

# HALIFAX

P.O. Box 1749  
Halifax, Nova Scotia  
B3J 3A5 Canada

**Item No. 5**  
**Committee of The Whole**  
**Budget Committee**  
**January 7, 2019**

**TO:** Mayor Savage and Members of Halifax Regional Council

**SUBMITTED BY:**

Original Signed by   
\_\_\_\_\_  
Jacques Dubé, Chief Administrative Officer

**DATE:** December 3, 2019

**SUBJECT:** 2020/21 Fiscal Framework & Fiscal Services

---

## **ORIGIN**

Staff initiated, requesting fiscal direction from Regional Council for the 2020/21 Budget and Business Plans.

## **LEGISLATIVE AUTHORITY**

Halifax Charter, section 35 (1) The Chief Administrative Officer shall (B) ensure that an annual budget is prepared and submitted to the Council.

## **RECOMMENDATION**

It is recommended that Halifax Regional Council:

1. direct the CAO to develop the 2020/21 Budget according to Council's approved priorities, and preliminary fiscal direction, including setting the average property tax bill for residential homes and commercial properties at a 1.5% increase; and,
2. approve the preliminary Fiscal Services budget and business plan as attached.

## **BACKGROUND**

In 2019/20 Council initiated its two-year budget cycle. The first year (2019/20) became the formally approved budget and year two (2020/21) of that plan was the budget in principle.

As part of that process, Council has already started a dialogue on priorities and outcomes. The Three-Year Capital Budget was presented to Council on November 26, 2019. Commencing January 15, 2020 and continuing through into February of 2020, Council will begin the review of individual business unit budgets and business plans for the upcoming fiscal year. This stage of the process, however, consists of providing broad direction to staff on the underlying assumptions for taxation and fiscal items. These assumptions, in turn, will influence the available funds for each of the services and projects the municipality undertakes in 2020/21.

This report will also lead to the Fiscal Services Budget being approved in principle for 2020/21. The fiscal services budget includes property tax and other revenues as well as debt charges, reserves, capital from operating and a variety of broad non-departmental costs and revenues.

## **DISCUSSION**

Preparing and finalizing a budget for Halifax is an extensive exercise which includes many iterative steps. There is continuous demand for new and improved services; the maintenance of existing services; extension of current services to new homes and businesses; and, the ongoing maintenance of municipal assets. Balanced against this is the need to set appropriate tax levies on homeowners, businesses, and others. The revenues from these rates allow for the provision of these services. Regardless, the proposed tax levy must be balanced against the value to society of those services, the ability of taxpayers to pay for those items, and the broad competitiveness that the mix of services and taxes will support.

### **Economic and Financial Assumptions**

The HRM economy is a small open economy that shows consistent yet moderate growth. That growth is supported by a mixture of strong public-sector employment and by a considerable presence of finance, insurance, and real estate activity. Staff consulted with the Halifax Partnership in determining a series of assumptions for use in fiscal scenarios and has used data from the Conference Board of Canada and Canmac Economics.

National financial conditions (fiscal and monetary policy) remain comparatively supportive and are forecast to support consumer and investment sentiment over the forecast period. However, national economic uncertainty is characterized by global risks such as trade-protectionism and geopolitical volatility.

The HRM economy is forecast to grow moderately above trend with positive forecasts for real GDP and nominal income growth. Inflation is stable at 2.2 per cent in line with the Bank of Canada target. Population and dwelling units are forecast to grow above 1 per cent over the forecast period.

