

Overview of Budgets

HRM's Operating and Capital budgets along with the business plans from each of its business units were approved by Regional Council on June 27, 2006. Area rates were approved by Regional Council on June 20 and July 4, 2006.

Budget Summary

The following is a summary of the overall recommendations included in the Budget:

- C The gross amount of the **Operating Budget** is \$630.9 million, an increase of \$42.2 million or 7.2% over the 2005-2006 Budget. This increase includes a \$23.1 million increase in business unit costs and a \$19.1 million increase in fiscal services items. Collective agreements, regulatory requirements, inflation, and increased demand due to growth are some of the main reasons for increases to business unit costs. Fiscal Services includes significant increases in Provincial Mandatory Costs (\$6.9 million), Capital from Operating (\$5.0 million), and Reserve Contributions (\$1.3 million). Net operating costs for new Capital assets has decreased by \$2.0 million.
- C In the operating budget there are business unit revenues of \$128.5 million. Non-departmental revenues are equal to \$502.4 million.
- C The gross amount of the **Capital Budget** is \$197.6 million. In total, HRM will have to borrow \$32.2 million to finance the capital budget. In addition, there is \$32.1 million of capital from operating available. About \$565,000 of funding is budgeted to be provided from Crespool. There is approximately \$86.4 million in Reserve withdrawals. An additional \$5.1 million of capital projects are secured with local improvement charges and capital cost contribution charges.
- C Cost sharing under the capital budget totals \$29.8 million. Included within this HRM has budgeted to receive \$2.9 million under the Canada-Nova Scotia Municipal Rural Infrastructure Program towards the cost of beginning the North Preston Water and Sewer Project as well as funds towards the Potable Water and Active Transportation projects. HRM has also budgeted to receive a portion of the \$60 million in funding provided by the

Key Assumptions in the Budget

Inflation (CPI):	1.8%
Inflation (Municipal):	5.0%
Population growth:	0.6 %
Household growth:	1.2%
Canadian Dollar:	\$0.86U.S.
HRM RDP:	\$11.3B
Oil per Barrel (US\$):	\$65.00
Diesel Fuel:	61.9¢*
Gasoline Fuel:	74.0¢*
Heating Fuel:	57.8¢*
Uniform Assessment (HRM):	\$24.1B
Uniform Assessment (NS):	\$48.5B
Education Rate (per 100):	34.50¢
Debenture Rate:	4.1%
Short-Term Interest Rate:	3.75%

* Under HRM price contracts

- Federal Government towards the Harbour Solutions Project.
- C Reserve balances are projected to decrease slightly from \$60.2 million to \$55.6 million. Reserves provide for the timely replacement of municipal infrastructure and avoid large swings in the annual costs of services.

