Discussion and Analysis

Halifax Regional Municipality (HRM) will experience continued growth in GDP, largely supported by a growing skilled labour force fueled by numerous local post-secondary institutions, investments in the marine sector, a robust financial services sector and significant investments by the private real estate development industry. To maintain its competitive advantage, the municipality should strategically "spend for impact" on projects that support Regional Council's priorities and ensure that a reasonable balance is achieved between taxes, services and investing in the municipality.

While investment and commercial activity have reached historic highs in recent years, structural economic issues that are being felt in other Atlantic Canadian regions may eventually be felt in HRM. To maintain its present course and mitigate economic effects beyond its control, the municipality must continue its efforts to support private sector job creation, increased exports and population growth.

HRM is a medium-sized Canadian city that depends on a thoughtful, forward-looking approach to city-building and municipal programs to maintain its steady progress and relevance within global markets. Given Regional Council priorities and citizen expectations of services, HRM requires a financial strategy that supports these goals.

Regional Council direction is that the organization take *"… a much broader view that looks at the underlying fiscal and economic assumptions and critical key decisions such as the level of the overall capital budget, debt, tax levels, reserves and the capacity to undertake service enhancements."* The long-term goal being the the integration of macroeconomic influences, service levels, appropriate levels of taxation and providing services to enhance public and economic welfare. Work has continued refining a Multi-Year Budget Framework that is practical, forward-looking and grounded in sound public finance principles.

Economic Conditions and Financial Environment

HRM's economy has greater income levels and economic opportunities than other regions of the province. The municipality accounts for 46 per cent of the population but approximately 52 per cent of GDP. Nova Scotia's economic fundamentals are mixed:

- According to Canmac Economics, national monetary and fiscal policies remain modestly supportive, however a slow-down in key export markets in Asia may negatively impact Nova Scotia's growth outlook. Low borrowing costs support the consumer and real estate sectors, while federal spending helps to support regional demand and construction output.
- HRM's growth rate has been comparatively robust due to a combination of strong fixed investment (commercial and residential real estate), above-trend immigration and public-private investments such as ship-building activities at Irving Ship Building and the Ocean Supercluster.

HRM faces some financial constraints:

- While other Canadian municipalities receive cost sharing, collectively municipalities in Nova Scotia are net payers to the province; HRM will contribute $162 million in 2019-20 to fund mandatory provincial costs.
- Nova Scotian municipalities are heavily dependent on property tax. Nearly 80 per cent of the municipality's revenues come from property taxes.

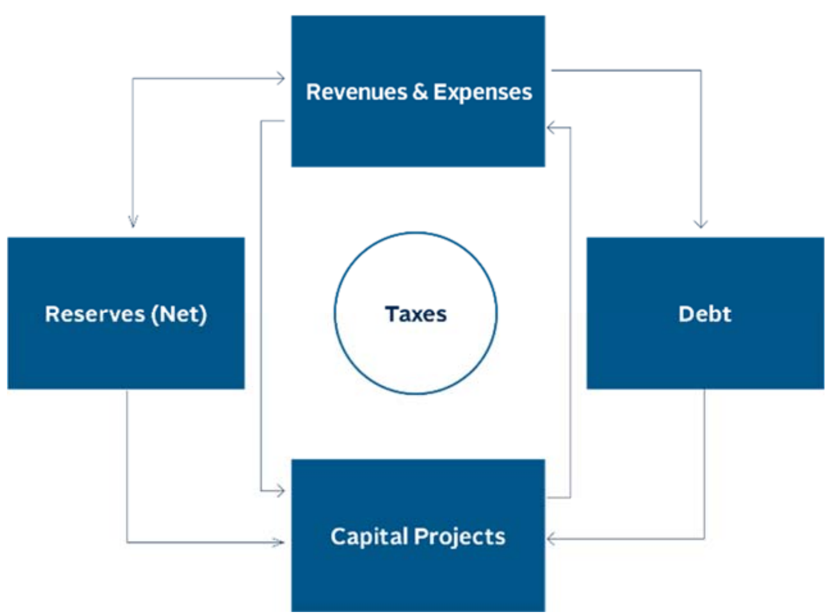
Inevitably, the municipality has limited tax room. It must therefore carefully direct resources to areas aligned with its evolving service requirements

HRM's Financial Approach

Multi-year budgeting is a forward-looking planning process that is well aligned with the municipality's debt and reserves policies, which have built a robust financial foundation with low public debt levels, healthy reserve levels and an excellent liquidity position.