	<b>Current Year</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>
	<b>2019/20</b>	<b>2020/21 (F)</b>	<b>2021/22 (F)</b>	<b>2022/23 (F)</b>	<b>2023/24 (F)</b>
Real GDP Growth (%)	1.60%	1.80%	2.10%	2.00%	1.90%
Personal Income - Per Capita Change	2.80%	2.70%	2.70%	2.60%	2.60%
Population - thousands	435,579	440,599	445,538	450,383	455,121
Percent Change	1.20%	1.20%	1.10%	1.10%	1.10%
Dwelling Units	200,320	202,624	204,984	207,389	209,843
Percent Change	1.10%	1.20%	1.20%	1.20%	1.20%
Inflation - CPI Core	2.10%	2.20%	2.10%	2.20%	2.20%
Office Space - Occupied (Sq.Ft.)	11,609	11,899	12,173	12,473	12,693
Percent Change	2.50%	2.50%	2.30%	2.20%	2.10%

*Source: Canmac Economics (HRM-Finance Economic Outlook, 2019/23)*

The economic assumptions have considerable influence upon HRM's fiscal picture. The strong steady growth in GDP supports the economy overall and produces medium term benefits to the municipality, allowing for higher housing starts and greater construction. Inflationary pressures are more immediate and tend to influence compensation amounts, contract pricing and good and services ranging from items such as road salt to the RCMP contract. Growth in the population and the number of dwelling units produces new taxpayers but the addition of new properties also leads to new service costs.

#### The Operating Budget

Based on the economic assumptions, staff have designed a budget approach for 2020/21. This includes both economic and financial assumptions as well as known cost pressures or approved service adjustments.

The greatest cost pressure is on salaries which represents 50% of the municipal budget. Salaries are influenced by inflation, rising incomes and the overall labour market. Including new positions and benefits, compensation costs have risen by \$14.8M. Contract increases account for \$3.2M while other goods and services have seen increases of \$4.1M. Other items are \$2.9M across the organization. Savings have occurred in debt charges and reserves \$4.2M and fuel \$1.4M. Staff have also identified individual savings and efficiencies across the organization \$4.0M.

Deed Transfer Taxes have risen considerably in the past several years and were underbudgeted in 2019/20. As such, the municipality undertook an econometric study in Deed Transfer Tax to help estimate future revenues. In 2020/21, it is estimated that Deed Transfer Tax revenues will be \$51M, a rise in the budget of \$12M, from \$39M to \$51M. In subsequent years a more moderate growth should be expected in Deed Transfer Tax. Hence the large increase in its budget is seen as one-time and nature and unlikely to be repeated. Because of this, staff are tying the Deed Transfer Tax increase to Capital from Operating, raising its budget by \$8.5M from \$37M to \$45.5M. Capital from Operating is a transfer to the Capital Budget and the extra funds will help support investment in the growing economy. In future years Capital from Operating is expected to grow more modestly.

The cost pressures and available savings leave the municipality with a \$12M deficiency before any property tax revenues. The Municipality is heavily dependent upon property tax revenues to finance its operations. Property tax (along with Payments in Lieu and area rates) funds almost 80% of operations. Final assessment and tax amounts for property tax will be not available until January. However, commercial assessment is estimated to grow modestly at 1.65% while total residential assessment (homes, apartments and new properties) will rise by 4.0%. Only a portion of this growth is attributed to new properties, providing an additional \$4M in revenues. That leaves a deficiency of \$8M.

HRM's approach on setting tax assumptions is to focus on the average tax bill for a home or business. This approach allows HRM to consider the impact on both its revenue base and on its taxpayers. The final rate is established once the assessment roll is available. That rate is set to produce the average tax bill change that is directed by Regional Council.

In 2020/21, Staff are recommending that average taxes rise by 1.5%, roughly two-thirds the rate of inflation. This results in \$8M in additional revenues and balances the budget. This change means that the average single-family homeowner should be paying an additional 1.5% or \$30. For example, current estimates are that the average home value will rise by 1.4%. Should this happen HRM would increase the tax rate by 0.1% and the average tax bill would rise by 1.5% (See Table One).

**Table One**  
**Average Residential Tax Bill**  
 Approved Proposed  
 2019/20 2020/21

Assessment	242,400	245,800
Tax Rate	0.815%	0.816%
<b>Tax Bill</b>	<b>1,976</b>	<b>2,006</b>
<b>Increase \$</b>		<b>30.0</b>
<b>Increase %</b>		<b>1.5%</b>

Likewise, the average commercial taxpayer would see an increase in their average tax bill of 1.5%. As commercial values and rates are higher than residential, the dollar impact of this change would be \$643 (See Table Two).

