first six months, but with one third of the principal being required to be repaid within one year, staff are being prudent by minimizing the impact to the 21/22 budget. The budgeting of the principal and interest is essentially ensuring a surplus in 20/21 so the funds would be available to pay the loan in 21/22.

As part of the final budget report to Regional Council staff will be revising the amount of the loan based on the amount of taxes paid by the June 1st interim bill date. At this time, May, 19th, approximately 63% of taxes have been paid leaving a gap of approximately \$ 143 M in taxes to be received over the next two weeks.

---> Staff continue to monitor cashflow on a daily basis and estimate that the short-term borrowing will be in the range of \$120 M – 130 M. The interest payment would be \$1.3 M to \$1.4M annually. There is merit in exploring the need to budget for a six-month principal repayment in this fiscal year.

Conversion of Capital from Operating to Debt

The March 24th budget had originally included \$45 M in capital from operating, as part of the exercise to recast the budget and reduce the operating costs staff went through the capital projects and identified a reduction of \$25 M in capital from operating. This occurred through deferring projects that could not be completed within the current fiscal year. With the onset of COVID-19 a number of facilities have shut down or are on reduced hours causing supply chain shortages, staffing levels and increased safety practices (physical distancing, etc.) are also causing project delays.

Converting the remaining capital from operating to debt would cost \$2.7 M annually, this is assuming ten-year financing at a rate of 3%, (the rate is the MFC's cost of borrowing for the Fall 2018 debenture). Staff would prefer to keep the capital from operating funding at the \$20 M level at this time. Should there be a need for additional cash or additional budget flexibility before the issuance of the Fall debenture by the MFC we will have the flexibility to convert the project financing to debt at that time. This approach gives HRM flexibility and does not incur additional debt at this time. There is also some capital projects which are not debt eligible, so removing capital from operating funding would require reserve funding replacement, not debt.

19/20 Year-end Surplus

The estimated year-end surplus for 19/20 is in the range of \$32 M, as part of the BAL exercise in February 2020 staff recommended that \$12.9 M of the surplus be used to fund capital projects that had originally been recommended to be funded through debt, staff also recommended that \$3.266 M in operating items included on the BAL or brought forward through staff reports be funded from the surplus. Regional Council approved both of those recommendations leaving an estimated year end surplus for 19/20 of \$15.834 M, year-end surpluses are transferred to reserves.

It is reasonable to use the funds from the 19/20 surplus to offset the 20/21 budget pressures. Surplus funds are one-time money, generally it is prudent to match one-time funding with one-time expenditures. Given the uncertainty of the financial impacts of COVID 19, staff will be recommending that any 19/20 surplus be rolled into the fiscal 20/21 budget.

Reduce Reserves by up to \$12 M

HRM currently has 20 reserve accounts, the reserves have been categorized as risk, opportunity or obligation reserves with each reserve having its own business case that outlines the permitted uses for the funds (see attachment C for a summary of the reserve uses and balances). Funds in the reserves are often committed over multiple years. As an example, the capital reserve Q526 (this is not the strategic capital reserve) appears to have a healthy balance on April 1, 2020 of \$17.7 M, however there are several capital projects in years 2 and 3 of the capital plan that are proposed to be funded through that reserve. The projected ending balance of Q526 on March 31, 2024 is \$30 K and that is with budgeted contributions included.

The Charter specifies HRM must have a capital reserve the Province also requires an operating reserve and a reserve for landfill closure costs through the Financial Reporting and Accounting Manual (FRAM). Under legislation the proceeds of all municipal assets that are sold must be deposited in the capital reserve. A municipality may borrow from the capital reserve however they must pay the money back with interest. HRM has three capital reserves where they deposit the majority of proceeds from the sale of municipal assets: Q526 Capital Fund Reserve, Q606 Strategic Capital Reserve and Q616 Business Parks Reserve.

In addition to those reserves HRM also has a Parkland Development Reserve Q611, funds in this reserve are used to for the development of parkland. The funds are paid by developers in lieu of dedicating a portion

of their development for parks. HRM has strengthened its procedures around the Parkland Reserve after legal allegations that it was allocating the funds inappropriately.

Gas Tax reserve is a requirement of the federal government infrastructure funding, the funds in this reserve are used to fund eligible capital projects through the annual capital plan.