Regional Council's Fiscal Framework focuses on balancing economic growth with four key inter-related financial pillars: the operating budget and required taxation; the capital budget; the municipality's debt stock; and reserve accounts. This adopted framework is illustrated in Figure 1 below:

Figure 1 – 2019-20 Budget Framework



Each of these pillars is critical to maintaining long-term sustainability. The operating budget is represented by **expenses and revenues.** The operating budget funds not only everyday services but also:

- outstanding **debt**;
- the cost of **capital projects** and the resulting operating costs; and,
- contributions to **reserves**.

In simple terms, the operating budget is like any household budget, comprised of family income and household costs. The debt that the municipality owes is like a household mortgage; reserve funds are essentially a series of saving accounts; and the capital budget is a proxy for the cost of buying, fixing or expanding a home or other asset like a vehicle.

Initial estimates beyond 2019-20 indicate that growth and inflation will remain at or below two per cent. In general, this means the municipal tax burden is stable (or slightly declining) in real (i.e. inflation adjusted) terms.

Figure 2 – Economic Assumptions (Canmac Economics, Conference Board of Canada, Autumn 2018)

	2018-19	2019-20 (F)	2020-21 (F)	2021-22 (F)	2022-23 (F)
Real GDP Growth	1.7%	1.2%	1.3%	1.7%	1.8%
Personal Income per Capita	45,032	46,179	47,350	48,661	50,032
Per cent Change	-	2.5%	2.5%	2.8%	2.8%
Inflation (CPI)	2.0%	2.1%	2.2%	2.2%	2.2%
Population (000s)	438	444	449	455	460
Dwelling Units	195,529	197,887	200,199	202,464	204,706
Per cent Change	-	1.2%	1.2%	1.1%	1.1%

Linking Economic Assumptions and Priorities into a Budget

External factors influence spending, service expectations and the cost of delivering services. Understanding the fundamental drivers of costs is key to development of a budget. Simply put, Regional Council sets priorities (Economic Development, Transportation, Healthy Communities, etc.) and municipal services are structured and altered appropriately to meet these priorities. The budget is the cost of providing these services plus the capital assets required to provide them.

In 2019-20, HRM's economic outlook is moderate, after consecutive years of historically high growth due to improved immigration levels, real estate investment and large-scale public projects getting under way.

Regional Council has maintained its approach of keeping the average tax bill at or moderately above inflation while improving recreation services such as a $28 million investment in the former Dartmouth Sportsplex , now known as the Zatzman Sportsplex; beginning work on the Cogswell Interchange; continuing to implement the Integrated Mobility Plan ($22.7 million) and investing in renewal of the municipalities many assets such as repairing roads and bridges ($40.2 million); renewing sport fields and courts ($2 million); investing in the transit system ($30.3 million) to help achieve councils objectives of improved service delivery; and investing in technology to advance the municipality's vision of being a digital city.

The 2019-20 budget supports key priorities (see previous section on key initiatives) across service areas, maintains tax levels in-line with economic indicators and most importantly, helps to lay the foundation for city-building initiatives that will build upon the economic and cultural success seen in the past decade.