**Table Two**  
**Average Commercial Tax Bill**  
 Approved Proposed  
 2019/20 2020/21

Assessment	1,425,700	1,439,500
Tax Rate	2.988%	3.004%
<b>Tax Bill</b>	<b>42,600</b>	<b>43,243</b>
<b>Increase \$</b>		<b>643</b>
<b>Increase %</b>		<b>1.5%</b>

## **FINANCIAL IMPLICATIONS**

There are no immediate financial implications associated with this recommendation. Rather, this report provides direction as to how to proceed for the development of the overall budget including the establishment of taxation levies for 2020/21.

This report also approves in principle the 2020/21 fiscal services budget. The Fiscal Services Budget and Business Plan is attached. Depending on the final assessment roll, and on individual Business Unit budgets, some adjustments can be expected to the details of the proposed budget.

### **RISK CONSIDERATION**

Risks related to the recommendations in this Report include changes in the underlying economic assumptions as well as estimates as to the value of the final assessment roll. There is a high certainty that the final assessment roll will differ from the estimates being used. Any required changes will be mitigated throughout the ongoing budget process.

### **COMMUNITY ENGAGEMENT**

Citizen engagement has been conducted to gauge citizen attitudes towards services and taxes. Budget Consultations will include an opportunity for the Public to attend the Business Unit draft budget presentations to Committee of the Whole, and ask questions afterwards as well as using the Budget Allocator through Shape Your City.

### **ENVIRONMENTAL IMPLICATIONS**

None

### **ALTERNATIVES**

None

### **ATTACHMENTS**

1. Fiscal Services – 2020/21 Budget and Business Plan

---

A copy of this report can be obtained online at [halifax.ca](http://halifax.ca) or by contacting the Office of the Municipal Clerk at 902.490.4210.

Report Prepared by: Bruce Fisher, Manager, Financial Policy and Planning, 902.490.4493  
Tyler Higgins, Senior Financial Consultant, Financial Policy and Planning, 902.220.9426

Report and  
Financial Approval by: Original Signed  
Jane Fraser, Director of Finance & Asset Management /CFO, 902.490.4630

---

**HALIFAX**

# FISCAL SERVICES

2020/21 BUDGET AND BUSINESS PLAN

## FISCAL SERVICES OVERVIEW

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

- Property and Other Taxes
- Deed Transfer Tax
- Non-departmental revenues
- Private Roads, other Area Rates
- Debt Charges
- Capital from Operating
- Reserves
- Provincial Mandatory Costs
- Supplementary Education
- Transfers such as Fire Protection, Stormwater and the Halifax Convention Centre
- Contingencies, including for Compensation
- Intern Program, Other Compensation costs
- Grants and Tax Relief
- Valuation Allowance, Insurance

### OPERATING - SUMMARY OF CHANGES - PROPOSED BUDGET

Change Description / Service Impact	Amount
<b>Approved 2019/20 Budget</b>	<b>\$ (444,572,800)</b>
Compensation Changes:	
Salary Adjustment Provision	3,875,800
Revenue Adjustments:	
Increase in Deed Transfer Taxes	(12,000,000)
Transfer of Transit Commercial Taxes	(38,000,000)
Increase in Taxes	(17,051,600)
Other Budget Adjustments:	
Increase in Capital from Operating	12,667,700
Increase in Debt Costs	5,793,700
Other Fiscal Adjustments	4,672,000
<b>Total Proposed Changes</b>	<b>\$ (40,042,400)</b>
<b>Proposed 2020/21 Budget</b>	<b>\$ (484,615,200)</b>

