

2020/21 RECAST BUDGET DISCUSSION

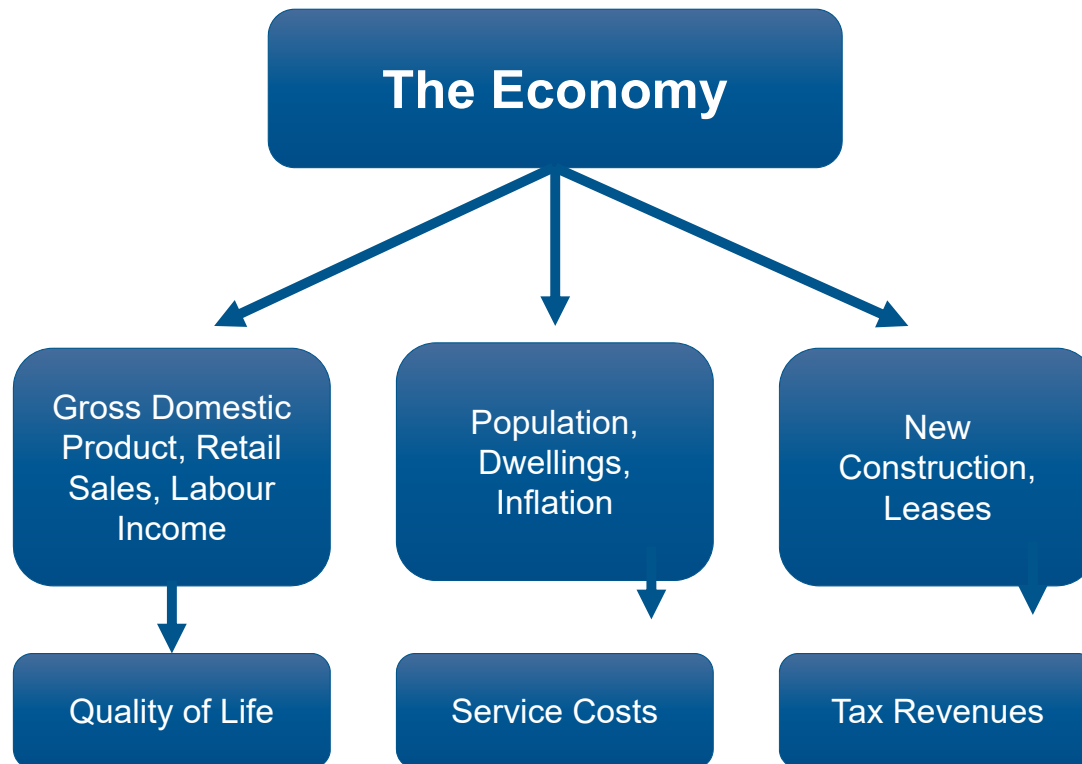
2020/21 Budget Committee
of the Whole on Budget
May 12, 2020

HALIFAX

OUTLINE

- Economic Impact
- Financial Impact
- Cash Flow Challenge
- Cash Flow Mitigation
- Budget Challenge
 - Budget Gap
- Budget Mitigation
 - Operating Budget
 - Organization Wide Reductions
 - Major Service Reductions by Business Unit
 - Capital Budget
- Recommendations

