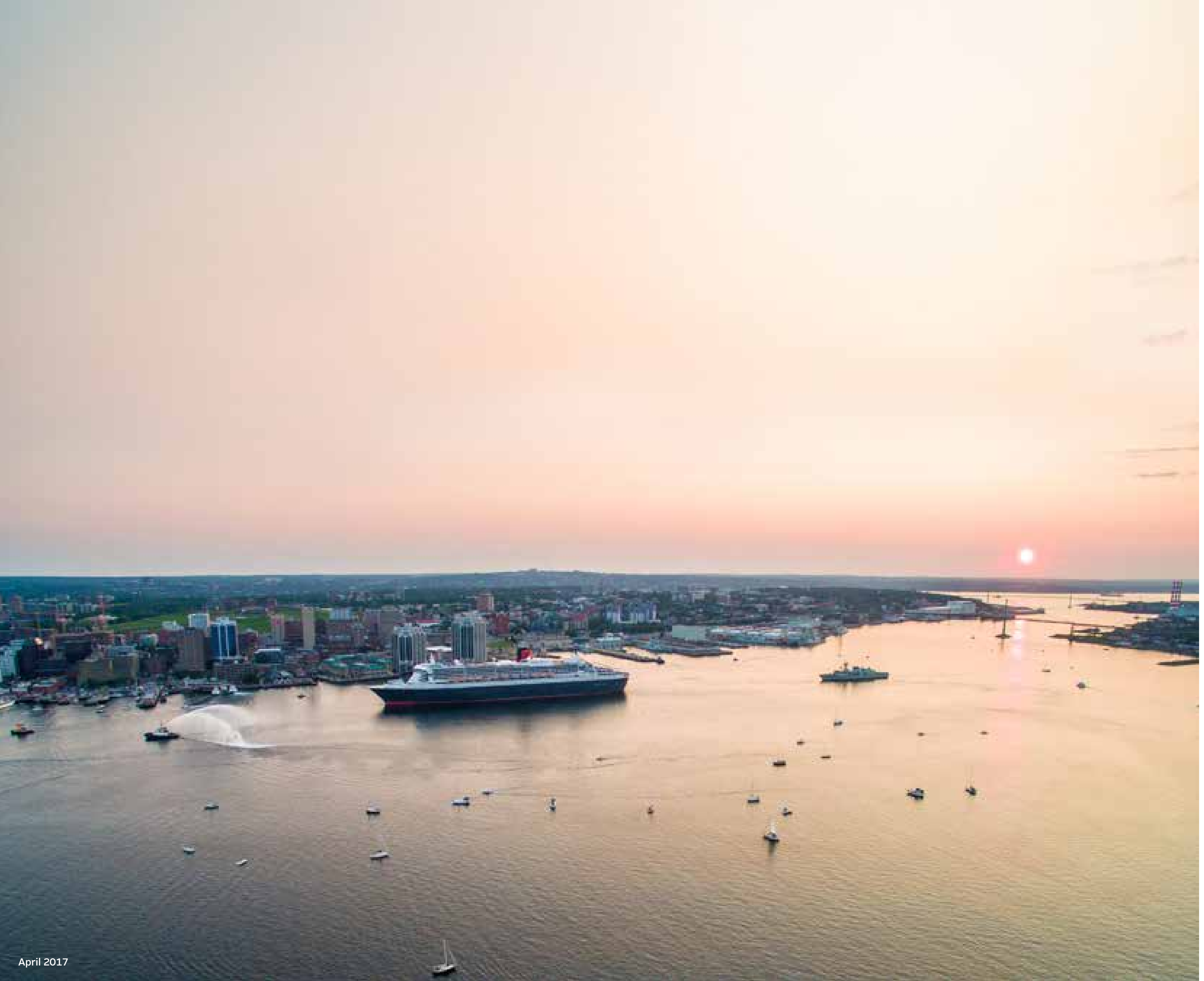
Multi-Year **FINANCIAL STRATEGY** 2017-2021

HALIFAX REGIONAL MUNICIPALITY | HALIFAX



April 2017

Heading for Sustainable Success

Halifax is a historic municipality facing an optimistic future. In many respects the Halifax region reflects the spirit and character of the countless people who have navigated its waters; from the Mi'kmaq First Nations whose nautical history stretches into time immemorial, to the many world-class paddlers and sailors who have called it home for generations.

Determined. Capable. Resilient.

Over the past decade or so, the municipality established the fiscal discipline and capacity to deliver public services that are now part of a solid foundation for navigating future prosperity.

Maintaining that foundation and preparing to grow it to the next level demands more than coasting on the current tack. As the venerable paddler or sailor knows well, the waters rarely remain calm for long. There is always another wave, another gust, another current waiting to disrupt momentum, demanding more self-control, more effort and more endurance to stay on course for success. So, too, must the municipality avoid coasting on its achievements and plan for the opportunities and challenges that will be key elements of a success story for future generations to enjoy.

To understand the municipality's government and the myriad inter-related decisions it strives to balance, one must first understand its nature—its history, its progress and its course for sustainable growth.

An overview of the Halifax region and its priorities

Halifax Regional Municipality (Halifax) is Nova Scotia's largest and most diverse municipality, with about 45 per cent of the provincial population residing within it (Statistics Canada, 2016) and almost 57 per cent of the province's GDP. The region has significant suburban and rural content, with a considerable urban mix, and is home to 425,900 residents (Statistics Canada projection, 2016) living in 200 communities.

The land area of the municipality—equal to 5,577 square kilometres—is larger than that of the province of Prince Edward Island (PEI) and is dotted with coastline, islands and lakes. As the largest city east of Montreal, Halifax serves as the regional center for nearly three million people. This context allows the municipality to prosper among larger competitors, and boast many attributes typical of much larger cities.

Halifax is a historic municipality facing an **optimistic future.**

Halifax has six degree-granting institutions, leading health centers, Canada's seventh busiest airport, the country's number two container port, and a wide variety of cultural, educational, scientific, financial services, and defence establishments. Despite its modest size, Halifax is considered one of Canada's "hub" cities.

The Mi'kmaq First Nations were the original people to inhabit the Halifax region. The French became the first European settlers briefly in the 1720s before the British, attracted by Halifax's large, ice-free harbour, landed in 1749. Nine years later in 1758, an election for the Nova Scotia Legislature took place in the town of Halifax, a forerunner to the later emergence of democratically elected governments in North America.

Run largely by the Royal Navy, Halifax was on a war footing for most of its first 100 years. It was a vibrant, busy port, as well as the birthplace for several of Canada's biggest banks. Historical nuances have greatly influenced regional development, with over one million immigrants arriving in Canada through Pier 21 during the twentieth century post-war period in Europe.

Photo: Collection of Janet kitz

The City of Halifax was first incorporated in 1842. It was later joined by the County of Halifax (1879), City of Dartmouth (1961) and the Town of Bedford (1980). In 1996 these individual entities were amalgamated into the Halifax Regional Municipality (HRM). Today it boasts one of Canada's most educated labour forces, a nimble private sector composed of both domestic and export focused industries and a thriving, vibrant culture.

The Halifax region is a modern example of urban, suburban and rural living in Canada. Areas of note include the historic downtown areas on both sides of the world's second largest natural harbour; 400 kilometres of shoreline; fertile agricultural land in the Musquodoboit Valley; and suburban communities such as Bedford, Sackville and Cole Harbour.

The municipality is set to experience 1.9 per cent real GDP growth this fiscal year, just below the Canadian average (two per cent, Conference Board of Canada's Metropolitan Outlook – autumn 2016). Notable economic developments include the federally awarded shipbuilding contract at Irving Shipbuilding and the approval of the Comprehensive Economic and Trade Agreement (CETA) between the European Union and Canada.