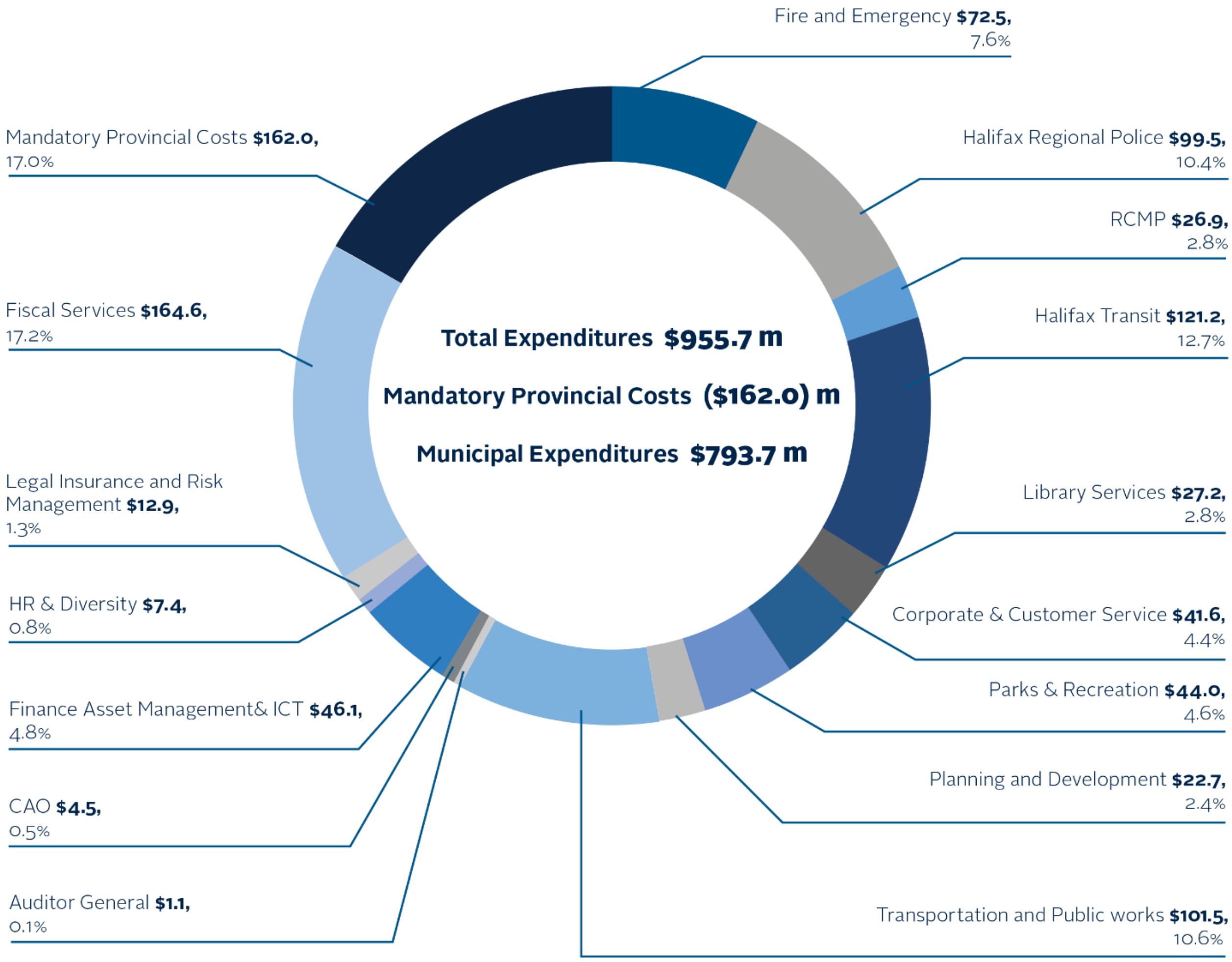
Operating Budget

The operating budget includes the day-to-day expenses and revenues that are required to run the municipality and provide services to citizens. It includes items such compensation, contracts, fuel, building costs, material, debt charges and capital from operating. These costs are offset by the revenues, property taxes (residential and commercial), tax agreements, payments in lieu of taxes and fees and fines.

Figure 3 – Municipal/Provincial Expenditures ($Millions)

	2018-19	2019-20	2020-21
Gross Expenditures	**918.8**	**955.7**	**969.6**
Less: Mandatory Provincial Costs	-157.9	-162.0	-168.5
Municipal Expenditures	**760.9**	**793.7**	**801.1**

Figure 4 – Total Expenditures ($Millions)



In 2019-20 municipal expenditures will total $793.7 million. Major areas of cost increases are related to replacement and expansion of capital assets and public safety compensation increases. Over time, the municipality's population has grown while municipal service and costs have also increased, through increases in staff complements and compensation levels, and capital asset repair.

The 2019-20 budget includes $162 million for provincial services such as education, corrections and housing. HRM does not provide these services, nor is the municipality accountable for how the money is spent. Under provincial law, all municipalities must levy taxes for these items and transfer the collected funds to those organizations. Figures 3 (previous page) and 4 (above) show the municipal share of provincial costs that the municipality will collect in 2019-20.

A break-down by business unit of total municipal expenditures is detailed in Figure 5, next page.