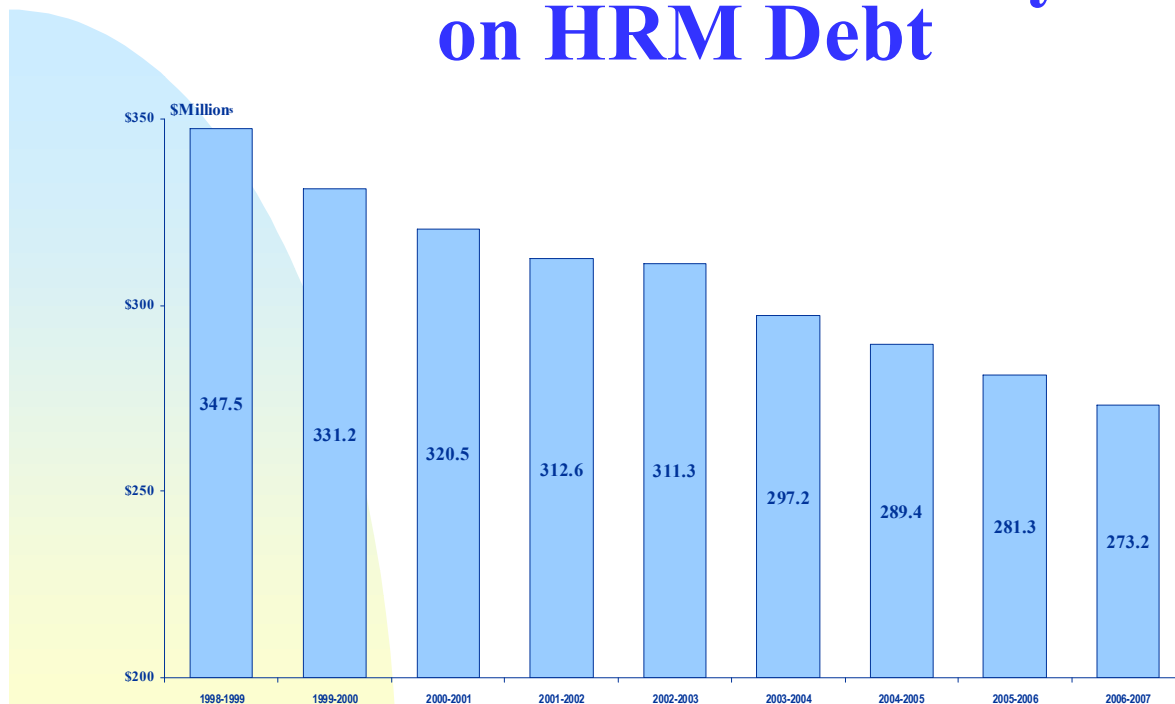
Key Assumptions

- C HRM's residential general property tax rates have decreased from the 2005-2006 rates. The change contains two elements: a 5.1% overall reduction in the tax rate and a small increase to allow the inclusion of an increase to sidewalk plowing service (the service was previously area rated). Commercial tax rates have been adjusted to provide for the change in sidewalk plowing and also for the phase-out of the Business Occupancy Tax. General Property Tax revenues will increase by \$21.1 million.
- C Debt charges for HRM are \$41.9 million principal and \$13.3 million interest for a total cost of \$55.2 million. This represents 8.7% of gross operating expenditures. Debt charges are found in both Fiscal Services and Operating Business Units.
- C The 2006-07 Operating Budget includes a small surplus from 2005-06 of \$279,400.
- C Mandatory Education has been calculated at the estimated uniform assessment of \$24.1 billion times a Education rate of 34.5¢ per \$100 of assessment. This produces a contribution amount of \$83.0 million, an increase of \$4.7 million over the 2005-06 budget. For 2006-07, Supplementary Education and Music and Arts Education will remain at the same amount as 2005-06.
- C HRM has budgeted \$32.1 million for capital from operating. Partly because of its commitment to capital from operating HRM is managing to increase its capital budget while continuing to see its debt decline.
- C Deed Transfer Tax revenues will increase from \$29 million to \$31 million, a change of \$2.0 million or 7% over last year's budget. The Deed Transfer Tax Rate will not change.
- C In 2006-2007 HRM has estimated it will pay \$5.7 million for its share of the cost of operating the provincial property assessment system.
- C The Consumer Price Index (CPI) is expected to rise by 1.8%. The CPI does not, however, include the goods and services typically purchased by municipalities. Inflation for HRM, based on its typical purchases, is estimated to rise by 5.0%.
- C The number of households will increase by 1.2% while population will increase by 0.6%.
- C Interest from investments and taxes is estimated at \$10.6 million, an increase of about \$3.8 million or about 55%.
- C The value of collective agreements negotiated to date have been included in the operating budget. Estimates have been included for those contracts to be finalized in 2006-2007.
- C Under its pricing arrangements with vendors, HRM has budgeted for fuel prices of 74.0¢ for gasoline, 61.9¢ for diesel, and 57.8¢ for heating oil. HRM has assumed a US \$65 per barrel oil price (US\$).

The Business Planning and Budgeting Process

The HRM's Business Planning and Budgeting Process was developed based on the Multi-Year Financial Strategy (MYFS). Regional Council approved the MYFS as a means of dealing with the financial pressure programs and services were experiencing as the result of flat revenues and growing non-discretionary costs. The MYFS addresses the integration of corporate priorities, business planning and budgeting, the creation of reserves, and the implementation of a Debt Servicing Plan in the absence of a legal debt limit. The Debt Servicing Plan restricts the issuance of new debt to 80% of the debt retired in the same year.

Results of Debt Policy on HRM Debt



Note: As of March 3rd end of fiscal year. Includes Issued, Approved and Work-in-Progress. Excludes a number of technical adjustments that need to be re-stated including capital leases and tax structure obligations.

The goal under the Debt Servicing Plan was to reduce debt by 13.2% from \$347.5 million in 1999-2000 to \$301.8 million by the end of 2003-04. This goal has been exceeded. Debt at the end of 2005-2006 is estimated to be \$281.3 million. By the end of 2006-07 it will be further reduced to an estimated \$273.2 million.

In order to prepare long-term planning, it was necessary to develop a computer model to forecast the long term financial results and position of HRM. The Model for Integrating Service and Expenditure Rationalization (MISER) estimates future revenues and expenditures by setting a series of economic and demographic assumptions, detailing nearly 100 cost drivers and thirty service drivers, and incorporating assumptions regarding tax rates, demographics, inflation, GDP and other economic and fiscal factors. By understanding where HRM is headed in terms of future revenues and expenditures, strategies can be developed earlier for responding to the demands for programs and services. In terms of the annual Business Planning and Budgeting Process, MISER provides Business Units with budget envelopes within which they develop business plans and budgets for the fiscal year.

Shortly after being appointed Chief Administrative Officer, Dan English introduced a re-organization of the HRM corporate structure, designed to better respond to changing public needs. The new structure reduces the number of business units from 13 to 11, and consolidates similar activities within several core business units. A second Deputy Chief Administrative Officer (DCAO) position was created. One DCAO oversees Corporate Services & Strategy and the other has Operational responsibilities. The Proposed Operating Budget contained within is presented in the new structure. Additionally, prior year information has been restated to reflect the new structure.

Concurrent with the approval of the budget is the setting of the property tax rates for 2006-2007. Because the setting of the tax rates fixes the revenue budgeted for the year, the “double entry” principal must be used by staff or Council to amend the approved budget. The double entry principal requires Regional Council to remove a budgeted expenditure in order to add another. In this way, the expenditure budget remains balanced to the revenue budget.

Once approved, the total Operating Budget cannot be altered and the general rates of taxation cannot be changed. Staff and Council manage the budget throughout the year through the use of the double-entry principle: any new expenditure must have an offsetting reduction. Such changes are tracked and reported through monthly financial projections. The only changes that can be made to the budget are the introduction of additional area rates (as long as this occurs by the end of June to allow for sufficient time to prepare the final tax billings) or the re-statement or transfer of amounts within the overall budget. The latter would be done in the case of internal re-organizations or the allocation of contingency amounts to specific business units.