## OPERATING- SUMMARY OF EXPENDITURE &amp; REVENUE

Expenditures	2018/19	2019/20	2019/20	2020/21		Δ %
	Actual	Budget	Projections	Budget	Δ 19/20 Budget	
Compensation and Benefits	\$ 5,457,209	\$ 9,909,800	\$ 10,309,800	\$ 13,785,600	\$ 3,875,800	39.1
Office	12,178	30,200	30,200	27,800	(2,400)	(7.9)
External Services	1,135,759	4,162,100	4,822,600	1,768,600	(2,393,500)	(57.5)
Supplies	4,267	6,700	11,700	6,100	(600)	(9.0)
Supplies	-	-	5,000	-	-	-
Building Costs	486,655	538,000	583,000	621,200	83,200	15.5
Equipment & Communications	10,554	66,100	121,100	31,300	(34,800)	(52.6)
Vehicle Expense	4,557	42,900	15,000	42,900	-	-
Other Goods & Services	2,205,847	7,250,300	7,871,900	8,628,100	1,377,800	19.0
Interdepartmental	725,850	527,600	527,600	979,600	452,000	85.7
Debt Service	41,293,731	39,364,800	39,317,400	45,158,500	5,793,700	14.7
Other Fiscal	282,267,514	264,770,300	268,933,800	282,628,300	17,858,000	6.7
<b>Total Expenditures</b>	<b>333,604,119</b>	<b>326,668,800</b>	<b>332,549,100</b>	<b>353,678,000</b>	<b>27,009,200</b>	<b>8.3</b>

Revenues	2018/19	2019/20	2019/20	2020/21		Δ %
	Actual	Budget	Projections	Budget	Δ 19/20 Budget	
Tax Revenue	\$(442,922,671)	\$(458,983,800)	\$(462,996,800)	\$(508,497,000)	\$ (49,513,200)	10.8
Deed Transfer Tax	(46,097,297)	(39,000,000)	(53,000,000)	(51,000,000)	(12,000,000)	30.8
Area Rate Revenue	(181,593,912)	(185,568,200)	(185,568,200)	(191,604,900)	(6,036,700)	3.3
Tax Agreements	(11,394,876)	(11,491,300)	(11,884,300)	(11,926,300)	(435,000)	3.8
Payments in Lieu of taxes	(37,936,686)	(41,452,700)	(39,717,900)	(39,710,900)	1,741,800	(4.2)
Transfers from other Govts	(3,456,192)	(3,730,000)	(3,622,500)	(3,770,000)	(40,000)	1.1
Interest Revenue	(8,847,443)	(8,205,700)	(9,500,000)	(8,202,600)	3,100	-
Fee Revenues	(4,860,765)	(4,600,000)	(4,900,000)	(5,500,000)	(900,000)	19.6
Other Revenue	(19,078,107)	(18,209,900)	(18,542,500)	(18,081,500)	128,400	(0.7)
<b>Total Revenues</b>	<b>(756,187,948)</b>	<b>(771,241,600)</b>	<b>(789,732,200)</b>	<b>(838,293,200)</b>	<b>(67,051,600)</b>	<b>8.7</b>
<b>Net Total</b>	<b>\$(422,583,829)</b>	<b>\$(444,572,800)</b>	<b>\$(457,183,100)</b>	<b>\$(484,615,200)</b>	<b>\$ (40,042,400)</b>	<b>9.0</b>

**FISCAL SERVICES PLAN (2020/21)**

## DEBT SERVICING

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

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



Previous to 2020/21, debt charges were shown in several business units including Fire Services, Transportation and Public Works, Parks and Recreation and Halifax Transit. In 2020/21 all debt charges are consolidated in Fiscal Services.

## PROVINCIAL AREA RATES

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

### **Mandatory Education**

This mandatory education contribution is set by the Province at the value of the Provincial Education Rate times the Uniform Assessment. The estimate for 2020/21 is \$151.2 million, an increase of \$6.3 million from the prior year.

### **Correctional Services**

HRM is required to make a mandatory contribution to the Province to fund the cost of correctional services. The contribution amount is set by Provincial formula based on Uniform Assessment and the number of dwelling units in each municipality. The estimate for 2020/21 is \$6.9 million, an increase of \$81.2 thousand from the prior year.

### **Housing**

HRM is required to pay a portion of the Metropolitan Regional Housing Authority operating deficit each year. The estimate for 2020/21 is \$3.1 million, a decrease of \$42.5 thousand from the prior year.