Figure 5 – Budgeted Expenditures by Business Unit ($Millions)

Business Units	2018-19	2019-20	2020-21
Public Safety Service:			
Fire and Emergency Services	72.0	72.5	72.8
Halifax Regional Police	95.6	99.5	99.7
RCMP	26.2	26.9	26.9
Total	**193.8**	**198.9**	**199.4**
Public Services:			
Halifax Transit	115.6	121.2	125.4
Library Services	27.0	27.2	27.2
Corporate & Customer Services	41.1	41.6	41.8
Parks & Recreation	43.0	44.0	44.3
Planning and Development	20.8	22.7	22.1
Transportation and Public Works	100.3	101.5	100.2
Total	**347.8**	**358.2**	**361.0**
Governance and Support Services:			
Auditor General	1.0	1.1	1.1
CAO	4.7	4.5	4.5
Finance, Asset Management & ICT	44.7	46.1	46.3
Human Resource Services	6.9	7.4	7.5
Legal, Insurance and Risk Management	12.3	12.9	12.9
Total	**69.6**	**72.0**	**72.3**
Total	**611.2**	**629.1**	**632.7**
Corporate Services (Fiscal)	149.7	164.6	168.4
Total	**760.9**	**793.7**	**801.1**

An overview of total expenditures by category is shown in Figure 6, next page.

Figure 6 – Budgeted Expenditures by category ($Millions)

Expenses by Category ($ millions)	2018-19 Budget	2018-19 Projected	2019-20 Budget	% Budget Change
Compensation and Benefits	387.5	375.7	403.2	4.1%
Office	11.5	11.1	11.0	-4.3%
External Services	114.8	113.6	118.0	2.8%
Supplies	3.6	5.3	3.6	0.0%
Materials	3.1	3.9	3.8	22.6%
Building Costs	20.0	20.6	19.3	-3.5%
Equipment & Communications	8.1	11.2	8.2	1.2%
Vehicle Expense	24.5	28.4	29.4	20.0%
Other Goods & Services	26.8	28.1	30.1	12.3%
Interdepartmental	0.1	0.3	0.4	300.0%
Debt Service	49.1	49.2	46.5	-5.3%
Other Fiscal	111.9	116.6	120.2	7.4%
Total Municipal Expenditures	**760.9**	**764.0**	**793.7**	**4.3%**

The tax rate is one part of the tax revenue equation, the other being assessment (property value). Due to rising assessments and demand for properties, commercial rates have fallen by approximately 10 per cent over the last 15 years, while the residential rate has fallen 17.3 per cent in the same period. In short, falling tax rates are a function of rising property assessment, allowing the municipality to generate adequate revenues. Key tax rates are detailed in Figure 7 below:

Figure 7 – Residential and Commercial Tax Rates

Tax Rate ($)	2018-19	2019-20
Urban Residential	0.6735	0.6700
Suburban/Rural Residential	0.6405	0.6370
Transit Local + Regional	0.1440	0.1450
Urban/Suburban Commercial	2.9255	2.9880
Rural Commercial	2.5920	2.6470

Even with the **urban tax rate reduced** by 0.3 per cent in 2019-20, **the average tax bill** for a residential home **increased by 2.3 per cent** to $1,967 due to the 2.6 per cent **growth in average property assessment**. The average commercial property will see its bill rise 2.3 per cent to $42,029.