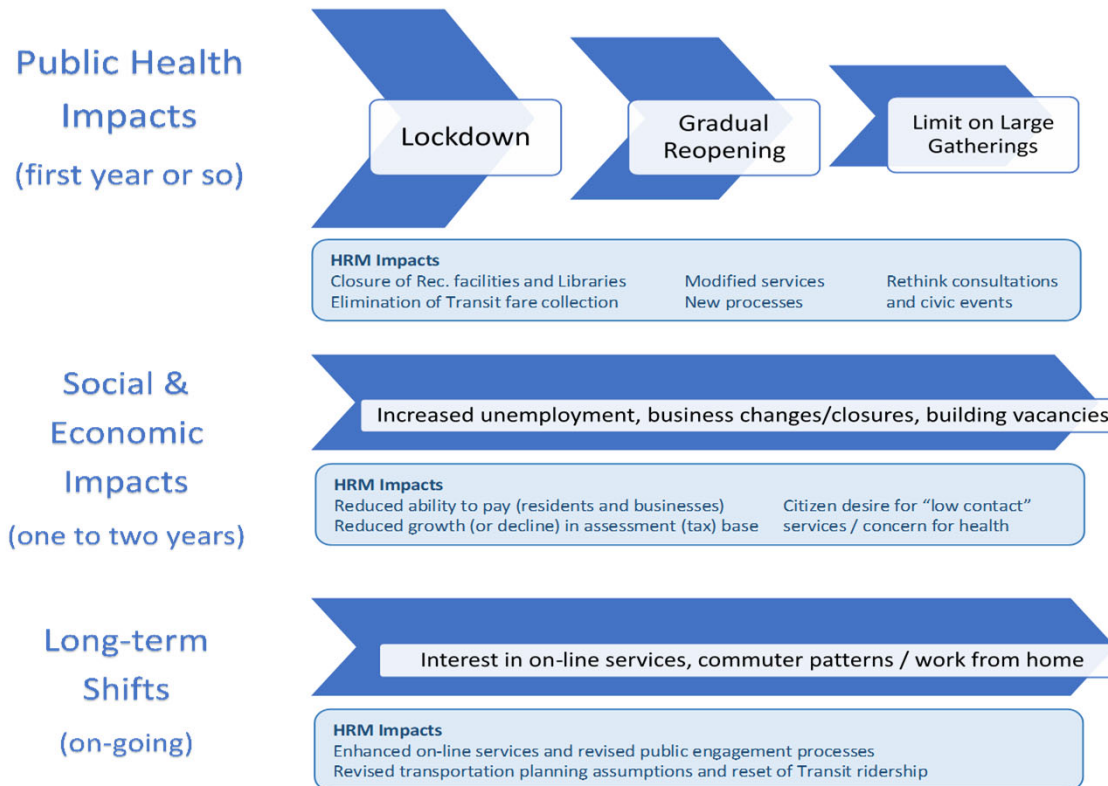
Economic Impact



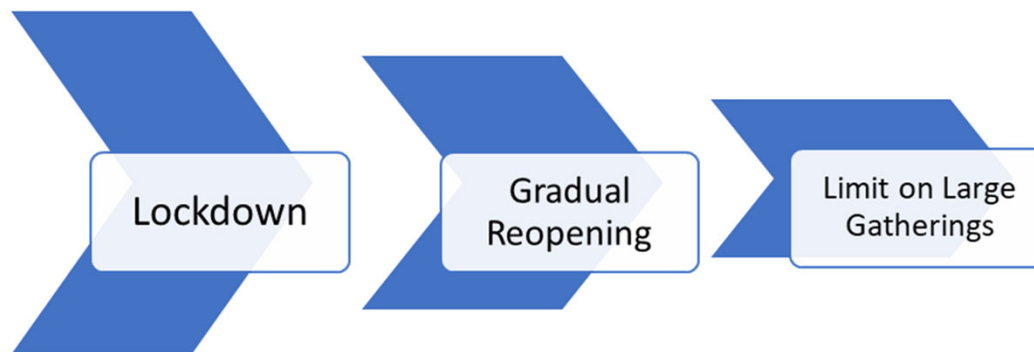
**HRM OUTLOOK
COVID-19 IMPACT
2019 – 2023, Select Indicators, % Change**

	2019	2020	2021	2022	2023
Gross Domestic Product (2012 M)	19,771	18,605	19,185	19,521	19,845
– per cent change	0.40	-5.9	3.12	1.75	1.66
Labour Force (thousands)	2.97	1.45	1.03	1.38	1.78
Employment (thousands)	240	222	234	241	246
– per cent change	2.47	-7.66	5.38	3.21	2.02
Labour Income (millions)	11,719	11,990	11,249	11,865	12,340
– per cent change	2.31	-6.18	5.48	4.00	3.91
Consumer Price Index (per cent)	1.87	1.02	2.13	2.18	2.19
Source: Canmac Economics Limited HRM Econometric Model					

COVID-19 IMPACT ON HRM BUDGET



PUBLIC HEALTH IMPACT – 1ST YEAR



HRM Impacts

Closure of Rec. facilities and Libraries
Elimination of Transit fare collection

Modified services
New processes

Rethink consultations
and civic events

SOCIAL - ECONOMIC (1-2 YEARS)