Municipal Government

As optimistic as it has become, the path to HRM's financial sustainability has not been easy. The amalgamation of the four former municipalities in 1996 led to an increase in debt and a weakened financial situation. Slowly but steadily the municipality has navigated its way past those difficulties gaining positive momentum along the way.

HRM is governed by a Regional Council/ Chief Administrative Officer (CAO) form of government, including one Councillor for each geographic area and an independently elected Mayor. Currently, there are 16 Councillors representing 16 distinct areas of the region. The CAO provides advice and guidance to Regional Council, while carrying out relevant Regional Council policies and programs. The municipality has over 4,000 employees providing a wide range of services and programs as mandated by Regional Council. Services include:

- Public Transit
- Policing
- Fire and Emergency
- Streets, Roads and Sidewalks
- Recreation and Cultural Programs
- Libraries
- Community Planning
- Economic Development
- Regulatory and Compliance
- Environmental Stewardship
- Environmental Services (water, waste water and storm water management services are provided by the Halifax Regional Water Commission)

The municipality operates on a 12-month fiscal cycle, from April 1 to March 31 of the following year. Under provincial law, it is required to prepare an operating budget for ongoing items such as salaries, wages and other recurring costs, in addition to a capital budget for fixed assets. The operating budget is balanced. The capital budget is financed through a combination of debt, cost sharing, reserves and transfers from the operating budget (capital from operating).

Halifax has navigated its way past financial difficulties, **gaining positive momentum.**

On February 7, 2017, the municipality introduced a new, streamlined corporate structure to evolve existing business practices and help connect business unit leaders and their teams with the CAO. The new structure, effective April 1, 2017, will create better collaboration, shared accountability and improved responsiveness to Regional Council's priorities.

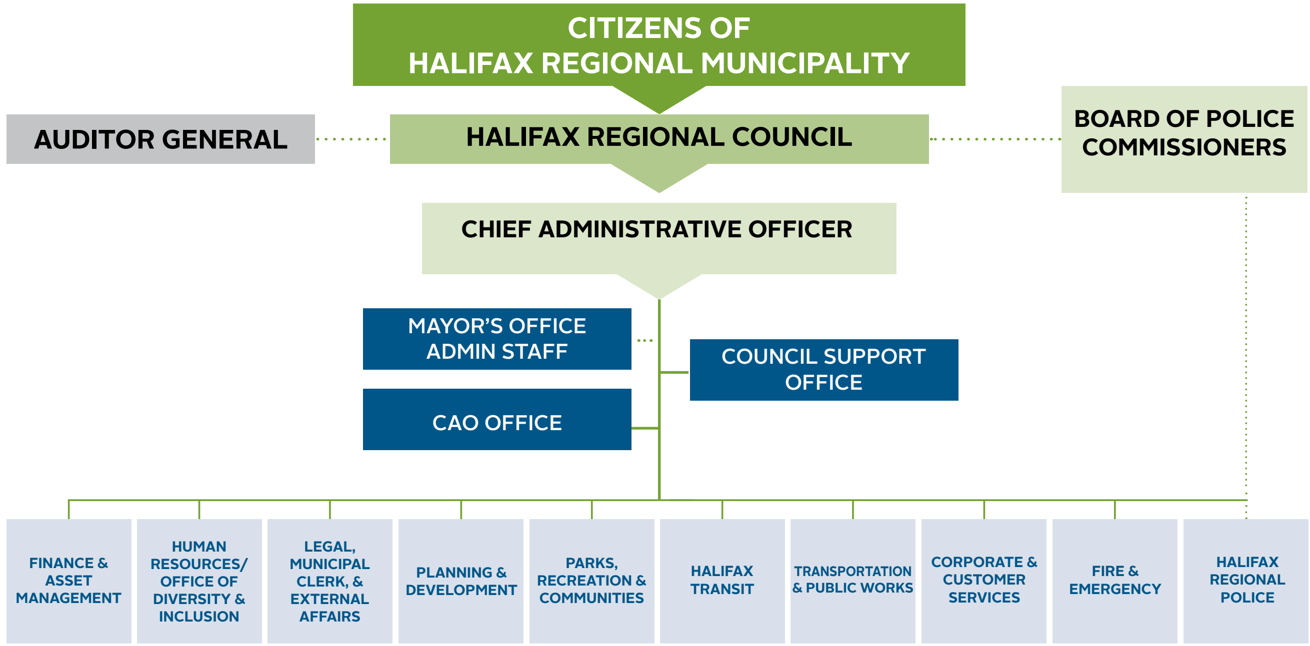
A key shift for the new organization structure is the redistribution of the former Deputy Chief Administrative Officer (DCAO) roles and responsibilities into individual business units. Moving forward, the business units that had been reporting to the former DCAO role will now report directly to the CAO.

A new Corporate & Customer Services business unit will replace the former Operations Support business unit. This new business unit (led by the former Acting DCAO) will see a natural grouping of Corporate Communications, 311 Citizen Contact Centres, Customer Service & Performance Excellence, as well as Information Technology & Communications and other internal service providers.

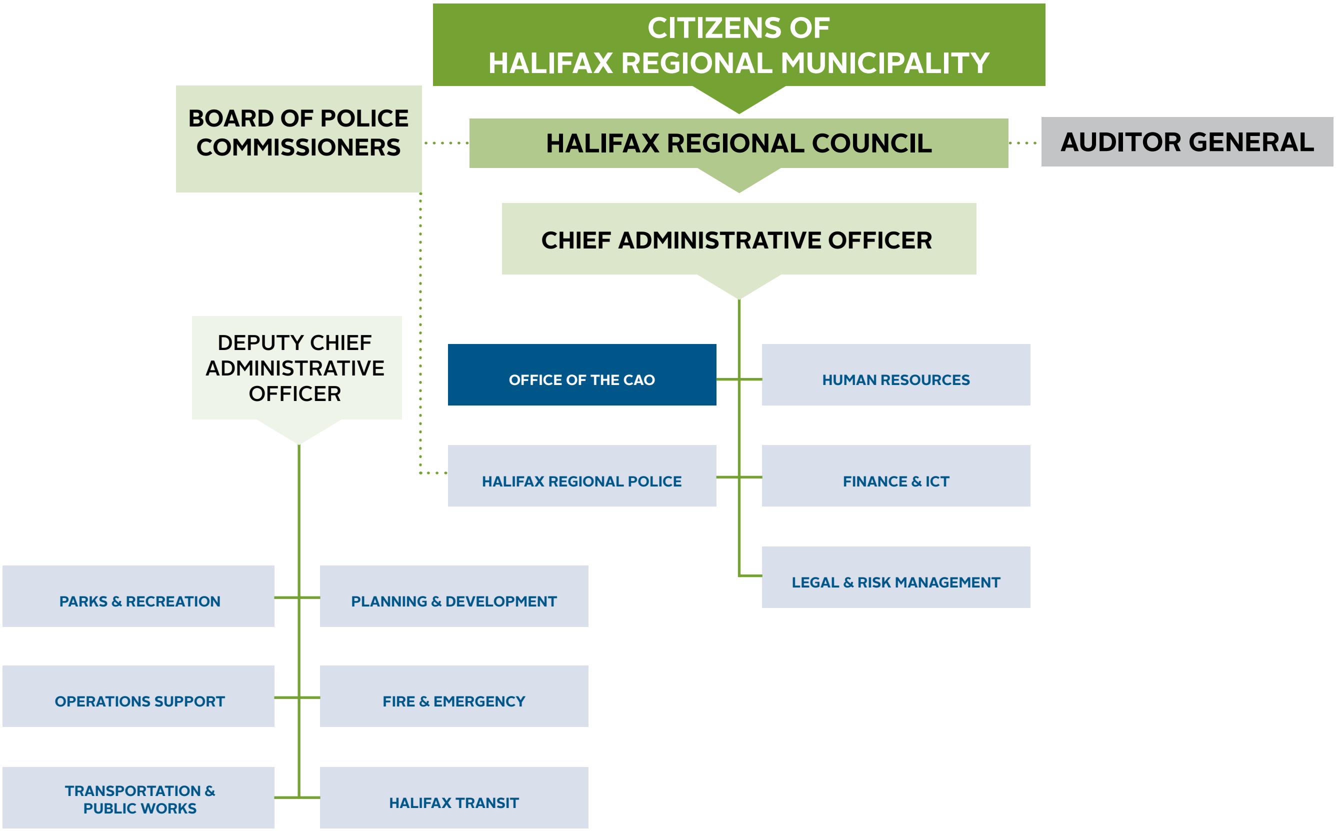
These changes to the organization structure aim to build a corporate culture that:

- is more citizen-focused;
- delivers effectively and efficiently on Regional Council's priorities, and;
- better equips the municipality to respond to the ever evolving needs of citizens.