## OTHER TRANSFERS

### **Assessment**

Property Valuation Services Corporation (PVSC) is mandated under the Nova Scotia Assessment Act to assess every property in Nova Scotia. HRM is required to pay a share of the cost of operating this province-wide assessment system. The estimate for 2020/21 is \$7.4 million, an increase of \$87.9 thousand from the prior year.

### **Halifax Convention Centre (HCC)**

HRM has an agreement with the province to fund the new Halifax Convention Centre (HCC). Upon substantial completion of the new HCC, HRM started to pay 50% of the annual HCC costs. This includes its share of the Provincial lease and the annual operating costs. The HCC costs are to be paid from a reserve which is funded from the property tax revenues collected from the new Nova Centre plus those funds which would have been paid to the former World Trade and Convention center (WTCC). The Nova Centre is a private development that includes not only the HCC but also office, hotel, retail and parking. For the 2020/21 fiscal year, HRM has budgeted an amount of \$7.7 M (before reserve withdrawals) for the HCC. This will be funded from the HCC reserve.

### **Supplementary Education**

Under the Halifax Charter, HRM provides funding for local schools, including a payment to the Halifax regional Centre for Education (HRCE) and the province-wide Acadian school board, Conseil Scolaire Acadien Provincial (CSAP). The Halifax Charter requires that the Municipality provides a guaranteed amount for supplementary education, although it may reduce the guaranteed amount by 10% of the amount spent in 1995/96. In addition to the legal requirements of the Charter, this payment is governed by a Memorandum of Understanding (MOU) with the HRCE. The total payment for 2020/21 of \$14.5M will be paid for through a separate area rate.

### **Fire Protection Services (Hydrants)**

The Nova Scotia Utilities and Review Board (NSUARB) has established a formula that requires HRM to contribute to the Halifax Water Commission (HW) for the hydrant costs incurred by the Commission. These hydrant charges are recovered by HRM via a special Fire Protection Area Rate that HRM levies on all properties within 1,200 feet of a hydrant that is designed and operated for public fire protection purposes. The amount estimated for the 2020/21 area rate is \$7.2M.

### **Stormwater Right-of-Way (Halifax Water Commission)**

The Nova Scotia Utilities and Review Board (NSUARB) requires HRM to pay to Halifax Water the cost of the stormwater drainage in the right-of-way of HRM streets and roads. This became effective as of July 1, 2013. The amount required for the 2020/21 area rate is \$3.8M. HW is including the HRM charge as an addition to the HW water bills.

## GRANTS AND TAX RELIEF

HRM operates several Grant programs. Some of these are within fiscal services while others are administered by individual business units. HRM provides a number of tax relief programs including low income tax relief for homeowners and non-profit tax relief.

## VALUATION ALLOWANCE

The Valuation Allowance is an account required by provincial rules as a contingency against uncollectible tax and other revenues. In 2020/21 it is budgeted at \$2.5 million.

## RESERVES

Reserves are utilized to ensure sustainability and improve the process of planning for HRM's future needs.

Reserve Funds are provided for under the Financial Reserves Administrative Order Number 2014-015-ADM and are intended to serve three specific purposes:

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

Reserves are budgeted for in both Fiscal Services and in individual business units. They may include both deposits to and withdrawals from reserves. For 2020/21 the net contribution to reserves from fiscal services is \$18.4 million.

## CAPITAL FROM OPERATING

Capital from Operating is used to fund the capital budget and helps reduce reliance on debt and other funding. A formula is used to help shift funds away from debt funding and into capital from operating. That guideline aims to increase capital from operating by 3% plus inflation per dwelling each year. HRM-wide capital from operating for 2020/21 has been increased by \$8.5M to \$45.5M.

Previous to 2020/21, capital from operating was also included in Halifax Transit. In 2020/21 all capital from operating is consolidated in Fiscal Services.

## NON-DEPARTMENTAL REVENUE AND AREA RATES

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

Also included are the costs and revenues for community area rates for community, private organizations and private roads. This includes the individual budgets for many smaller community organizations including their budget for office items and supplies.