Increased unemployment, business changes/closures, building vacancies

HRM Impacts

Reduced ability to pay (residents and businesses)

Reduced growth (or decline) in assessment (tax) base

Citizen desire for “low contact”
services / concern for health

LONG TERM SHIFTS (ON-GOING)

Interest in on-line services, commuter patterns / work from home

HRM Impacts

Enhanced on-line services and revised public engagement processes

Revised transportation planning assumptions and reset of Transit ridership

Financial Impact

MUNICIPALITIES ACROSS CANADA

- Federation of Canadian Municipalities (FCM) estimates
 - the six months (should this be month without s) impact for municipalities between \$10 to 15B
 - municipal public transit services are estimated to lose \$400M per month
- All municipalities in the country are facing the same challenges
- Cities responding through a combination of project delays, reductions, layoffs, hiring freezes
 - Winnipeg – 674 staff laid off (recreation, library)
 - Edmonton – 900 permanent staff temporary laid off
 - Quebec City – 2,000 staff laid off
 - Mississauga – 2,000 part-time and non-essential staff laid off

FINANCIAL SITUATION

- Budget for 2020/21 was agreed to by Budget COW but not ratified
 - Operating - \$1.0B
 - Capital - \$179.8M
 - Debt Level was set at \$235.7M
 - Reserve Balances set at \$200M
- Sudden onset of COVID-19 has brought sudden changes and uncertainty to finances
 - Significant loss of revenues has happened and is expected to continue during the remainder of the year, leading to Budget Shortfall
 - Steep declines in business and individual income means difficulties in paying property taxes, leading to Cash Flow Shortfall
- Urgent need to address these issues before they deepen and become harder to solve

STRATEGIC PLAN IMPLICATIONS

- The 2020/21 Strategic Priorities Plan ratified by Regional Council on Nov 12, 2019 will be unable to be achieved in its totality.
- Impact to the Plan is associated with revenue shortfalls, loss of productive time during the state of emergency and requirement to shutter or reduce some programs and services, as well as budget austerity measures.
- Business Units have adjusted their plans based on their ability to deliver and have deferred some 2020/21 strategic initiatives for consideration in the 2021/22 business planning and budget cycle when the full impact of the situation is known.
- Business Units will highlight 2020/21 strategic initiatives along with budget adjustment list items that have been deferred based on what is currently known. A revised 2020/21 Strategic Priorities Plan will be presented to Regional Council in the near future.

Cash Flow Challenge

CASH FLOW VS REVENUES

- We are facing two issues, one is lost revenue that will never be recovered
 - Transit fares, parking, interest, deed transfer tax, recreation programming and facility rentals
- The other is cashflow – actually receiving cash to pay the bills
 - Delayed tax payments, is a timing a issue not a revenue issue – estimate \$188M shortfall in tax payments
- Short-term borrowing and use of reserves will cover cashflow
- Revenue loss is covered off through budget reductions and/or tax rate increases

ACCOUNTING FOR TAX REVENUES

- Under “accrual” accounting, tax revenue is recognized when “earned” or billed, even if the cash was not yet received
 - Under accounting rules, property taxes must be shown in the year that they were billed
 - This is not the same thing as when it is paid, cashflow is when we actually get paid
- Because tax revenue is reported on an accrual basis it is possible the municipality will end the year with an accounting surplus on its Financial Statements but no cash in its bank accounts
 - In other words, asset rich but cash poor

Cash Flow Mitigation

PROVINCIAL SHORT-TERM LOAN

- Arranged through Nova Scotia Municipal Finance Corporation
- Terms:
 - Interest rate 1.1%
 - Payable over three years
 - Potential for early repayment
 - First six month payment is interest only
 - Remainder paid on the anniversary date – three equal payments
- Staff to return with borrowing recommendation. Expect as much as \$188M to assist with cashflow.