A mechanism that is available for amending the Capital Budget following adoption is the Capital Reserve Pool (Crespool). Any debt authority remaining after the completion of a capital project

is transferred to Crespool. With approval of Council, accumulated funds in Crespool can then be used to provide additional debt authority for capital projects which are over budget or can be carried forward into the next budget year.

The Basis of Budgeting and Accounting

Under the Multi-Year Financial Strategy (MYFS), HRM's overall financial policies are driven by the requirements of the NS Municipal Accounting Manual (issued by the Province of Nova Scotia) and supported by the strategic direction of the Public Sector Accounting Board (PSAB), a committee of the Canadian Institute of Chartered Accountants.

As part of that series of rules, HRM operates under a fund accounting system with an Operating fund, a Capital fund, and a Reserve fund. Capital projects must be included in the Capital Budget and are capitalized on the balance sheet but are not depreciated. The value of the Municipality's fixed assets is written to nil at the end of their estimated useful lives as prescribed by the Province. Debt is typically issued through the NS Municipal Finance Corporation, although HRM does possess an 'A' credit rating from Standard and Poors.

All Business Units are consolidated into the HRM financial statements and budget including those of the Halifax Regional Library, a separate board of Regional Council. The major exception to consolidation is the Halifax Regional Water Commission (HRWC), a separate corporation wholly-owned by HRM and regulated under the Nova Scotia Utility and Review Board (URB). HRM partnerships with certain Agencies, Boards and Commissions (often in the recreation area) are not wholly consolidated.

HRM adheres to Generally Accepted Accounting Principles (GAAP) as adopted for Nova Scotia municipalities and follows what is best described as a modified accrual system. Major revenue items are recorded on an accrual basis. Certain sources of revenue are recorded on a cash basis. In the Operating fund, HRM accrues outstanding purchase orders for goods and services received at fiscal year end. In the Capital fund, expenditures on capital contracts are accrued only to the extent for work which has been completed at fiscal year end. Interest on debenture debt is not accrued at fiscal year-end, but is recorded as an expenditure when paid.

Under the Municipal Government Act (MGA), HRM is not allowed to budget for an operating deficit. As a matter of general policy, it does not budget for operating surpluses. All estimated surpluses and deficits are included in the subsequent year's budget. As such, HRM budgets for an Accumulated Surplus (also known as "Fund Balance") of zero. The only amounts deposited or withdrawn to the Accumulated Surplus account relate to area rate accounts or are small amounts not yet brought into the operating budget. (Usually variations between the estimated and actual surplus/deficit.)

The method of budgeting follows the audited financial statements very closely. There are several minor anomalies. For instance, the Provincial Library Operating Grant is recorded in the budget as revenues for the library, and in the financial statements as non-departmental revenues. The budget generally presents business unit figures on a net basis while the financial statements separate out revenues and expenditures. In both the Financial Statements and the Budget, Area Tax Rate revenues are mostly included within departmental revenues.

HRM files its audited financial statements with the Province of Nova Scotia through Service Nova Scotia and Municipal Relations. As required by that department, it also files its financial statements on a functional (as opposed to business unit) breakdown. For example, in the budget document, debt charges are primarily in Fiscal Services with some debt charges in the budgets for Environmental Management Services (Solid Waste and Wastewater Treatment Plants), Fire Services and Transportation and Public Works (Transit Services). In the functional financial statements filed with the Province, all debt charges appear in Fiscal Services. Area Tax rate revenues and transfers to and from reserves show in business unit budgets, but are included in Fiscal Services in the functional statements filed with the Province.

In September 2003, the Canadian Institute of Chartered Accountants (CICA) made revisions to their standards that had a significant impact on financial statement presentation for Nova Scotia municipalities. Staff are working with Service Nova Scotia and the CICA to quantify what the impact will be in the current and future years.