In addition to regulatory requirements for reserves, Regional Council has dedicated specific uses for the funds. The intent of the reserves is to allow Council to contribute to projects without impacting the tax rate, such as the Halifax Convention Center reserve, the elections reserve or to save for signatory capital projects such as the strategic capital reserve fund. There are other reserves that hold funds for other entities, such as the Multi-District Facilities or the Hotel Levy.

Regional Council can amend the use of the funds and the business cases at their pleasure. Staff did not recommend the use of reserve funds as part of the recast budget process. Holding cash in the reserves will give Regional Council flexibility in the event the financial impacts of COVID-19 are deeper than anticipated, it can also serve as a source of funds to cost share in accelerated infrastructure programs should the federal and provincial governments initiate new programs.

Summary

This is a time of considerable uncertainty and it is possible that the economy could recover more quickly or could decline even further. The current Proposed Budget contains considerable flexibility in responding to this uncertainty. For instance, the wage freezes that are included in that budget could be ended quite quickly should the economy recover faster. Likewise, the budget for the short-term loan repayments offset a serious risk to the municipality of non-payment of taxes. If the inability of businesses to pay their taxes is greater than expected, these funds will become critical. Once that loan is fully repaid (in three years) the budget for this item can be eliminated and funds can be re-directed elsewhere (to programs or tax relief). Reserves offer both a hedge against this uncertainty and may also become an important vehicle for HRM to use as the economy re-opens. While the balances in those reserves are healthy, some funds are restricted to capital while others have defined business purposes that will have to be met, irrespective of the recovery. As such, it is important to see the budget as a whole – both offsetting current risk, preserving flexibility and providing for a recovery. Without this balanced approach, and should the economic crisis deepen, the municipality may be forced to consider additional reductions to the Budget.

FINANCIAL IMPLICATIONS

As stated at the outset while the financial implications of the motion are being expressed as an impact on the tax rate, staff are not recommending a tax rate increase in 20/21 beyond the original 1.4% increase in the average tax bill contained in the March 24th budget. The impacts are being shown over the four-year fiscal framework.

The following table shows the four-year implications of the items in the motion:

Table 1 - Tax Impacts of the Motion

	Amount	20/21 Rate Impact	20/21 Avg Bill Impact	21/22 Rate Impact	21/22 Avg Bill Impact	22/23 Rate Impact	22/23 Avg Bill Impact	23/24 Rate Impact	23/24 Avg Bill Impact
Compensation	21,688,800	0.02952	72.55	0.02967	73.49	0.02870	72.33	0.02781	71.38
Programs	6,537,600	0.00889	21.85	0.00894	22.15	0.00863	21.79	0.00839	21.51
Grants	4,821,100	0.00655	16.12	0.00661	16.33	0.00637	16.08	0.00618	15.85
Sub-total	33,047,500	0.04496	110.52	0.04522	111.97	0.04370	110.20	0.04238	108.74
Short-Term Loan repayment	(15,000,000)	(0.02041)	(50.16)	0.02050	50.82				
Capital from Operating	(20,500,000)	(0.02789)	(68.56)	0.02802	69.45	0.02711	68.36	0.02629	67.47
Debt Repayments (Starts in 2021/22)	2,700,000	-	-	0.00369	9.15	0.00357	9.00	0.00372	9.54
Surplus	(15,834,000)	(0.02154)	(52.95)	0.02164	53.65	0.02094	52.80	0.02031	52.11
Reserve Withdrawals	(12,000,000)	(0.01633)	(40.13)	0.01640	40.66	0.01587	40.02	0.01539	39.49
Total	(27,586,500)	(0.04121)	(101.28)	0.13547	335.70	0.11119	280.38	0.10809	277.35

Note: This table shows the four year impact of the 2020/21 budget decisions. It assumes that the use of surplus amounts, reserves, and capital from operating are one-time reductions that need to be funded in future budgets. Impacts of the Short-term loan repayment in Years 3 and 4 have not been included.

COMMUNITY ENGAGEMENT

Engagement has been ongoing during the 2020/21 budget process.