RESERVES

- Reserves can be used for cash flow:
 - Council's Reserve Business Cases restrict their use
 - Staff are preparing an amendment for borrowing outside of the Business Cases
 - Would allow borrowing as much as \$111M from Reserves.
 - Staff to return with recommendations

Reserves for Cashflow - Thousands

Opening Balance, April 1, 2020 ⁴	\$183,993,000
Add: Surplus	35,000,000
Less: Decreased Contributions	-1,809,000
Sub-Total	<u>\$217,184,000</u>
Less: Capital Budget Funding	-74,942,000
Less: Landfill Reserve	-7,930,000
Less: Parkland Reserve	-5,935,000
Less: Capital Fund Reserve	-17,268,000
Available for Cash Flow	<u><u>\$111,109,000</u></u>

¹ Opening Balance is from the original Proposed Budget but excludes the proposed \$16.2M transfer of surplus to Reserves - \$3.266M for the BAL and \$12.9M for debt reduction. The BAL amount is included in the \$22.1M surplus and the \$12.9M amount is included in the Capital Fund Reserve.

Budget Challenge

RESIDENTIAL PROPERTY TAX

- The average single family homes rose 1.4% in value
 - The Residential tax rates did not change
 - The Average Residential tax bill rose \$27 per home, or 1.4%

Residential	2019/20	2020/21	Δ 2019/20- 2020/21	Δ% 2019/20- 2020/21
Average Assessment (Single Family Home)	\$242,400	\$245,800	\$3,400	1.4%
Urban Tax Rate (Including Transit Rates)	<u>0.815</u>	<u>0.815</u>	=	=
Average Tax Bill	\$1,976	\$2,003	\$27	1.4%
Change in Average Tax Bill	2.3%	1.4%		

COMMERCIAL PROPERTY TAX

- The average commercial property rose 1.0% in value
 - The Commercial tax rate increased 0.4%
 - The Average Commercial tax bill rose \$585, or 1.4% (the same per cent as Residential)

Commercial	2019/20	2020/21	Δ 2019/20-2020/21	Δ% 2019/20-2020/21
Average Assessment	\$1,425,700	\$1,439,500	\$13,800	1.0%
Urban Tax Rate	<u>2.988</u>	<u>3.000</u>	<u>0.012</u>	<u>0.4%</u>
Average Tax Bill	\$42,600	\$43,185	\$585	1.4%
Change in Average Tax Bill	2.3%	1.4%		

COVID-19 IMPACT ON HRM BUDGET

- Immediate first three months
 - Tax Bill date shifted to June 1st impacts cashflow
 - Lost revenue from foregone fees/fares: Transit, parking, recreation programming, facility rentals, permits
 - Decreased investment income
 - Increased costs due to Public Health orders: increased cleaning (buses, offices, facilities), PPE, measures to protect physical distancing
 - Some savings from not operating programs or occupying buildings and from layoffs

COVID-19 IMPACT ON HRM BUDGET

- Longer Term next 18 months
 - Significant erosion of commercial assessment base
 - Some businesses will not be able to recover
 - More businesses and residents unable to pay their taxes bills, larger default rate
 - Decline in interest revenue, deed transfer tax revenue if the markets slow down
 - Continued lost transit fare and other fee revenue
 - Increased debt costs (P&I) from short-term borrowing
 - Decreased reserve balances

COVID-19 IMPACT ON HRM BUDGET

- Revenue Loss:
 - Transit Fare loss is significant, ridership likely to be affected in longer-term
 - Deed Transfer Tax affected by changes in real estate market
 - Interest Revenues affected by interest rates and cash balances
- **Revenue Loss of \$44M**

Table 1
Revenue Loss - 2020/21

Transit Fares	20,000,000
Deed Transfer Tax	7,650,000
Interest Revenues	4,165,000
Recreation Fees	5,725,000
Fines	1,735,000
Other	4,725,000
Total	44,000,000

COVID-19 IMPACT ON HRM BUDGET

- Budget Gap:
 - Lost Revenues
 - Additional Debt Charges to cover short-term borrowing for Cash Flow
 - Valuation Allowance will cover taxes and other revenues that may be written-off
- **Budget Gap of \$85M**

Budget Deficiency - 2020/21

Revenues Lost	44,000,000
Debt Charges	31,400,000
Valuation Allowance	<u>10,000,000</u>
Total	<u>85,400,000</u>