Figure 8 – Average Assessments, Tax Rates and Tax Bills

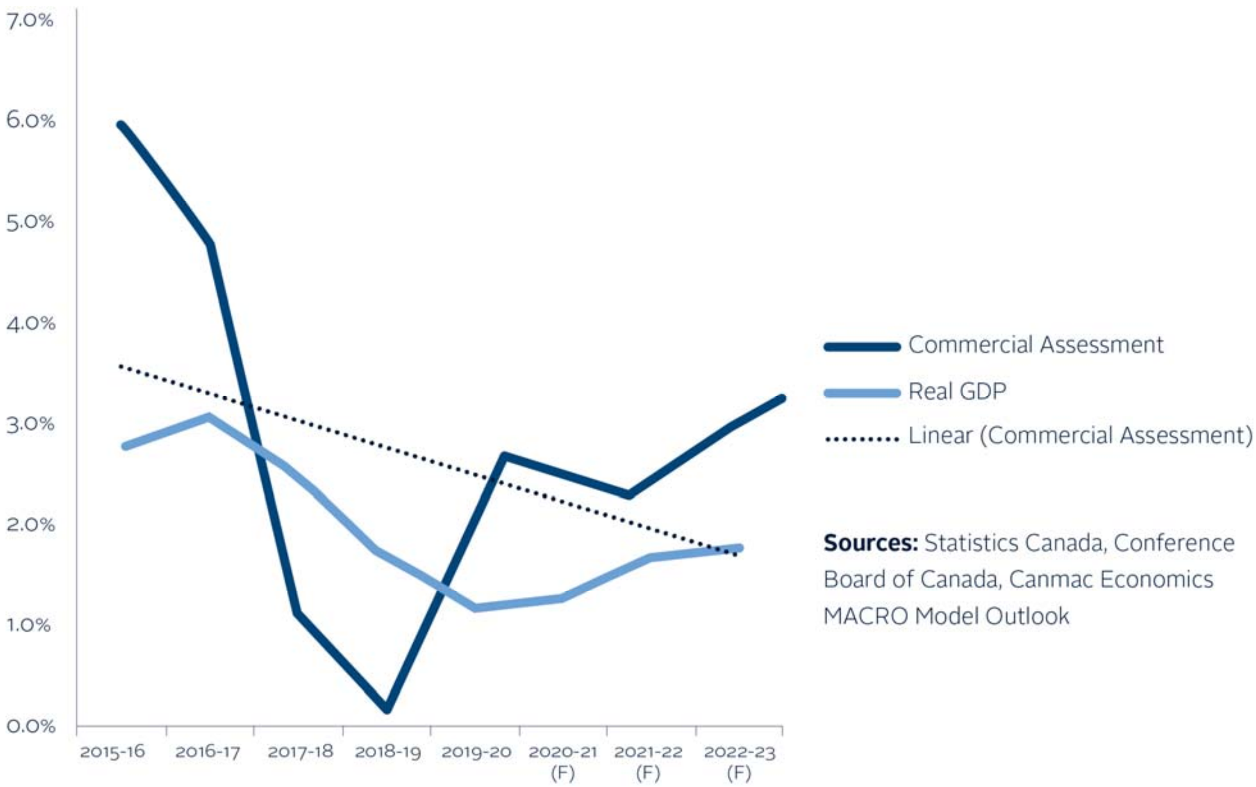
Residential:	**2019-20**
Average Assessment (Single Family Home)	**$241,400**
Urban Tax Rate (Including Transit Rates)	.815
Average Tax Bill	**$1,967**
Change in Average Tax Bill	2.3%
Commercial:	**2019-20**
Average Assessment	$1,406,600
Urban Tax Rate	2.988
Average Tax Bill	**$42,029**
Change in Average Tax Bill	2.3%

Available benchmarks for property taxes indicate that average taxes in HRM compare favourably to other Canadian cities. While average taxes are growing, growth and income levels are outpacing residential taxes. In 2019-20 residential taxes are expected to represent just over one per cent of regional income. Similarly, commercial taxes represent just over two per cent of GDP and 38 per cent of total tax revenues, down from 50 per cent at amalgamation in 1996.

Taxation

Nova Scotia's tax system is based on current market values, although single-family homes are eligible to have their values capped at the consumer price index (CPI). The rate of growth in residential and commercial assessments has fallen relative to the recent historical trend. While growth in the residential sector continues, it has moderated considerably. Importantly, the growth rate in the value of commercial properties is almost flat, with values set to grow slowly in the near term, largely due to excess supply of commercial space, low real interest rates and structural changes in space requirements by firms. A snap shot of this phenomenon is illustrated in Figure 9, next page:

Figure 9 – Commercial Assessment, Real GDP (Annual Rate of Change)



HRM has different tax rates including general tax rates that vary by urban, suburban and rural areas. Additionally, it has two dedicated residential taxes for transit: A Local Transit tax paid by those within one kilometre of a local route, and a Regional Transportation tax that is applicable to a much larger area within the municipality.