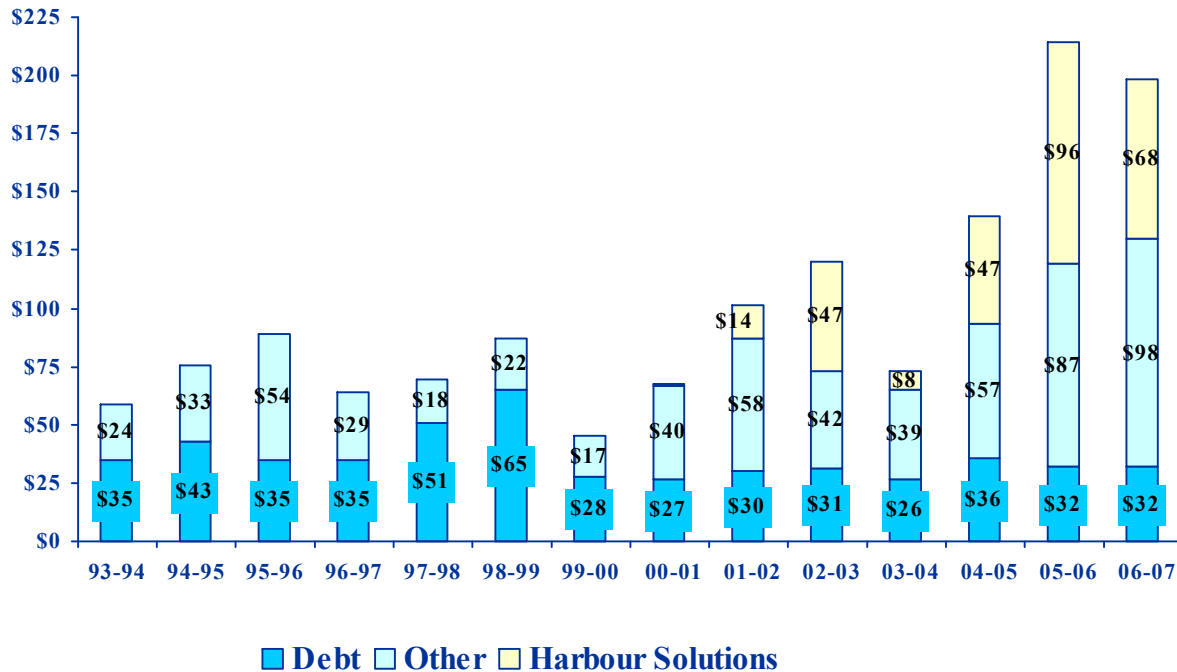
Significant Budgetary Issues and Trends

The Capital Budget and Long Term Capital Plan

Most funding for the Capital Budget is provided for through reserves, debt financing, and “pay-as-you-go” (Capital from Operating). Since all of these funding sources require payments from the Operating Budget, the processes for Operating and Capital Budgets are closely linked. The Debt Servicing Plan, MISER and cash flow projections from Reserve Business Cases are all used to determine the total funding capacity available for the Capital Budget. Contributions to Reserves, principal and interest payments, and Capital from Operating are included in the Operating Budget.

Debt as a Share of Capital

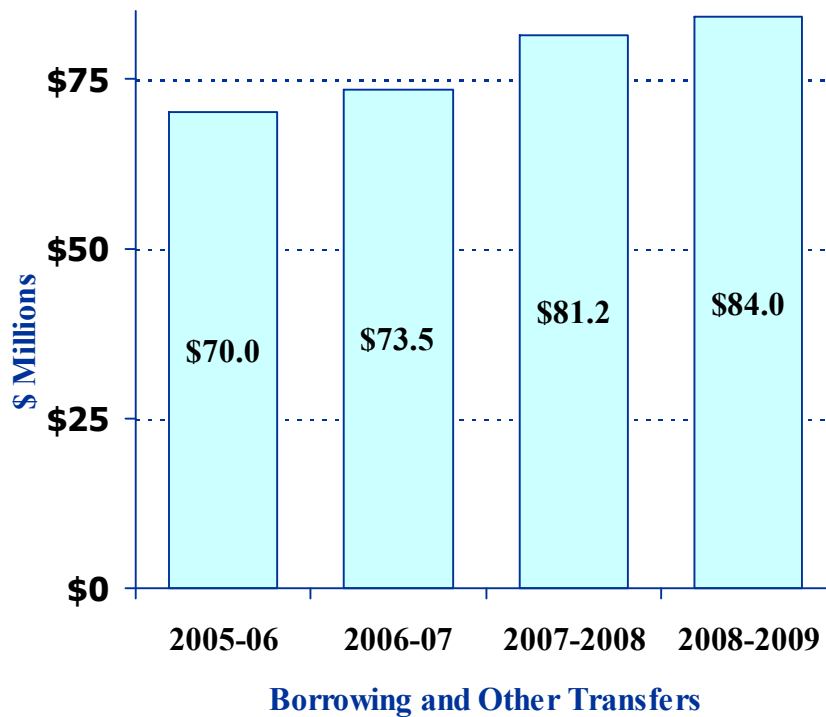
Debt Approved Through Budgets - \$ Millions



There are pressures for capital investments not met in this proposed budget. Older aging infrastructure is causing higher operating costs and presents difficulties in adequately delivering services. At the same time, HRM is a rapidly growing area, bringing an increased demand for services to new areas of the municipality. Demands unmet include building maintenance, new community facilities, the replacement of the Spring Garden Road library, land acquisition for new facilities, parks required in the future and rural transit, etc.

The issue of the additional funding requirement for wastewater will be addressed in a separate report to Council prior to approval of the budget. It is a matter of choices, timing and taking advantage of leveraging opportunities when they arise. It is believed the proposed budget balances the needs of the community and prudent management of existing assets within the fiscal framework.

The Long Term Capital Plan



Of particular significance in this Capital Plan is increased funding for Roads and Streets, Traffic Improvements, Parks and Playgrounds and Stormwater/Wastewater. In 2006-2007 these areas will see an increase of \$12.4 million over the 2005-2006 budget. This general trend will be maintained in Years 2 and 3 of the Plan.

Significant Capital Changes

	2005-06 Net Budget	2006-07 Net Budget	Increase (Decrease)	% Change
The Capital Budget				
Buildings	3,430,000.00	2,650,000.00	(780,000.00)	-23%
Community Facilities	2,620,000.00	3,046,000.00	426,000.00	16%
Community & Property Development	3,870,000.00	2,055,000.00	(1,815,000.00)	-47%
District Activity Funds	1,495,000.00	1,495,000.00	0.00	0.00
Equipment & Fleet	8,173,000.00	10,334,000.00	2,161,000.00	26%
Information Technology	3,857,000.00	2,151,000.00	(1,706,000.00)	-44%
Metro Transit	16,342,000.00	11,743,000.00	(4,599,000.00)	-28%
Parks & Playgrounds	4,386,000.00	4,922,000.00	536,000.00	12%
Roads & Streets	15,917,000.00	18,581,000.00	2,664,000.00	17%
Stormwater & Wastewater	654,000.00	4,165,000.00	3,511,000.00	537%
Sidewalks, Curbs & Gutters	3,146,000.00	3,421,000.00	275,000.00	9%
Traffic Improvements	6,072,000.00	11,768,000.00	5,696,000.00	94%
Totals	69,962,000.00	76,311,000.00	6,369,000.00	9%
Included in the Operating Budget				
Operating Costs of Capital	4,298,100.00	2,191,050.00	(2,107,050.00)	-49%
Strategic Growth Reserve	5,000,000.00	5,000,000.00	0.00	0.00
Capital Surplus Reserve	353,000.00	353,000.00	0.00	0.00
Facilities Reserve (net)	500,000.00	500,000.00	0.00	0.00
CCC Reserve	450,000.00	458,000.00	8,000.00	2%
Total	10,601,100.00	8,502,050.00	(2,099,050.00)	-20%