Effective April 1, 2017



Effective until March 31, 2017



Regional Council's Multi-Year Strategic Plan

Following the municipal election in October 2016, staff updated the new Halifax Regional Council on the considerable work undertaken to support the existing Council Priorities established in 2012 and an overview of progress on existing 2016-17 plans underway. They also introduced a new strategic framework and associated priorities developed earlier in the year.

Regional Council then confirmed its new Priority Areas and adopted a four-year Strategic Plan to better define the community outcomes on which the municipality will focus everything it does for its citizens.

The Strategic Plan aligns "how" the administration operates with "why" Regional Council focuses on the Priority Areas it endorsed. Regional Council's approved Priority Areas for 2017-2021 include:

- Economic Development
- Governance and Engagement
- Healthy Liveable Communities
- Service Delivery
- Social Development
- Transportation

Key initiatives aligned with Council Priorities

Economic Development

HRM is a sought-after business destination that encourages entrepreneurial spirit and is responsive to the needs of the community.

Economic Strategy Implementation and Tracking: Economic growth and increased commercial activity leads to a wide range of benefits for the municipality and its residents. Through the Halifax Partnership and municipal departments, HRM works collaboratively with a number of business organizations and outside agencies to develop effective strategies to promote this growth. Halifax's Economic Growth Plan for 2016-2021 has four main strategic goals that are supported by various initiatives and deliverables. Implementing this plan and monitoring, tracking and reporting on progress are a key component to the successful delivery of the economic strategy.

Cogswell Redevelopment Program: A significant undertaking to demolish the old interchange and rebuild the surrounding area to help further grow the Regional Centre with benefits that will ripple through the entire region. Pending further direction from Regional Council, demolition would start in late 2017, followed by a three-year (2018-2020) construction project to redevelop the lands. Land use by-law planning and real estate marketing is expected to occur over an additional four to five years.

Supply of Industrial Lands: HRM will maintain and/or expand its industrial land base to ensure a 20-year supply of land (limiting retail and office development within) by implementing the following:

- Amend zoning in the Burnside expansion areas to better define target industrial and commercial uses;
- Plan for future expansion of the municipally owned lands at Aerotech and Ragged Lake Park; and
- Update industrial park site development guidelines and program policies.

Embrace Canada 150 Program Opportunities: Significant resources will be applied to leverage approximately $5 million of public/private opportunity funding to enhance Canada 150 celebrations (New Year's Eve, Canada Day, Public Gardens) and implement numerous parks and recreation infrastructure improvement projects throughout the Halifax region.

Service Delivery

HRM meets the needs of the people it serves, resulting in greater satisfaction with, and confidence in the municipality.

Performance and Service Excellence: A renewed focus on a strengthened public service culture will be supported through the development and implementation of a Customer Service Strategy. The strategy will provide guidance and oversight in areas that impact service value to citizens and businesses, including Lean Six Sigma, technology support, and process improvements.

Improve Access to Recreation Services: Focus will be placed on the delivery of an outreach communications program, implementation of the Web Transformation project, and the administration of new Recreation Services software that will significantly improve customer experience. Staff will also continue to explore opportunities to increase unstructured play and improve access to programs and services.

Planning & Development Renewal: Planning & Development will continue to renew the department through the implementation of the Planning & Development Strategic Plan 2015-2019. During 2017-2018, focus will be on the Year 2 Recommendations of the Plan. Priority actions include:

- Replacement of the permitting and licensing system;
- Review of planning applications, licenses and permitting processes to speed up approvals, and;
- Fee rationalization.

During 2018-2019, focus will be on the Year 3 Recommendations of the Plan. Priority actions include:

- Implementation of and change management for the permitting and licensing system;
- Implementation of a fee and service review, and;
- Complete a strategic plan for 2020-2024.

Healthy, Liveable Communities

HRM is a safe, liveable and sustainable community that encourages public engagement and participation in civic life.

Significant Reduction in Crime and Significant Increase in Safety: HRP will work toward significantly reducing crime and significantly increasing safety in all the region's communities by implementing various crime prevention and reduction tactics including but not limited to a revised Crime Reduction strategy that targets specific criminal elements.

HRFE Master Fire Plan Implementation: Continue the implementation of the Regional Council-approved Master Fire Plan recommendations including increasing the complement of career firefighters to staff in Stations 8 (Bedford), 16 (Eastern Passage), 17 (Cole Harbour) and 58 (Lakeside) with four-person crews. Prepare options for Regional Council's consideration, to amend HRFE's Service Delivery Standards and Administrative Order 24.

Develop and Implement Strategic Plans: Implement a Parks & Recreation Strategic Policy Framework that identifies expected outcomes and priorities regarding service delivery, fiscal sustainability, accessibility, and inclusion.

Acquire and Develop Parkland: There will be an increased focus on achieving Regional Plan parkland objectives as well as Regional Council's direction to acquire specific parkland such as Blue Mountain Birch Cove and several other properties. Priority focus will also be given to a review of the Halifax Common Master Plan as well as development of parkland received through development/acquisition such as Baker Drive in Dartmouth.

Solid Waste Program Improvements: Solid Waste Resources will undertake a number of initiatives to improve the waste management system, including deliverables intended to reduce operating costs, ensure regulatory compliance and environmental protections, and improve waste diversion and source separation compliance.

Social Development

HRM's communities have access to social infrastructure that supports all segments of the community.

Promote Equitable Access to Municipal Services: Ensuring the Halifax region is a diverse and inclusive community that supports all residents is a priority. A key component of this objective is ensuring that all residents have enhanced and equal access to information, service and engagement with HRM. The Corporate and Customer Services business unit and the Office of Diversity and Inclusion will provide leadership and guidance to train and engage staff to develop and implement various diversity and inclusion plans and initiatives across the organization.

Diversity and Inclusion: Support a diverse, inclusive and welcoming work environment within Transportation & Public Works via increased training for staff, community outreach and program enhancements that are considerate of those with varying abilities.

Governance and Engagement

HRM's governance structures and communications approaches provide maximum opportunity for public engagement and enable appropriate stewardship of municipal affairs.

Library Governance and Decision-Making: To ensure service that is responsive to community needs, Halifax Public Libraries will create a framework that supports excellence in governance and decision-making and will create a culture that values public and staff input in priority-setting.

Board of Police Commissioners' mandate: The Commission is currently developing and evolving a strategic plan to fulfill its legislated mandate. Work plans are currently underway for public consultation and engagement; data and communications administration; and policy development for all Commission matters. 2017-2018 key deliverables include:

- police services governance review;
- documented Commission and Commission-related stakeholder roles, responsibilities and accountabilities;
- overall fiscal responsibility framework, and;
- public consultation and engagement.

Improve Public Access to Information and Services: The overall success of HRM's interactions with taxpayers is partially determined by residents' capacity to access information and services. Much of this resident engagement is accomplished through electronic media. HRM is currently working to renew its website (halifax.ca) to leverage e-service capabilities, improve search functions and redevelop content management systems. The Corporate and Customer Services business unit, through the Corporate Communications service area, will develop an enhanced strategy for use of social media and implement additional training for website authors to ensure residents have improved access to information and services through halifax.ca.