ATTACHMENTS

Attachment A – Vacancy Management as included in the Proposed Budget

Attachment B – Vacancy Management as included in the Recast Budget

Attachment C – Reserves - Restrictions and Conditions of Use

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: Jane Fraser, CFO, Director of Finance, Asset Management & ICT 902.490.4630

Attachment A
Vacancy Management as included in the Proposed Budget

2020-21

Halifax Regional Fire and Emergency Services	184,300
Halifax Regional Police	977,100
Halifax Transit	1,880,000
Library Services	927,200
Corporate and Customer Services	341,800
Parks & Recreation	808,000
Planning and Development	640,300
Transportation and Public Works	1,283,300
Auditor General	-
Chief Administrative Officer	51,300
Finance, Asset Management and ICT	772,500
Human Resources/Office of Diversity and Inclusion	124,600
Legal and Legislative Services	82,100
Total	8,072,500

Attachment B
Vacancy Management as included in the Recast Budget

Halifax Regional Fire and Emergency Services	2,400,000
Halifax Regional Police	2,214,900
Halifax Transit	3,117,700
Library Services	800,000
Corporate and Customer Services	1,772,100
Parks & Recreation	742,800
Planning and Development	855,950
Transportation and Public Works	1,244,300
Auditor General	104,000
Chief Administrative Officer	148,900
Finance, Asset Management and ICT	1,955,700
Human Resources/Office of Diversity and Inclusion	49,160
Legal and Legislative Services	474,650
Total	15,880,160

Attachment C - Reserves - Restrictions and Conditions of Use

Reserve Account	Source of Funds	Legal Restrictions	Business Case Restrictions/ Conditions and Uses
RISK RESERVES			
Q406 - Insurance and Risk Reserve			
M320	Operating Contribution		Funds are used claims and settlements and covering the costs of emergent risks over and above the amounts budgeted.
Q411 - Police Officer On the Job Injury Reserve			
P220	Operating Contribution		Funds are allocated for supplementing the salary or assisting with Sworn Officer expenses incurred as the result of officers injured on the job, as provided by Article 44 of the 2010 HRPAs collective agreement, or future collective agreements.
Q421 - General Contingency Reserve			
	Surplus		receives the annual operating surplus of the Municipality as prescribed by the Provincial Financial Accounting and Reporting Manual, and can be used to fund operating costs, offset deficits, new operating initiatives and/or capital expenditures.

Q416 - Operating Stabilization Reserve

A451

Operating Contribution

Establish to smooth significant fluctuations in operating expenditures related to various aspects of service delivery and stabilize tax rates

OBLIGATION RESERVES

Q506 - Landfill Closure Costs Reserve

R314, R315, R321

Operating Contribution

Public Sector Accounting Standard 3270 establishes standards on how to account for and report the liability for closure and post-closure care of a solid waste landfill site

Q511 - Municipal Election Reserve

A125

Operating Contribution

a) conducting special and regular elections pursuant to legislation; and,
b) routine maintenance of election data, systems and election initiatives deemed necessary by the Election office to ensure critical information is current and in place for special and regular elections.

Q521 - Convention Centre Reserve

Fiscal

Tax Revenues

MOU requires us to pay costs, irrespective of reserve.

Provides for the payment of costs related to the Halifax Convention Centre.

M250

Operating Contribution

Q526 - Capital Fund Reserve

R327

Otter Lake loan

This reserve is governed by the Halifax Regional Municipality Charter Section 120(1), (3) and (4). Details below.

Land Sales

Funds received from the sale of property, other than the sale of Business/Industrial Parks land, the sale of land conveyed to HRM for parks, playgrounds or other similar public purposes under section 282 of the Halifax Regional Municipality Charter

T127

Tax Sale Surplus Act

a) funds held in excess of twenty years in the Tax Sale Surplus Trust account as per Section 162(5) of the Halifax Regional Municipality Charter;

A315

Develop NS Parking Meters

HRM's share of capital enhancement projects between HRM and WDCL of HRM owned waterfront assets which consist of Nathan Green Park, Chebucto Landing, Sackville Landing, Karlsen Wharf, Lower Water Street and Salter Street

R855

Mt. Hermon Cemetery

M555

Operating Contribution

Capital costs for the Parking Strategy Project – Roadmap, identified in Functional Plan. Funding identified for governance, use of technology for parking payment (such as pay by plate technology) and the management of parking in high-demand neighbourhoods.) Projects from the roadmap should support three broad themes: (1) Strategies that increase the efficiency of the existing parking system; (2) Strategies that reduce parking demand; and (3) Additional supporting parking related strategies; and,

Q531 - Fleet Vehicles & Equipment Reserve

Surplus Vehicle Sales

The Reserve is intended to provide funding for the purchase of vehicles and equipment with a useful life of less than 10 years

Q536 - Library Recapitalization Reserve

M471

Operating Contribution

Funds are allocated for capital improvement projects and projects that preserve the structural integrity of the Central Library building.