As was the case in 2005-06, Council has approved not only the Capital Budget for the coming year (2006-2007), but also approved *in principal* the detailed capital plans for the following two years (2007-2008 and 2008-2009). These capital plans anticipate a continuation of the capacity gap while continuing to comply with the Debt Servicing Plan. In addition, HRM is now budgeting for the operating costs of new capability projects. The Capital Budget and Plan includes funds in each of 2007-08 and 2008-09 to start implementing recommendations from the Regional Plan to address transportation infrastructure needs.

Another important aspect of Long Term Capital Planning is the Regional Planning initiative launched by Regional Council in February 2002 to set the direction for the management of growth and development in the Region for the next 25 years. The Regional Plan will:

- identify areas for new development and the best use of infrastructure such as roads, water and sewer;
- recommend road improvements;
- recommend transit service enhancement;
- recommend bicycle and pedestrian paths;
- identify initiatives to manage transportation pressures;
- guide programs and municipal investment to enhance the safety, character, attractiveness and livability of communities; and
- develop policies to protect and manage lakes and waterways, green space, cultural landscapes and coastal areas.

A second key concern of long term capital planning is the current state of HRM's wastewater infrastructure. HRM's current infrastructure in this area is aging and in serious need of replacement. Current estimates are that in excess of \$500 million is required to upgrade the wastewater system. Wastewater is not funded by the general property tax rates but rather is funded through charges levied on the water bill.

Hurricane Juan

On September 28, 2003, Hurricane Juan, a Category 2 storm event, severely impacted the Halifax Regional Municipality. The eye of Juan had a diameter of 35 to 40 km, and the windstorm had sustained winds of 158 km/h and gusts up to 185 km/h. The last time the Halifax area experienced a storm of this size was in 1893.

As a result of Hurricane Juan the Halifax Regional Municipality suffered significant damage to the municipality's infrastructure and required a substantial clean up and emergency response effort. While the emergency response effort has been over for some time, the actual clean up of various sites along with repairs to the municipality's infrastructure is still on going. It is anticipated that the final clean-up and recovery work will be completed in the 2006-2007 fiscal year.

Immediately following the Hurricane, HRM established the Disaster Financial Assistance Claim Team (D-FACT) with the primary objective to maximize the financial assistance from the Federal Disaster Financial Assistance (DFA) Program. D-FACT has been working closely with HRM business units and the Provincial Disaster Recovery Team in order to maximize their effectiveness, and lessen the burden on the HRM Budget.

Costs incurred to March 31, 2006 totalled \$23.4 million - \$11.7 in the fiscal year 2003-2004, \$10.1 in the fiscal year 2004-2005 and \$1.6 million in 2005-2006. A further \$0.6 million is anticipated in 2006/07. These costs have four sources of funding available:

- Insurance Proceeds - for the assets damaged in the Hurricane that were covered under the HRM insurance policy,
- Donations - as a result of the damage to some of the highly regarded sites in HRM such as Point Pleasant Park and the Public Gardens, individuals and businesses have donated funds to assist in the recovery and improvement to these sites,
- Disaster Financial Assistance (DFA) Program proceeds - a joint program between the federal and provincial governments allows for municipalities to obtain financial assistance for such a disaster,
- HRM Funding - all costs not covered by one of the three previous sources of funding will need to be funded by HRM.

HRM Tax Structure

The HRM tax structure includes a Base or General Tax Rate (for Rural taxpayers); a Suburban General Tax Rate; and an Urban General Tax Rate. That structure was revised as of January 1, 2003. Its guiding principles are to ensure that:

- each taxpayer pays for services received;
- each taxpayer shares in paying for services they have access to;
- each taxpayer pays for basic universal services to ensure a basic standard of service throughout HRM; and
- the commercial tax base exists for the benefit of all HRM

Approved Tax Structure Model (Effective January 1st, 2003)

<i>Service</i>	Rural (Base) General Tax Rate	Suburban General Tax Rate	Urban General Tax Rate
Policing, Solid Waste, Recreation Programs, Planning, Libraries, Sports fields, Playgrounds, Administration	Included in the Base General Tax Rate		
Fire Suppression			
Street lighting			
Recreational and Community Facilities (Capital Costs - Cost Sharing)			
Recreational and Community Facilities (Operating Costs)	Area Rate	Included in the Urban and Suburban General Tax Rates	
Crosswalk Guards	Area Rate		
Transit	Area Rate	Area Rate	Included in the Urban General Tax Rate
Sidewalks	Area Rate	Area Rate	
Fire Hydrants	Area Rate	Area Rate	Area Rate

The Base Rate includes most of the basic services available across HRM, including fire, policing, compost, recycling and solid waste collection, recreation programming, planning, libraries, streetlights, sports fields and playgrounds. Also included are internal and fiscal costs. Municipal Water service is paid for through the water bill, not the property tax system. Sewer service is paid by a charge on the water bill. It is only levied on sewer users.