Transportation

Integrated, multi-modal, long-range plan to move people and goods in HRM in support of neighbourhoods, communities and economic growth.

Transportation Planning: To meet regional mobility needs, Transportation Planning will measure and project demand, and identify the projects and programs that will meet those demands in a sustainable manner. Development of an Integrated Mobility Network (IMP) will tie together the Road Network, Transit, Parking, Active Transportation, a complete streets policy and other Transportation Demand Management Priority Plans. Transportation Planning will continue to work to provide evidence-based plans to support future transportation networks.

Transportation Capital Works: In order to mitigate impacts on the transportation system when completing projects in the right-of-way, Transportation & Public Works will develop an implementation plan integrating the state of good repair program with the Road Network, Transit, the IMP and Active Transportation Plans, in consultation with the Integration Committee, which includes Halifax Water and Heritage Gas.

Transit Asset and Infrastructure Renewal: Halifax Transit will continue to promote transit as a key component of an integrated transportation system as a competitor to the single occupant vehicle. To create an enhanced and more accessible experience for its customers, Halifax Transit will continue investment in the renewal of on-street infrastructure including construction of stop locations as well as replacement of Conventional, MetroX and Access-A-Bus vehicles and ferries.

Road Safety: To ensure the overall safety of travellers using the HRM streets and roads network and related services, Transportation & Public Works will develop a Road Safety Strategy and lead and support its implementation throughout the organization, in partnership with other business units.

Transit Technology: Through the implementation of improved transit technology including Computer Aided Dispatch/Automated Vehicle Location (CAD/AVL), Electronic Fare Management Systems, and Bus Stop Announcements, Halifax Transit is transforming the way customers interact with the transit system. In addition to providing improved service reliability and enhanced customer experience, new technology will provide data and management opportunities to inform increased efficiency of the transit system.

The municipality is modernizing its financial approach to help meet these challenges. Early in 2016, Regional Council directed that the budget 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 goal is to link longer-term business plans with limited resources, and to plan for and invest in the future well-being of communities for generations to come by reducing the reliance on debt financing.

The municipality is **modernizing** its financial **approach.**

Halifax's Economic and Fiscal Constraints

The economic and fiscal environment has a critical effect upon the municipality. While reasonably prosperous, its progress is challenged by provincial and federal economic policies and realities in a global context.

Within the Province of Nova Scotia there are two distinct but highly inter-dependent economies. The Halifax region's economy has greater income levels and economic opportunities than other communities in the province. The municipality accounts for 45 per cent of the population but almost 57 per cent of the gross domestic product. Its unemployment rate and employment/population rates are unequalled in the province.

At the same time, rural Nova Scotia's population is both aging and declining in number, putting many smaller municipalities in a precarious financial position. The provincial government also continues to face a substantial fiscal challenge. While its debt/GDP ratio has declined, its net direct debt remains at $15 billion, with demographic and federal transfer changes pressuring the province's fiscal situation.

The municipality has limited tax room and needs to **direct resources carefully.**

Nova Scotia's municipalities face inevitable challenges including:

- There is limited provincial cost sharing with municipalities. At 1.5 per cent reliance on government transfers, the municipality has a cost sharing ratio that is a fraction of the national average.
- Municipalities fund a substantial portion of education and there are often expectations they should contribute towards provincial services such as hospitals or housing. HRM pays $135 million per year to cover the costs of public education, even though it has no responsibility for education. While other Canadian municipalities receive cost sharing, collectively municipalities in Nova Scotia are net payers to the Province.
- Nova Scotian municipalities are heavily dependent on property tax. Nearly 80 per cent of HRM's revenues come from property taxes, a reliance that is two-thirds more than the national average.
- Even though property tax levels in the Halifax region benchmark favourably to other Canadian cities, high provincial taxes make it difficult to raise municipal tax levels. In essence, provincial taxes cut into potential municipal tax room.

In short, the municipality has limited tax room and, as such, needs to direct resources carefully to the services and areas most needed.

Halifax's New Financial Approach

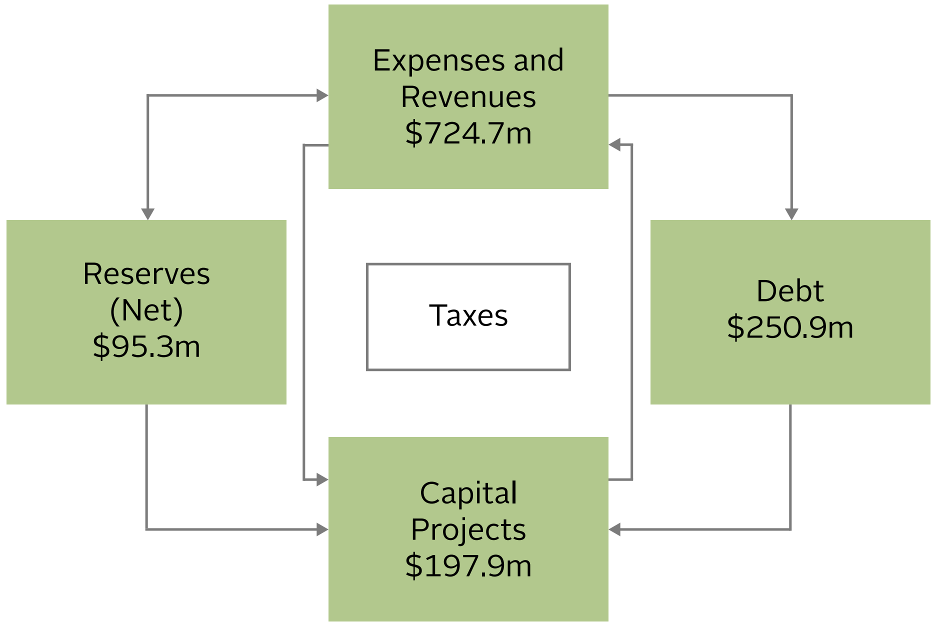
Multi-year budgeting is a more thoughtful planning process that is well aligned with the municipality's debt and reserves policies, which have helped build an enviable and solid financial foundation with one of the lowest per capita and per household debt levels in the country, healthy reserve levels and significant recapitalization of capital assets.

In December 2016, Regional Council approved a fiscal framework for 2017-2021 that outlined the benefits of and approach to multi-year budgeting:

- Predictability/sustainability
- Less annual effort
- Enables long-term view
- Reflects modern practices in other jurisdictions
- Years 1 and 2 to budget quality
- Years 3 and 4 estimates

The framework focused on balancing economic growth with four key inter-related financial pillars: the operating budget and required taxation; the capital budget; the debt picture; and the reserve accounts. (see Figure 1 next page)

Figure 1 – Fiscal Framework for 2016-17



Each of these pillars is critical to maintaining long-term sustainability. The operating budget is represented by **expenses and revenues**, the latter being composed of nearly 80 per cent property taxes. That budget pays not only for everyday services but for outstanding **debt**; it funds both the cost of **capital projects** and the resulting operating costs; and it contributes to and withdraws from **reserves**.

In many respects the operating budget is very much like any household budget for any citizen of the municipality, comprised of family income and household costs. The debt that the municipality owes is similar to a household mortgage; its reserve funds are essentially a series of saving accounts; and its capital budget is like the cost of buying, fixing or expanding a home or other asset like a vehicle.

As part of balancing a four-year plan, Regional Council provides direction on seven key decisions. None of these decisions work in isolation. Rather, a change in one will often affect a change in one or more of the other areas. The seven critical decisions are:

1. **Taxes** – Should taxes rise, fall or stay the same?
2. **Services** (Existing) – How can value be optimized?
3. **Services** (New) – How will new services be funded?
4. **Capital Budget** – How much should be invested in state of good repair, growth and service improvements?
5. **Capital from Operating** – How much should HRM pay down on the capital budget?
6. **Debt** – What level of debt does HRM wish to approve and manage?
7. **Reserves** – What reserve balances does HRM expect?