Budget Mitigation

CHANGES TO HRM BUDGET

- Compensation Changes
 - Reductions included a hiring freeze and budgeting for higher vacancies
 - Layoffs have occurred for term and casual positions, overtime has been reduced
- Gas and Diesel – The fall in oil prices have led to a price reduction of 28%. In addition, less fuel is being used in many vehicles and facilities.
- Services that have been interrupted have had their budgets reduced accordingly
- Other Expenditures including office materials, supplies, training, out of town travel, special projects and many non-essential materials have been reduced
- All Contracts reviewed with some adjustments in pricing or services factored in

CHANGES TO CAPITAL BUDGET

- Reviewed workload, ability to deliver projects and financial capacity
 - Currently had \$316.2M of current and proposed projects underway for 2020/21
- Changes
 - Reduced 2020/21 capital projects by \$53.5M
 - Deferred \$54.9M of capital project work until future years
 - In 2020/21, HRM will focus on remaining \$207.8M of work
- Recommend Capital from Operating be reduced by \$25M, from \$45.5M to \$20.5M
 - Reduces pressure on Operating Budget

CHANGES TO CAPITAL BUDGET

Asset Category	2020/21 Total Capital Work Plan	Reductions	Deferrals	2020/21 Adjusted Capital Work Plan
Buildings/Facilities	\$ 79,562,000	\$ 9,536,000	\$ 12,399,000	\$ 57,627,000
Business Systems	44,295,000	7,667,000	-	36,628,000
District Capital Funds	2,043,372	-	750,000	1,293,372
Outdoor Recreation	11,560,000	2,975,000	-	8,585,000
Roads, Active Transportation & Bridges	122,171,600	31,355,600	17,352,000	73,464,000
Traffic & Streetlights	5,352,500	1,795,000	-	3,557,500
Vehicles, Vessels & Equipment	47,600,000	-	24,419,000	23,181,000
Other Assets	3,574,000	150,000	-	3,424,000
Total Capital Plan	\$ 316,158,472	\$ 53,478,600	\$ 54,920,000	\$ 207,759,872

CHANGES TO HRM BUDGET

Budget Reductions - 2020/21

Compensation	(21,689,000)
Facilities Costs	(2,184,000)
Programs	(6,538,000)
Grants	(4,921,000)
Contracts, Consulting	(5,650,000)
Supplies, Materials	(3,719,000)
Training and Travel	(2,523,000)
Fuel	(4,481,000)
Reserves	(1,809,000)
Capital from Operating	(25,000,000)
Other	<u>(6,886,000)</u>
Total	<u>(85,400,000)</u>

CHANGES TO BUSINESS UNITS

Transportation and Public Works	\$ 89,777,100
Revenue Loss	
Parking Meter Fine and Parking Permit Revenue	624,000
Summary Offence Tickets	500,000
Organics and Recycling Tip Fees	177,000
Streets and Services Permit Revenue	80,000
Service Changes	
Vacancies, students, seasonals and Overtime	(2,428,800)
Green Cart, Household Hazard Waste, CFC Removal Services	(1,820,000)
Tree Planting / Pruning	(1,082,200)
Senior Snow	(600,000)
Road operations & constructions contracts	(331,700)
Public Education	(275,000)
Street Sweeping Enforcement Contract	(54,600)
Line Painting	85,000
Other Mitigation	
LED Reserve Transfer	(1,284,400)
Training/Travel/Memberships	(226,200)
Special Projects and Studies, Professional Services	(229,400)
Maintenance, Equipment and Materials	(190,900)
Office Expenses	(36,000)
Inflation on Solid Waste Contracts and Winter Works Contracts	(398,100)
Solid Waste Contracts	230,000
Vehicle Rental	159,500
Total Changes	\$ (7,101,800)
Revised Budget	\$ 82,675,300

CHANGES TO BUSINESS UNITS

Halifax Transit	\$ 30,546,900
Revenue Loss	
Decrease to fare revenue	20,000,000
Service Changes	
Other Expenses - Office/Bldgs/Supplies/Services	(712,400)
Training/Travel/Advertising	(791,400)
Vacancy Rate Changes	(3,706,400)
Delay Moving Forward Together Plan (MFTP) August Implementation	(1,019,100)
Rural Transit Funding Program	(400,000)
Ferry Service Reduction	(283,500)
Other Mitigation	
Equipment and building expenses - repairs/utilities	(1,140,500)
Vehicle Expenses	(1,012,000)
Fuel Price and Usage Reduction	(3,403,400)
Janitorial services	462,000
Total Changes	\$ 7,993,300
Revised Budget	\$ 38,540,200