Not included in the Base Tax Rate are several key services including transit and sidewalks. These services are all "add-ons" for the suburban and rural areas of HRM. These property owners do not pay for such services unless they have access to them in their local area. In those instances, the costs are paid through a local area rate based on local costs. This system prevents Suburban and Rural taxpayers from paying for services they do not receive while allowing the areas the flexibility to acquire or manage services locally.

The inclusion of a service in the Base Tax Rate does not mean every community has equal access to individual services. There is no intention to provide the same level of service in every area of HRM. Rather, service levels depend on the service standards set by Council.

Federal-Provincial - Municipal Fiscal Relations

HRM receives several sources of funds from the Province of Nova Scotia. This includes an operating grant to the Halifax Regional Library which increased from \$3.1 million in 2005/06 to \$3.7 million in 2006/07.

In terms of capital assistance, the Canada - Nova Scotia Infrastructure Program provided for a maximum one-third funding from the Province, and one-third funding from the Federal Government, while the HRM contributes the remaining amount. That program has closed and has now been fully budgeted for. A new program, the Canada - Nova Scotia Municipal Rural Infrastructure Program was introduced in 2005-2006. The terms of the program provide for a maximum one-third funding from the Province and a maximum one-third funding from the Federal Government, with HRM contributing the remaining amount.

HRM has received additional Federal Funding for the Harbour Solutions project. In 2006-2007 the Capital Budget includes a portion of this funding.

The HRM is required to commit a significant portion of its annual operating budget to fund services that come within the Province's mandate. These "mandatory" costs include:

- \$83.0 million budgeted as a mandatory contribution to the Halifax Regional School Board. This is an increase of 43% since 1996-97, and represents 13.2% of the Municipality's total operating budget for 2006-07. The amount of the annual contribution is set by a formula established by the Province based on HRM's share of the total Provincial Uniform Assessment.

- A contribution to the Province to fund the cost of correctional services. The contribution is set by Provincial formula, and has increased from about \$5.8 million in 1996-97 to almost \$7.6 million in 2006-07.
- A share of the costs of the Metropolitan Regional Housing Authority. The contribution is calculated as 12.5% of the prior year's operating loss. In 2006-2007 this is budgeted at \$2.45 million.
- Since 2001-2002, HRM is required to share in the cost of operating the Provincial assessment system. Using a formula based on HRM's share of the Provincial Uniform Assessment and assessment accounts, the 2006-07 contribution is budgeted at \$5.7 million.

In 2006-07, the above mandatory Provincial costs make up \$98.8 million or 15.7% of the total operating budget. This compares to \$92.3 million or 15.7% of the total operating budget in 2005-06. HRM is concerned over its lack of control in this area since the Province sets these costs. In addition the Province is responsible for legislation governing HRM and other municipalities in a variety of areas including municipal finance and governance, and environmental issues including solid waste, all of which have significant cost implications.

Assessments and Taxation

C The Province of Nova Scotia, through Service Nova Scotia and Municipal Relations, provides an updated property assessment roll to all municipalities within the Province in December of each year.

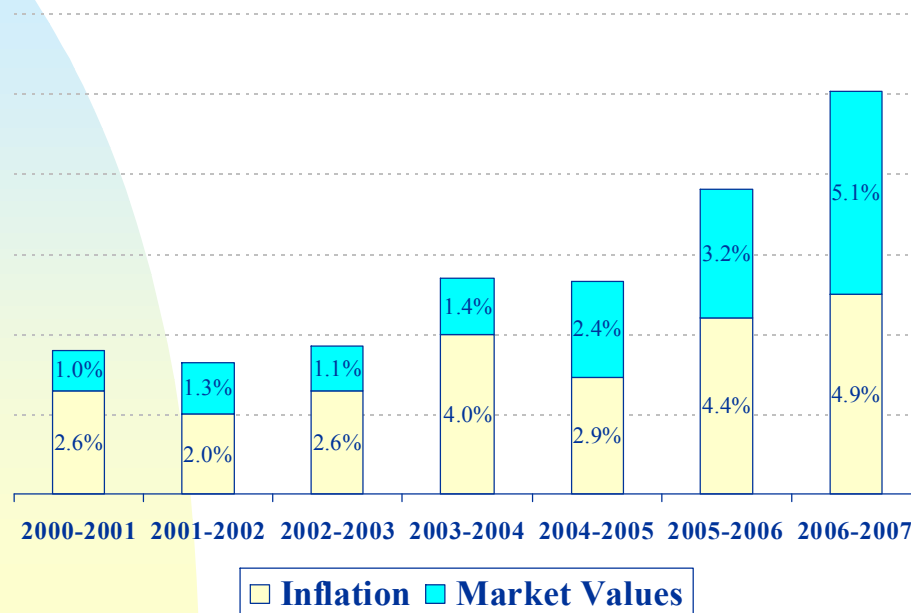
C Property assessments in Nova Scotia reflect market values. In 2005 the Province instituted a "cap" on increases in the value of residential assessment. The cap is retroactive to the 2002 assessment year. The capped amount for each of the years from 2002 through 2006 is 15%, 15%, 10%, 10% and 10%.