The municipality uses "base case assumptions" as the starting point for the fiscal framework (see Table 1). In other words, forecasting the financial position of the municipality for the next four years by using assumptions for the economic and demographic changes. The base case approach assumes that the average tax bill does not change; existing services and any approved service changes are funded; and that existing targets for debt and capital from operating are maintained.

Table 1 – Base Case Economic Assumptions

	Year 1	Year 2	Year 3	Year 4
	2017-18	2018-19	2019-20	2020-21
Real Gross Domestic Product (GDP)	2.5%	1.7%	1.7%	1.2%
Personal Income per Capita	45,207	46,121	47,286	48,449
Consumer Price Index	1.7%	1.9%	2.2%	2.0%
Population (000)	428	433	438	442
Residential Taxes/Income	1.53%	1.49%	1.45%	1.41%
Commercial Taxes/GDP	0.91%	0.88%	0.86%	0.85%

If taxes remain the same with no changes to assumptions, **there's an operating shortfall of $63 million by Year 4.**

From these assumptions comes a resulting Base Case scenario:

Table 2 – Base Case Financial Results

	Year 1	Year 2	Year 3	Year 4
	2017-18	2018-19	2019-20	2020-21
Operating Budget Gap ($m)	$12	$28	$47	$63
Net Capital Budget ($m)	$97	$101	$105	$108
Debt ($m)	$246	$241	$236	$231
Reserves ($m)	$118	$117	$114	$110

Over time this scenario underscores the reality that for taxes to remain the same, debt to fall, existing and new programs to be funded and capital to be balanced, there would be an operating shortfall of $63 million by Year 4. The key factors influencing these results are:

- Inflationary pressures on municipal government can be considerable, especially considering the wide range of unique services. Unlike many private sector organizations, outsourcing services presents a number of practical limitations.

- Municipal assets have a $5 billion replacement value and include both linear assets (roads and pipes) and other tangible assets (buildings, fleet). The cost to maintain these assets can increase due to inflation, oil prices, and environmental or other regulations. Additions of new assets require additional staff and new resources to manage and provide the related services.

- Compensation costs represent 50 per cent of the municipal budget and are a substantial portion of the costs to deliver public services. In addition, pension costs remain a significant upward pressure. In 2017-18 six of seven collective agreements are being renegotiated and there are substantial compensation pressures.

- As a modern municipality, there are substantial expectations that HRM provide better and expanded services. There are substantial service changes planned for 2017-18 and forward including hiring additional firefighters, volunteer honorariums, transit expansion and various grant requests. While new home construction provides additional revenues, it also brings additional cost pressure to service those homes.

- Funding the capital budget requires additional capital from operating (expected to increase faster than inflation) and requirements for more reserve funding. While debt funding can provide some relief from this pressure it is short-lived, as debt along with the accompanying interest charges have to be repaid in future years.

With respect to property taxation, HRM uses a market-based assessment system like many municipalities. Unlike most, there is a "cap" on the assessment increase that homes and small apartments can experience in a single year. HRM is heavily dependent upon property taxation and there are limited alternatives for additional revenues. Several critical elements of the property tax environment should be considered:

- Taxes vary by specific property values, with 10 per cent of homes in the municipality paying taxes of less than $1,000 annually while the top 10 per cent pay taxes of $4,300 or more. The median tax is $2,300.

- Commercial tax rates are nearly three times higher than residential tax rates making HRM more dependent on changes in commercial taxation than on residential. The commercial sector pays roughly 39 per cent of property tax.

- Property taxes in the Halifax region compare favorably to other Canadian cities. Average residential taxes benchmark in the bottom third of Canadian cities while commercial taxes are less than or equal to that of most cities.

- Both personal income levels and gross domestic product (GDP) are rising faster in the Halifax region than property taxes.

- While average property tax levels have not risen substantially in the municipality, high provincial taxes make it difficult to further increase taxation. Potential changes in taxes, however, need to be balanced against the public's expectations of more and better municipal services.

- As the population ages, there are fewer new single-family homes being built but more multiple-unit condos and apartments under construction. Commercial assessment has expanded considerably in past years but now the growth rate has slowed.

As part of its sustainable fiscal strategy, the municipality initiated a project to advance the use of Key Performance Indicators (KPIs) and data driven-decision making. HRM regularly measures and reports on service performance to citizens, and in 2016 it joined the Municipal Benchmarking Network Canada (MBNCanada), a partnership between 16 Canadian municipalities who believe that measurement can inspire continuous improvement in public service delivery.

Partners use the network to discuss results and share their practices and strategies. Why did we get these results? How can we improve? What does your program look like? Such discussion often ends with collaboration and innovative solutions for improved performance.

This is a multi-year project with reporting scheduled to commence in 2018-19. Once fully implemented, the MBNCanada reporting will provide critical service costing and performance data to help inform HRM, Regional Council and the public on what it costs to deliver desired levels of service.

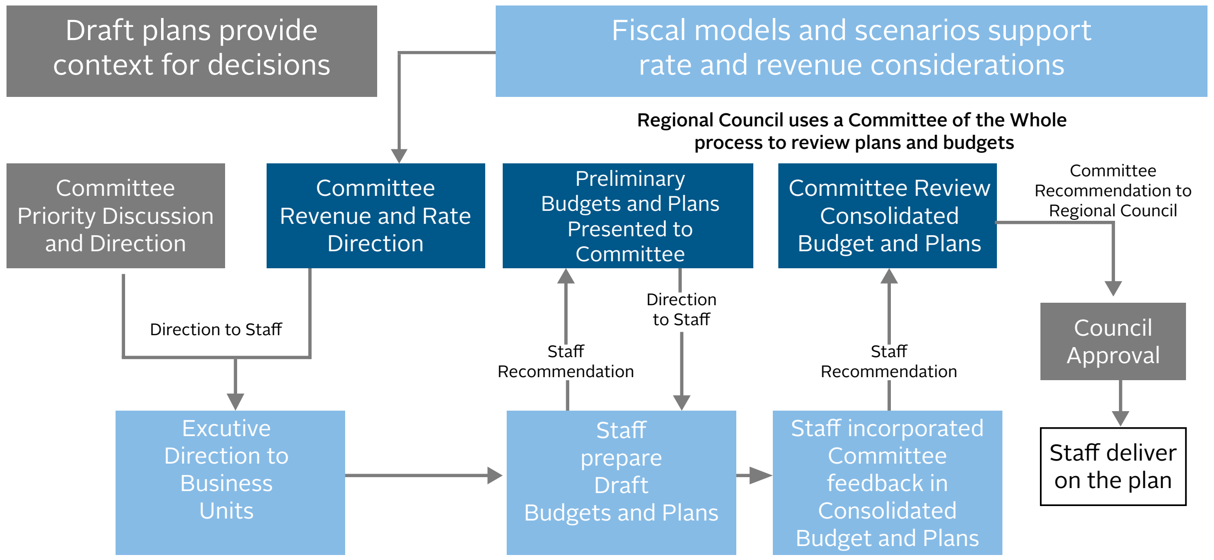
Options to Balance the Four-Year Plan

Regional Council examined three specific four-year scenarios for balancing a four-year plan. Scenario A examined reducing the capital budget. The capital budget would decline by nearly 45 per cent leading to lower debt costs, reduced operating costs for new assets and a substantial cut in capital from operating funding. Scenario B would focus on reducing service costs substantially in order to offset rising costs.

Regional Council chose instead a more balanced option that would see tax increases over four years along with a reduction in the escalation of service costs and modest reductions in the capital budget. Regional Council directed staff on December 14, 2016 to develop the final two-year budget along these lines, which became an iterative process lasting from January to March 2017. It involved Regional Council examining the proposed direction of each business unit before finalizing a complete budget for a final review.