CHANGES TO BUSINESS UNITS

Parks & Recreation	\$ 29,797,100
Revenue Loss	
Cancellation of Spring/Summer Programming & Facility Closures	5,725,200
Events/Grants	262,500
Hotel Levy Revenue Transfer (Discover Halifax)	(1,360,600)
Service Changes	
Cancellation of Spring/Summer Programming & Facility Closures	(4,000,000)
Events/Grants	(640,800)
Transfer to Outside Agencies (Discover Halifax)	1,360,000
Other Mitigation	
Vacancy Management Adjustments	(742,800)
Other Compensation Budget Mitigation	(155,800)
General Expenditure Reductions	(236,100)
Total Changes	\$ 211,600
Revised Budget	\$ 30,008,700

CHANGES TO BUSINESS UNITS

Planning & Development	\$ 14,288,700
Revenue Loss	
Fee Revenue Reductions	575,000
Lost Revenues for Patio Fees	40,000
Service Changes	
Cut Trap Spay/Neuter Release program grant by 50%	(25,000)
Consulting Fees, Contract Services	(629,200)
Cut Heritage Incentives Grant (\$150K increase on BAL list)	(200,000)
Cut Accessible Taxi Grant Program development (BAL list)	(100,000)
Cut Water Quality Monitoring Program	(150,000)
Cut Beach Water Testing and Lake Weed Harvesting	(290,000)
Not Hiring Heritage Research Planner approved (BAL list)	(80,000)
Not Hiring 3 six month positions for HalifACT approved (BAL list)	(109,700)
Other Mitigation	
Compensation (mostly Vacancy Management)	(728,200)
Office Costs and other general reductions	(189,400)
Other Goods and Services	(348,800)
Total Changes	\$ (2,235,300)
Revised Budget	\$ 12,053,400

CHANGES TO BUSINESS UNITS

Halifax Regional Fire and Emergency	\$ 74,506,000
Service Changes	
Withdraw funding request for increase to Uniforms & Clothing (BAL)	(202,500)
Withdraw funding request for increase to Training Materials and Services (BAL)	(290,000)
Reduction to HRFE Volunteer Recognition Program	(770,000)
Reduce Mutual Aid Agreement	(21,200)
Reduce Grants - Ground Search and Rescue by 1/2	(70,000)
Reduce Overtime & close Station 11 (24 hours) to relocate staff to Sheet Harbour with day staff from Station 50 or 60 and Station 56 to address community risk in the Eastern Shore	(1,000,000)
Increase Vacancy Target for Hiring Freeze, Retirements & Other Absences	(2,400,000)
Other Mitigation	
Withdraw funding request for increase to Professional Services (FAP) for treatment of PTSC	(60,000)
Withdraw funding request to fund Logistics Pressures	(230,000)
Defer EMO Reserve Contribution	(25,000)
General Expenditure Reductions	(318,200)
Total Changes	\$ (5,386,900)
Revised Budget	\$ 69,119,100

CHANGES TO BUSINESS UNITS

Halifax Regional Police	\$ 89,777,600
Revenue Loss	
Fee Revenues	80,000
Service Changes	
Crossing Guards	(390,800)
Overtime and Court Time - 25% Reduction	(1,091,000)
Vacancies, retirements and term positions	(2,456,100)
Youth Advocate Program	(95,100)
Other Mitigation	
Equipment/Comms	(168,000)
External Services	(759,100)
Office	(106,400)
Other Goods/Services	(527,500)
Total Changes	\$ (5,514,000)
Revised Budget	\$ 84,263,600

CHANGES TO BUSINESS UNITS

Halifax Public Libraries	\$ 22,470,000
Revenue Loss	
Increase to Provincial Operating Grant	(358,300)
Fines Fees	132,600
Parking Rentals	171,800
Facilities Rentals	88,500
Lease Revenue	72,400
Administration Fees, Donations, Misc	(74,400)
Photocopier Revenue	61,200
Service Changes	
Vacancy Management	(800,000)
Office Furniture/Supplies	(226,400)
Training/Travel/Memberships	(157,000)
Professional Fees, Committee Expenses, Rewarding Excellence, Interdepartmental	(20,900)
Building Costs	(308,400)
Equipment and Communications	(177,500)
Books/Periodicals	248,200
Region Serv. Program	152,500
Total Changes	\$ (1,195,700)
Revised Budget	\$ 21,274,300