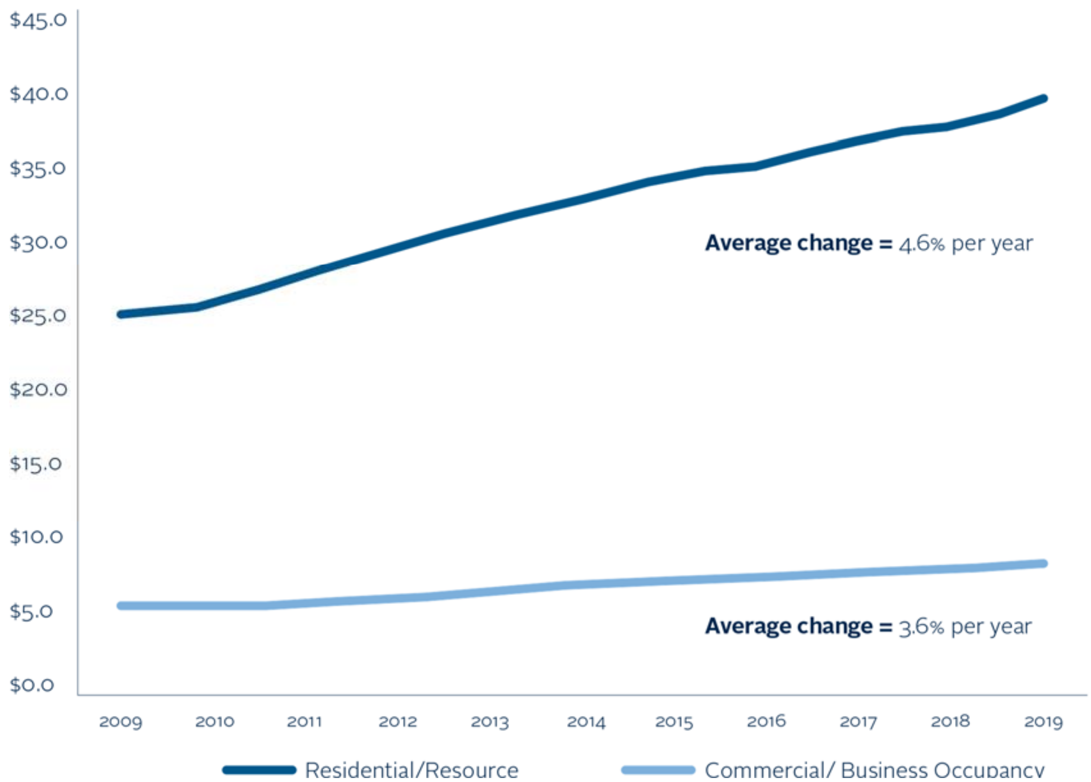
Commercial property values (see Figure 9) experience substantial volatility in their price level compared to the residential market. The municipality has sanctioned independent analysis of these trends through econometric testing to better determine future fluctuations in the commercial market.

Figure 10 –Assessment Official Roll: 2015-2019 (Millions)

	2015	2016	2017	2018	2019
Residential/ Resource	34,464	35,363	36,835	37,872	39,468
Commercial	7,798	8,170	8,263	8,280	8,504