Key Revenue Figures in the Budget

Residential Assessment :	up \$2.2 B or 12.4%
Commercial Assessment:	-\$81 M or -1.5%
Residential General Tax Rates:	-5.5¢ to -5.7¢
Commercial General Tax Rates:	up 6.6¢ to 9.0¢
General Property Tax Revenues:	up \$21.1 M
Deed Transfer Taxes:	up \$2.0 M or 6.9%

C In the 2006 assessment base, residential assessment increased from \$17.8 billion to \$20.0 billion. The total increase was \$2.2 billion or 12.4%. The average property (including all types) increased in value by 10.04%. The remaining 2.4% increase was due to the addition of new properties for a total increase in residential assessment of 12.4%. The average single family home in HRM increased in value from \$136,900 to \$149,700 or 9.4%.

Assessment Impacts



- C As part of its approach to levying the tax rate, HRM estimates the cost to provide the same level of service. It has estimated the increase in that cost at 5%. Therefore, as directed by Council, the tax rate was set so as to increase taxes by 5%. Since the average property assessment has risen just over 10% in 2006-07, the rate will be established 5% lower than in the previous year. This approach has been followed in five of the last seven years.
- C In addition, in 2005-2006 sidewalk plowing was area rated. In 2006-2007 those sidewalks abutting arterial roadways and transit routes will become general rated and the area rate will be lowered accordingly. The result of that change is an increase of 0.7 cents in the urban residential general tax rate and 1.9 cents in the commercial general tax rate. The sidewalk plowing area rate of 1.3 cents will be lowered to 0.4 cents to cover only the costs of sidewalk plowing on local streets. (This rate applied to all urban taxpayers except for the majority of those on the peninsula of Halifax).

Residential General Property Tax Rates

	2005-06 Tax Rates	2006-07 Tax Rates	Change per \$100
Urban	1.283	1.228	-0.055
Suburban	1.182	1.125	-0.057
Rural	1.176	1.119	-0.057

- C While the average assessment has risen 10.04%, there is considerable variation in assessment changes. Over 60% of properties have seen a change of 10% or less. About 3% of properties have increases in excess of 25%. Nearly 8% of all properties are waterfront properties. The average assessment of waterfront properties in 2006 was \$192,700, an increase of 9.7%. A temporary tax credit of \$2.5 million was approved for the 2005-2006 year but was not recommended for 2006-2007 because of the 5% decrease in the property tax rates.

Growth in Residential Assessment (All Properties) - 2005 to 2006

	Number of Properties	Percent Properties	Average 2005	Average 2006	Average Change
Declining	2,224	2.0%	194,892	167,428	-14.1%
0% to 5%	14,985	13.2%	149,766	154,010	2.8%
5% to 10%	51,921	45.7%	150,751	162,822	8.0%
10% to 25%	40,871	36.0%	155,730	175,365	12.6%
25% to 50%	2,443	2.2%	177,062	235,605	33.1%
50% plus	1,121	1.0%	129,676	288,111	122.2%
Total	113,565	100.0%	153,635	169,066	10.0%
Waterfront Properties	8,698	7.7%	175,596	192,677	9.7%

Note: This table is based on properties with dwelling units for both 2005 and 2006. It includes different sizes and types of residential units including condos, apartment buildings and single unit homes.

Growth in Residential Assessment by Property Type - 2005 to 2006

	Number of Properties	Percent Properties	Average 2005	Average 2006	Average Change
Single Family Homes					
Detached/Semis	96,267	84.8%	137,744	151,019	9.6%
Condos	8,197	7.2%	126,366	133,880	5.9%
Sub Total	104,464	92.0%	136,851	149,674	9.4%
Secondary (2 to 3 units)	7,078	6.2%	167,549	185,118	10.5%
Apartments	2,023	1.8%	971,658	1,114,261	14.7%
Total	113,565	100.0%	153,635	169,066	10.0%

Distribution of Residential Assessment (all Properties) - 2005 to 2006

	Number of Properties	Percent Properties	Average 2005	Average 2006	Change
Under \$75,000	15,080	13.3%	42,784	45,887	7.3%
\$75,000 to \$100,000	12,425	10.9%	80,715	88,382	9.5%
\$100,000 to \$150,000	39,344	34.6%	113,864	124,843	9.6%
\$150,000 to \$200,000	23,901	21.0%	158,039	171,906	8.8%
\$200,000 to \$300,000	14,948	13.2%	215,722	235,708	9.7%
\$300,000 to \$500,000	6,074	5.3%	333,816	368,593	10.4%
\$500,000 to \$1 million	1,207	1.1%	574,541	637,972	11.0%
\$1 million plus	586	0.5%	2,724,725	3,143,528	15.4%
Total	113,565	100.0%	153,635	169,066	10.0%