CHANGES TO AUDITOR GENERAL

Office of the Auditor General	\$	1,126,900
Other Mitigation		
Compensation & Benefits		(104,000)
Total Changes	\$	(104,000)
Revised Budget	\$	1,022,900

CHANGES TO BUSINESS UNITS

Chief Administrative Office	\$ 8,028,800
Service Changes	
External Services	(81,800)
Halifax Partnership - Economic Recovery Plan	75,000
Halifax Partnership - Economic Development Strategy deferred	(135,000)
Other Mitigation	
Other Goods and Services	(223,600)
Community Events	(37,100)
Miscellaneous adjustments	(92,400)
Office Expenses	(25,900)
Vacancy Rate Changes	(148,900)
Total Changes	\$ (669,700)
Revised Budget	\$ 7,359,100

CHANGES TO BUSINESS UNITS

Corporate & Customer Service	\$ 42,332,000
Service Changes	
Permanently Close Duke St and Acadia School Contact Centers	(438,700)
Reduce Hours - 311	(100,000)
Other Mitigation	
Reduced Professional/Consulting Fees, Special Projects	(51,500)
Reduced General Expenses, Fuel and Building Costs	(1,743,600)
Hiring freeze/Vacancies	(2,223,000)
Bldg. closures - reduced costs	(1,664,500)
Total Changes	\$ (6,221,300)
Revised Budget	\$ 36,110,700

CHANGES TO BUSINESS UNITS

Human Resources / Office of Diversity and Inclusion	\$ 7,374,200
Service Changes	
Online Training/Travel/Memberships	(187,200)
Special Projects/Events, Professional Fees	(155,400)
Other Mitigation	
General Expenses (advertising, consulting fees, office)	(72,000)
Compensation And Benefits	(2,100)
Total Changes	\$ (416,700)
Revised Budget	\$ 6,957,500

CHANGES TO BUSINESS UNITS

Legal & Legislative Services	\$ 8,421,600
Other Mitigation	
Hiring Freeze/Vacancies	(477,900)
Training/Travel/Memberships	(48,300)
Office Expenses, Other Cost Reductions	(29,000)
External Legal Fees & Prosecution Costs	(133,800)
Secondment	(150,700)
Total Changes	\$ (839,700)
Revised Budget	\$ 7,581,900

CHANGES TO BUSINESS UNITS

Finance, Asset Management & ICT	\$ 39,826,000
Revenue Loss	
External Recoveries, Tax Sales and Certificates	510,600
Parking Rentals and Facilities Revenue	778,000
False Alarm Recovery and By-Law F300	402,400
Service Changes	
Training/Travel/Memberships and Printing	(684,500)
New Microsoft Licenses (BAL)	(400,000)
Citizen Survey (BAL)	(75,000)
Other Mitigation	
Facilities including Metro Park	(1,004,800)
Consulting, Contract Costs & Other External Services	(363,400)
Office and Equipment Expenditures	(302,300)
Other Expenditures	(371,200)
Vacancy Rate Changes	(2,250,900)
Total Changes	\$ (3,761,100)
Revised Budget	\$ 36,064,900

CHANGES TO BUSINESS UNITS

Fiscal Services	\$ (486,092,100)
Revenue Loss	
Deed Transfer Tax	7,650,000
Interest	4,165,000
Other Revenues	1,057,000
Service Changes	
Other adjustments	(1,591,800)
Grants (Community, Heritage, Museums)	(505,000)
Valuation Allowance	10,000,000
Capital from Operating	(25,000,000)
Short term loan repayment	31,400,000
Other Mitigation	
Other	(1,933,900)
Total Changes	\$ 25,241,300
Revised Budget	\$ (460,850,800)

CHANGES TO BUSINESS UNITS

- It is recommended that the Budget Committee direct the CAO to revise the 2020/21 Proposed Operating and Capital Budgets, as voted on by Regional Council's Committee of the Whole on Budget at their February 12, 2020 meeting, using the revisions proposed in this report as summarized in Table 3 and Attachments C and D.