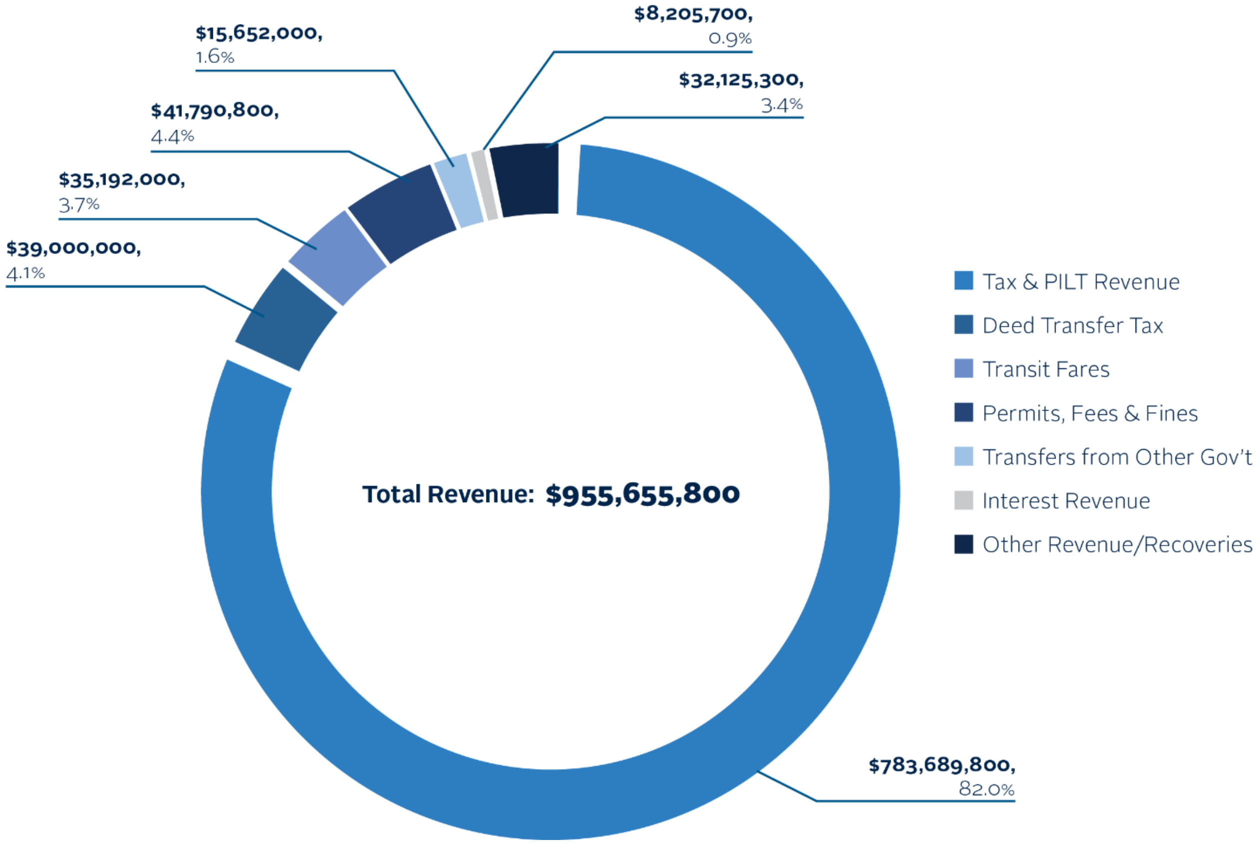
Source: Property Valuation Services Corporation (PVSC)

Figure 11- Historical Trend Growth, HRM Taxable Assessment (Residential and Commercial)



Municipal revenues grow in a linear trend, roughly following economic indicators like income or nominal GDP growth. Property taxes and payments in lieu of taxes (PILT) form the most significant share of municipal revenues as noted in Figure 12, next page.

Figure 12 – Municipal Revenues by Type, 2019-20



Capital Budget

The capital budget funds the purchase, construction, and rehabilitation of assets. HRM has a considerable asset base exceeding $3.4 billion that includes over 300 buildings, 1,300 parks and playgrounds, 3,800 lane kilometres of roads, 1,500 vehicles, and many other assets.

HRM's capital budget is also classified according to projects that repair assets ('Asset Renewal') and projects that enhance current services and/or serve new homes and communities ('Growth'). The upcoming capital budget will see the municipality approving $164 million in 2019-20. Given federal policy changes to cost sharing programs and available reserve funding, new capital investment can fluctuate from year to year.

The capital budget details are included in Figures 13 and 14, next page.

Figure 13 – Gross Capital Budget Summary ($Thousands)

Budget Category	2018-19 Gross Budget	2019-20 Gross Budget
Buildings	24,520	30,345
Business Tools	12,529	18,107
District Capital Funds	1,504	1,504
Equipment & Fleet	6,900	9,008
Halifax Transit	21,157	34,335
Parks & Playgrounds	10,209	15,010
Roads & Active Transportation	44,335	48,745
Solid Waste	4,750	2,240
Traffic Improvements	2,680	4,675
Grand Total	**128,584**	**163,969**

Figure 14 – Capital Budget Funding ($Thousands)