Regional Council **approved a balanced Four-Year Plan.**

Figure 2 – Process to consider options



The Recommended Four-Year Plan

After extensive and thoughtful examination, Regional Council approved the municipality's Four-Year Plan.

Table 3 – Four Year Financial Scenario

	Year 1	Year 2	Year 3	Year 4
	2017-18	2018-19	2019-20	2020-21
Municipal Expenditures ($m)	$742	$763	$780	$794
Net Capital Budget ($m)	$96	$95	$92	$92
Debt ($m)	$246	$241	$236	$231
Reserves ($m)	$127	$135	$147	$157

Numbers rounded to the nearest $1,000.

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, and it includes items such as 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 a variety of fees and fines. By law, the municipality may not budget for a deficit. Any deficit it does incur must be made up for in the following year.

Table 4 – Summary of Municipal Operations

	Budget 2016-17	Year 1 2017-18	Year 2 2018-19	Year 3 2019-20	Year 4 2020-21
Gross Expenditures	**872.8**	**894.4**	**920.9**	**938.9**	**954.5**
Less: Mandatory Provincial Costs	-148.8	-152.8	-157.8	-159.2	-160.6
Municipal Expenditures	**724.0**	**741.5**	**763.1**	**779.7**	**793.9**
Less: Revenues	-234.3	-233.7	-236.6	-240.9	-245.6
Net Municipal Expenditures	**489.7**	**507.9**	**526.5**	**538.7**	**548.3**
Less: General and Transit Tax Levy	-489.7	-507.9	-526.5	-538.7	-548.3
Net (Surplus)/Deficit	0	0	0	0	0

Numbers rounded to the nearest $1,000.

The 2017-18 budget includes $152.8 million for provincial services such as education, Corrections Nova Scotia, housing and property assessment. 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 school boards and other entities.

In 2017-18 municipal expenditures will total $741.5 million, an increase of nearly $18 million (see Table 4). Many factors can influence changes in costs. Over time, the municipality's population has grown while the costs to provide municipal service have also increased due to inflation. At the same time, services to citizens have been enhanced and expanded. Much of the $18 million increase in the 2017-18 budget will fund service enhancements including additional firefighters, the incremental cost to operate new assets, transit expansion and a variety of public grants (see Table 5 and 6).

Table 5 – Municipal Expenditures

	Year 1	Year 2
	2017-18	2018-19
Municipal Expenditures, 2016-17	**$724.0**	**$724.0**
Service Increases:		
New Firefighters	$0.5	$1.6
Volunteer Honorariums	1.1	1.1
Operating Cost of Capital	3.4	6.6
Transit Service	1.8	4.7
Grants (incl reserves)	3.6	0.2
Regional Councl's Approved Budget Options	2.5	2.9
Sub-total	$12.9	$17.1
Cost Increases/(Decreases):		
Capital from Operating	-4.3	-5.0
Debt Service	-2.7	-0.8
Compensation	8.1	18.6
Other	3.5	9.2
Sub-total	$4.6	$22.0
Municipal Expenditures, 2017-18	**$741.5**	**$763.1**

Numbers rounded to the nearest $1,000.

Table 6 – Municipal Expenditures by Business Unit

	2016/17 Approved Budget	2017/18 Proposed Budget	2018/19 Proposed Budget
Public Safety Services:			
Fire and Emergency Services	58.6	59.5	59.2
Halifax Regional Police	85.7	86.6	87.6
RCMP	24.2	26.0	26.0
Sub-total	168.5	172.1	172.7
Public Services:			
Halifax Transit	114.3	115.4	115.9
Library Services	25.7	26.9	26.9
Operations Support	42.0	42.9	43.0
Parks and Recreation	38.4	40.5	40.2
Planning and Development	18.2	20.2	20.4
Transportation & Public Works	96.6	98.7	99.4
Sub-total	335.2	344.7	345.8
Governance and Support Services:			
Auditor General	0.9	1.0	1.1
CAO	17.3	17.8	17.5
Finance & ICT	31.9	34.4	34.4
Human Resource Services	5.5	6.1	6.0
Legal, Insurance and Risk Management	4.5	4.5	4.6
Sub-total	**60.1**	**63.8**	**63.6**
Corporate Services (Fiscal)	160.2	161.0	181.0
Total	**724.0**	**741.5**	**763.1**

Numbers rounded to the nearest $1,000.

Taxation

Municipalities in Canada generally rely on property taxation as their major source of revenue. HRM tends to be dependent on the roughly 80 per cent of all revenues that come from residential and commercial property tax, or various tax agreements and payments in lieu of tax. While taxes are universally unpopular, they reflect the cost that citizens pay for receiving public services.

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). In 2017 the average single-family home increased in value by 1.8 per cent, although values are not rising quite as steadily as they have historically. Total residential values are up 4.2 per cent (see Table 7) while commercial values increased 1.1 per cent.

Table 7 - Total Assessments

	Budget	Year 1	Percent
	2016-17	2017-18	Change
Residential Assessment	35,105,952,200	36,579,229,100	4.2%
Commercial Assessment	8,170,075,000	8,262,644,000	1.1%
Resource Assessment	256,922,000	255,978,600	-0.4%
Total	**43,532,949,200**	**45,097,851,700**	**3.6%**

When considering appropriate taxes, Regional Council focuses on the average tax bill, not simply the value of the assessment. In December 2016, Regional Council directed staff to increase the average 2017-18 tax bill by $33 or 1.8 per cent (see Table 8). In Years 2, 3 and 4 the increases were presented as one way to stabilize finances within the new framework with similar increases for the average commercial tax bill.

Table 8 – Average Residential Property Tax Bill

	Budget 2016-17	Year 1 2017-18
Average Single Family Home	226,500	230,500
General (Urban) & Transit Tax Rates	$0.813	$0.813
Average Property Tax Bill	**$1,841**	**$1,874**
Average Change ($)		33
Average Change (%)		1.8%

As a large municipality, HRM has a number of different tax rates including general tax rates that vary by urban, suburban and rural areas. In addition, it has two dedicated taxes for transit: a local transit tax paid by those within one kilometre of a local route, and a Regional Transportation tax for its MetroLink, MetroX and ferries that is applicable to a much larger area within the municipality.

Table 9 – Tax Rates

	Budget 2016-17	Year 1 2017-18
Tax Rates		
Residential & Resource:		
Urban	$0.662	$0.667
Suburban/Rural	$0.629	$0.634
Local Transit	$0.102	$0.098
Regional Transportation	$0.049	$0.048
Commercial:		
Urban/Suburban	$2.832	$2.869
Rural	$2.510	$2.542

Municipal staff benchmarked property taxes and considered appropriate key performance measures, with results indicating that average taxes in the Halifax region compare favourably to other Canadian cities. At the same time that taxes are growing, so is the economy with income levels outpacing residential taxes.

In 2018-19 residential taxes are expected to represent on average 1.1 per cent of income. Likewise, commercial taxes represent 2.1 per cent of GDP and 38.6 per cent of total tax revenues, down from a historic high of 50 per cent at amalgamation in 1996.