Q541 - Building Recapitalization and Replacement Reserve

Spencer House

Funds may be used for recapitalization, renovations, leasehold improvements or replacement capital costs on HRM buildings/structures. Reserve is intended for significant capital projects, that are extending the life or performance of the asset and is not for routine maintenance.

Southend Daycare

Q546 - Multi-District Facilities Reserve

C706

Nustadia's BMO contribution

Funds are allocated for recapitalization, renovations, leasehold improvements or replacement capital costs on HRM buildings/structures.

Scotiabank Centre's Operating Surplus

Reserve is intended for significant capital projects that are extending the life or performance of the asset. Reserve is not for regular maintenance costs or for items outlined within operating agreements for each specific HRM-owned Multi-District Facility.

C708

Nustadia's RBC contribution

M471

Operating Contribution

Q556 - Solid Waste Facilities Reserve

M433

Operating Contribution

a) funding of construction/recapitalization of landfill cells;

- b) funding of construction/recapitalization of solid waste facility plants, transit stations and other Solid Waste infrastructure; and,
- c) funding for equipment, including replacement green carts, to operate the waste resources program.

Q551 - Transit Capital Reserve			
M701	Operating Contribution		Provides funding for the replacement of buses, ferries, transit technology and other transit infrastructure.

OPPORTUNITY RESERVES

Q606 - Strategic Capital Reserve			
M316	One Cent increase on tax rate	This reserve is governed by the Halifax Regional Municipality Charter Section 120(1), (3) and (4).	Funds are allocated for projects identified in the Strategic Capital Presentation to Council such as Dartmouth Multi Pad, Dartmouth Sportsplex, Cogswell Interchange, \$50M 5Yr Downtown Streetscapes project, and for future potential projects such as, but not limited to, new police station, fire services training facility, stadium, performing arts centre, library facilities, performing arts centre and commuter rail/fast ferry.
M316	Operating Contribution		
M471	Operating Contribution		
	Land Sales		

Q611 - Parkland Development Reserve		Halifax Charter Section 283
-------------------------------------	--	-----------------------------

(5) Where cash is paid in lieu of transferring land, the council shall use the funds for the acquisition of, and capital improvements to, parks, playgrounds and similar public purposes and may use the interest on any funds not expended for those purposes for the operation and maintenance costs of parks, playgrounds and similar public purposes.

10% of assessed value of lots for parkland through subdivision process

Q616 - Business Parks Reserve

Land Sales

This reserve is governed by the Halifax Regional Municipality Charter Section 120(1) (3) and (4).

- a) business and industrial park land acquisition;
- b) reimbursing operating costs to business unit for professional and other outside costs; and
- c) land servicing, development and construction costs necessary to bring the lands to market.

Q621 - Community and Events Reserve

M316

Land Sales

Provides funding for large-scale sporting and tourism events that create significant economic impacts, promotes Halifax as a multi-experiential event destination and attract tourists to HRM for multiple day visits. Supports the Marketing Levy grant program.

40% Hotel Levies

Q626 - Gas Tax Reserve

The Gas Tax Fund is a permanent annual funding source under the federal government's Investing in Canada Plan. The Fund's agreement requires that funds are kept and tracked separately from other sources and both a detailed budget and actual expenditures' report are required annually to reflect the municipality's ability to spend its allotment on eligible capital work.

a) gas tax funding as per the ten-year Municipal Funding Agreement with the province of Nova Scotia (2014); and, b) interest accumulated in accordance with the Municipal Funding Agreement.

Reference Council report "Municipal Gas Tax Agreement" Nov 10, 2014

Per Gas Tax Agreement

Q631 - Debt Principal and Interest Repayment Reserve

R825

Operating Contribution

a) to fund capital project costs, purchase and installation of lights, principal and interest payments and any capital lease costs related to the LED Street Lighting project; and,

M316

Operating Contribution

b) to fund principal and interest costs incurred related to debentures.