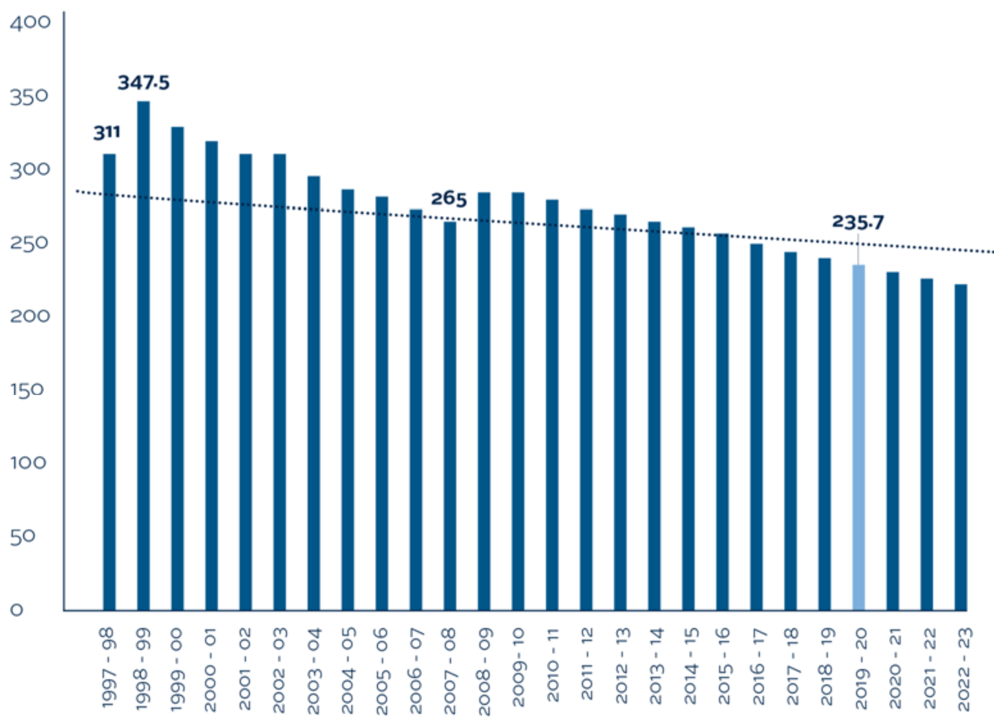
Project Specific Funding:	**2018-19**	**2019-20**
Reserves	21,424	60,090
Area Rate	709	110
Local Improvement Charge		
Pavement Impact Charge	900	816
Other Private Cost Sharing	-	50
Provincial Government Cost Sharing	2,000	2,000
Other Government Cost Sharing (unconfirmed)	-	6,160
Sub-Total	**25,868**	**69,577**

Capital Capacity:	**2018-19**	**2019-20**
Additional Debt Approved	29,800	27,109
Capital from Operating	36,200	37,005
Gas Tax Reserve	26,500	25,123
CAPPOOL/CRESPOOL	10,216	5,155
Sub-Total	**102,716**	**94,392**
Total Funding	**128,584**	**163,969**

Debt

Debt is a financial tool to fund long-term capital expenditures. In many respects, it works much like a home mortgage, with the principal and interest being repaid over the asset's life. The municipality's debt policy ensures there is a greater emphasis of paying out of current revenues to fund capital assets. As HRM continues to grow, debt policy adjustments may be necessary to ensure greater intergenerational equity across generations, meaning spreading the cost of capital assets across more than one tax-paying generation.

Figure 15 – Stock of Municipal Debt, Trend ($Millions)



Source: HRM Financial Policy & Planning. Amounts are for Tax Supported Debt. It includes funding as of March 31st year-end that is approved but unissued as well as work-in-progress (WIP).

Reserves

The municipality recently reclassified its reserves into three main categories, each designed to reflect the specific purposes of the reserve system.

- Contingency funds for unforeseen financial **risk** such as emergencies or economic events;
- Savings funds for future **obligations** that the municipality expects to make such as a specific asset or other commitment; and,
- Contingency funds for **opportunities,** such as federally cost shared programs.

The municipality’s reserve balances are in a comparatively strong position with an expected reserve balance of $127 million at March 31, 2019. Notable withdrawals in 2019-20 include $15 million for street recapitalization and one-off grants to the YMCA and funding for select sidewalk renewals. The projected aggregate reserve balance on March 31, 2020 is $105 million.

HRM is committed to improving the quality, efficiency and management of public service delivery to meet the evolving needs of its citizens. As it continues its thoughtful growth strategy of investing limited funds to best meet Regional Council’s priorities, the municipality’s discipline and prudence is helping to control operating expenses and find efficiencies within the cost of programs and services. The approach is solidifying HRM’s foundation for practical and transformational investments in the well-being of its communities for generations to come.