Figure 3 - Residentail Tax as a Percent of Income and Commercial Tax as a Percent of GDP

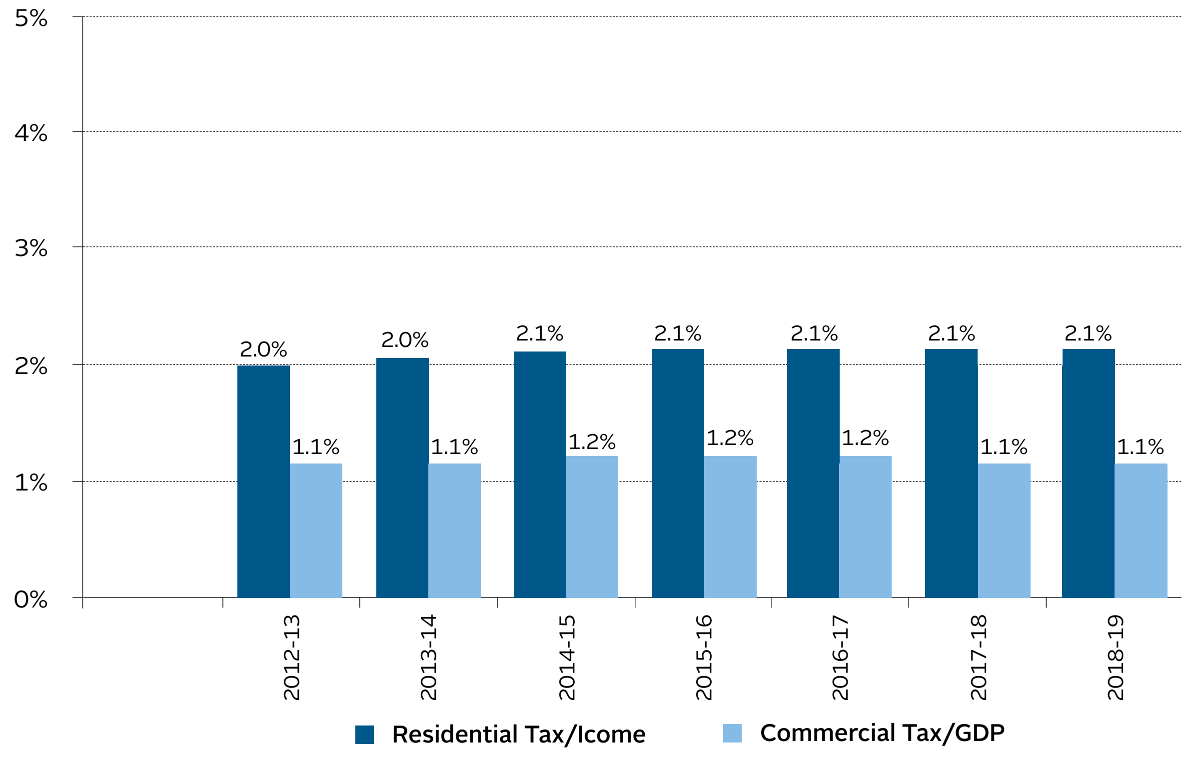
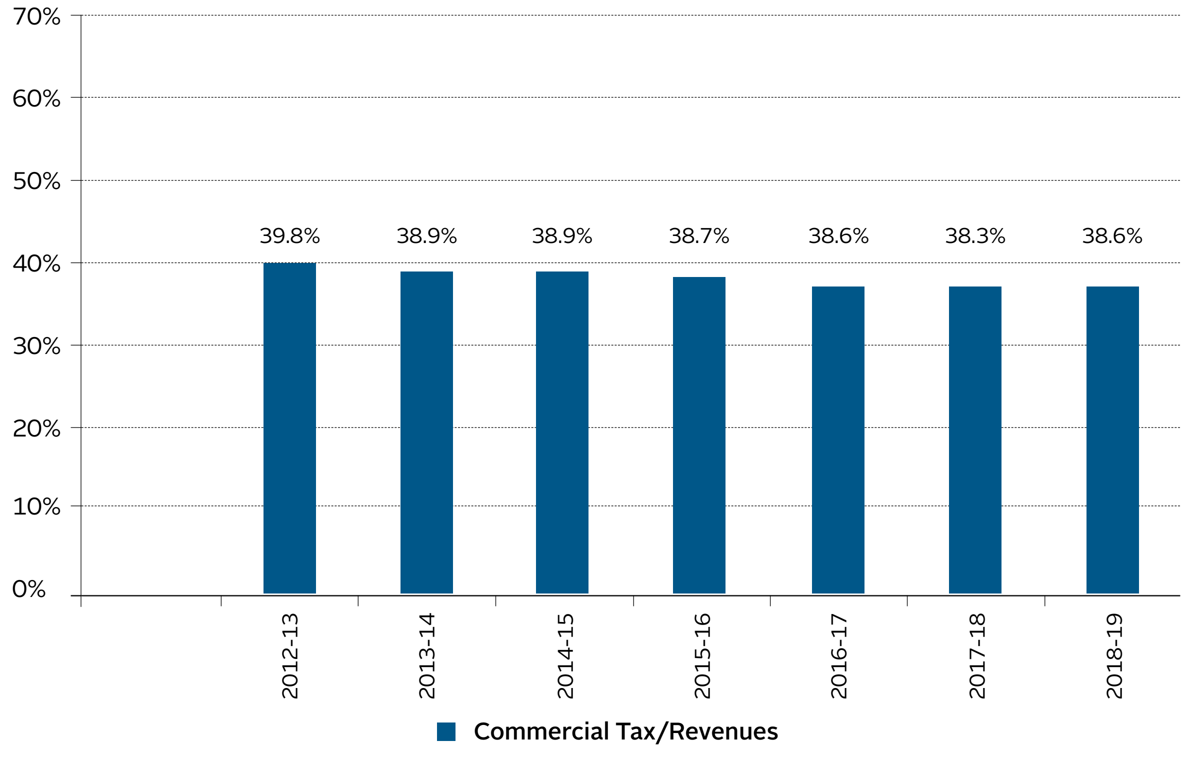


Figure 4 - Commercial Tax as a Percent of Total Revenues



Capital Budget

The capital budget funds the purchase, construction and rehabilitation of assets. The municipality has a considerable asset base worth $3.4 billion that includes over 300 buildings, 1,200 parks and playgrounds, 1,800 kilometres of roads and more than 1,200 vehicles.

HRM uses capital from operating and reserve funds to minimize debt financing and to plan for known and recurring asset needs. Its capital budget is also classified according to projects that repair assets (“State of Good Repair”), projects that service new homes and communities (”Growth”), and for enhancements to services (“Service Improvement”).

Table 10 - Capital Budget by Asset and Funding

	Budget 2016-17	Year 1 2017-18	Year 2 2018-19
GROSS CAPITAL BUDGET			
Buildings	51.0	36.5	23.8
Business Tools	10.4	10.9	9.7
District Activity Funds	1.5	1.5	1.5
Equipment and Fleet	4.7	8.2	6.7
Halifax Transit	26.4	33.5	27.2
Halifax Water (CWWF)		14.5	0.0
Parks and Playgrounds	11.2	16.6	7.9
Transportation and Active Transportation	48.0	38.3	48.1
Solid Waste	4.6	3.0	4.2
Traffic Improvements	40.1	24.3	27.5
Total	**197.9**	**187.3**	**156.7**
FUNDING			
Project Specific Funding			
Reserves	72.0	49.8	41.2
Cost-Sharing	3.3	35.3	10.4
Other (incl debt for LED lights)	22.7	6.7	9.7
Sub-total	**97.9**	**91.8**	**61.3**
Borrowing and Other Transfers			
Additional Debt Approved	29.0	28.3	29.8
Capital from Operating	41.3	36.9	36.2
Gas Tax Funding	29.0	25.3	26.2
Cappool	0.7	2.3	1.6
Crespool	0.0	2.7	1.6
Other	0.0	0.0	0.0
Sub-total	**100.0**	**95.5**	**95.4**
Gross Capital Budget	**197.9**	**187.3**	**156.7**

Numbers rounded to the nearest $1,000.

Many capital projects take more than a single year to plan, design and develop, with the associated capital funding approved within each budget year until project completion. Council continues to recognize the need to be diligent in balancing the municipality's ability to fully complete capital projects against the desire for additional capital investment.

The upcoming capital budget will see the municipality approving $187 million in 2017-18 and a further $157 million in 2018-19. This includes a $33.5 million investment in transit projects, $38 million in roads and transportation (including $4 million in active transportation) and a number of large strategic projects such as the Cogswell interchange redevelopment ($15 million); additional LED streetlights ($4.5million); the completion of the Dartmouth Multi-pad arena ($7.7 million); the Dartmouth Sportsplex revitalization ($14.7 million); and the consolidation of the Sambro/Harrietsfield Fire stations ($2.5 million). With changes to federal cost sharing programs and available reserve funding, new capital investment can fluctuate from year to year.

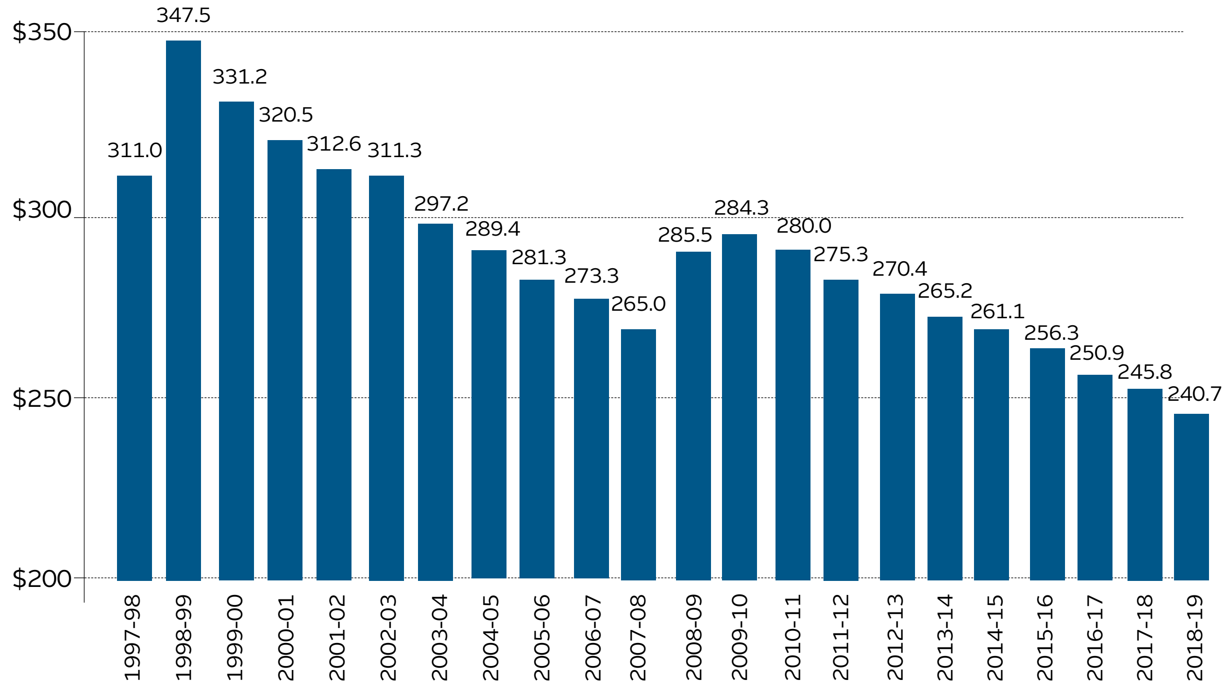
Debt

Debt is an important tool that can be used to fund the capital budget. In many respects it works much like a home mortgage, with the principal and interest being repaid over the asset's life. HRM has a specific debt policy to ensure that all ongoing "state of good repair" projects are not funded from debt, but from capital from operating and other funding.

To accomplish this, the municipality has set specific targets for debt, which has helped it to steadily reduce its debt level and associated debt charges (principal and interest) that must be repaid each year. Since amalgamation, the municipality's debt has dropped by approximately 30 per cent to one of the lowest municipal per capita debts in the country.

The municipality's debt has **dropped by approximately 30 per cent.**

Figure 5 - Tax Supported Debt ($ Millions)



Reserves

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

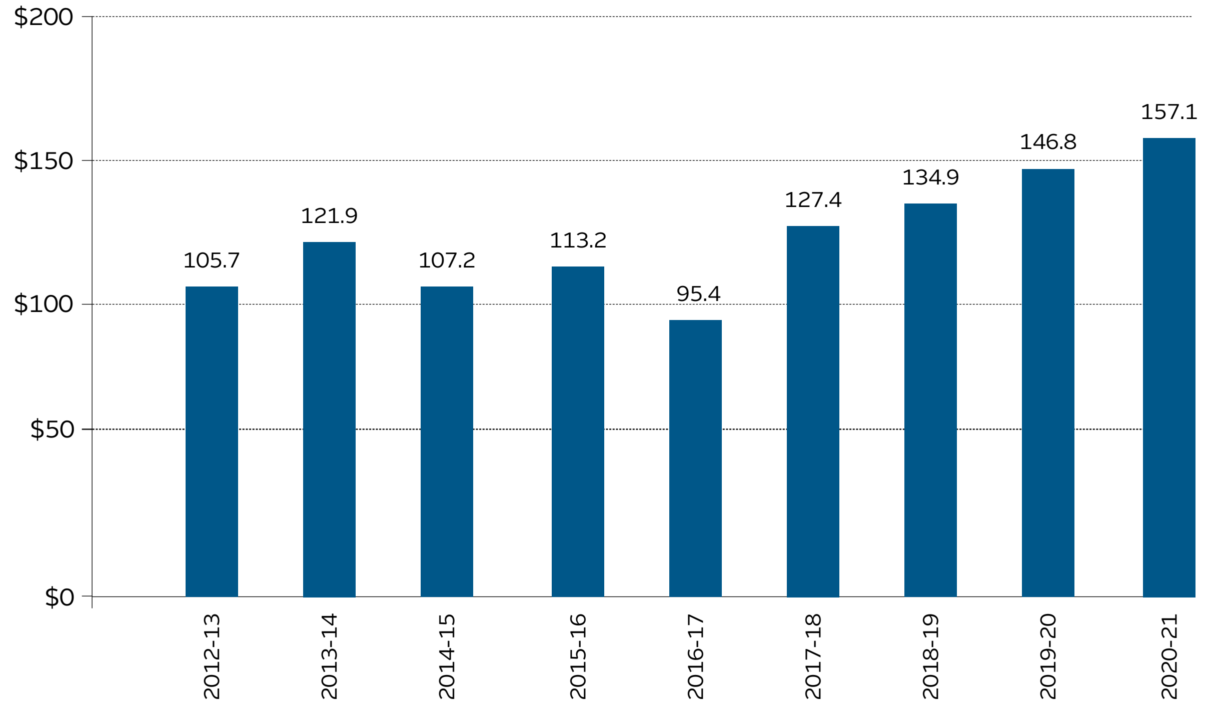
- Contingency funds for unforeseen financial risk such as emergencies or economic events;

- 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 new cost-shared programs.

HRM's reserve balances are in a relatively strong position with an expected reserve balance of $134.9 million at the end of Year 2. At Council's direction, many of these funds are earmarked for initiatives that are expected to start after the end of the Four-Year Plan. The new multi-year business planning approach will be aided by these reserves and a longer-term horizon based on risk management, meeting existing and new obligations, and planning and delivery on strategic growth and development opportunities.

Figure 6 - Net Available Reserves ($ Millions)



Summary

The Halifax region is relatively small but is prospering among larger competition when considering fiscal discipline and economic progress. To continue its success, the municipality has to work harder than similar cities in other jurisdictions.

Given the limited cost sharing with its province, modest room for tax increases and a high dependence on property taxes, it has few options to raise operating revenues. The municipality competes against bigger, better funded cities in other jurisdictions. As such, it's heading on a thoughtful growth strategy that focuses on investing limited funds in areas aligned with the municipality's evolving service needs, provides the best return on investments, and works to ensure there is a sustainable, multi-year financial strategy to fund future growth initiatives.

The Halifax region is **prospering among larger competition.**

HALIFAX