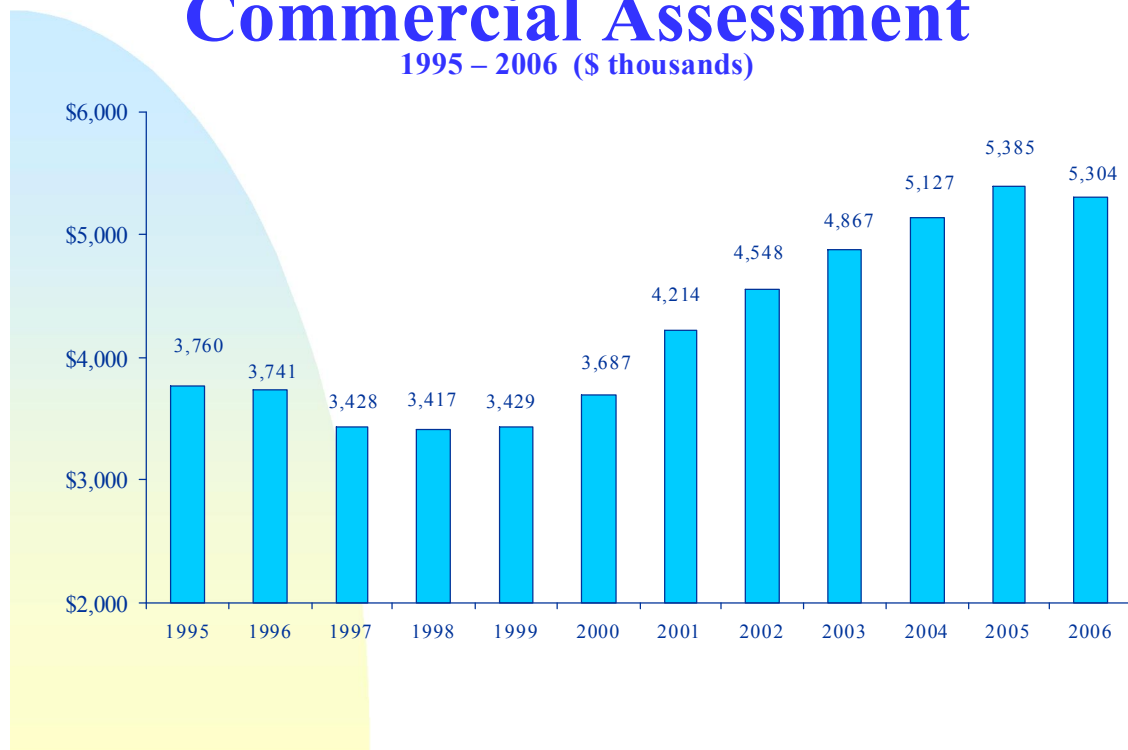
- C Commercial and Business Occupancy taxation is important to HRM from two perspectives. First, it provides a significant source of property tax revenues. Commercial properties pay tax at a much higher tax rate than residential properties. Under Council’s direction, the commercial tax rate is set as a multiple of 2.73 times the residential tax rate. (Hence the term the “Multiplier”). While this revenue is of significant benefit it also means that HRM’s finances are susceptible to an economic downturn in the commercial sector. Secondly, commercial taxation and the services received by the commercial sector can have an important impact on the competitiveness of HRM’s economy. Currently, staff are developing benchmarks on taxation in the commercial sector.

Commercial General Property Tax Rates

	2005-06 Tax Rates	2006-07 Tax Rates	Change per \$100
Urban	3.262	3.352	0.090
Suburban	3.262	3.352	0.090
Rural	2.989	3.055	0.066

- C While taxable commercial assessment has risen in 2006 by \$230m, the upcoming year has led to a significant decline in Business Occupancy assessment. In 2006 BOT assessment is down by \$311m principally due to the phase-out of the business occupancy tax (BOT). In total, BOT and commercial assessment is down by \$81 million. Since commercial property is taxed higher than residential, this has a significant impact on tax revenue.

Commercial Assessment 1995 – 2006 (\$ thousands)



- C Currently, Nova Scotia has two types of commercial assessments. Commercial assessment is levied on real property. Business Occupancy is levied on the occupants of that real property. There are three main classes of business occupancy assessment. Service stations, restaurants, hotels, motels, campgrounds and automotive dealers have their occupancy assessed at 25% of their commercial assessment. Financial services firms are assessed business occupancy at 75% of their commercial assessment. All others are assessed at 50% of commercial assessment.

- C As legislated by the Province of Nova Scotia, the BOT is to be phased out over the next seven years starting with the elimination of the 25% BOT and the reduction of the 50% rate to 40%. In 2006-2007 the change will cause a loss of \$11.5m. The lost revenues due to the phase out are being recaptured through an increase in the commercial tax rate. To accomplish this the commercial multiplier will be increased from 2.55 to 2.73. As the Federal and Provincial Governments do not currently pay BOT, HRM expects to realize additional tax revenues from payments in lieu of taxes. These revenues will be used to lower the increase in the commercial tax rate. There is a strong advantage to the commercial sector from the phase-out of the business occupancy tax. It is expected that the tax burden on the entire commercial sector will decline although there will be differences within individual sectors. This change is expected to lead to a more competitive commercial sector.

- C The phase-out of the BOT has led to an increase in the commercial tax rate of 22.1 to 24.1 cents. This increase is offset in 2006 by the 5.1% decrease in the rate provided for under Council's historical approach to setting the tax rate or 15.5 to 17 cents. The net impact is a increase of 6.6 to 7.1 cents in commercial tax rates. The urban tax rate has also been increased for its share of the general rating of sidewalk plowing for those sidewalks abutting arterial roadways and transit routes. The result is an increase of 1.9 cents in the commercial general tax rate for a total increase in the urban commercial tax rate of 9.0 cents. The existing sidewalk plowing area rate will be lowered accordingly.

Adjustments due to Business Occupancy Phase-out

	2005 Status Quo	Revenue Loss	2005 Adjusted	Change
Commercial	115,833,000	0	123,789,000	7,956,000
BOT - 25%	3,933,900	-3,933,900	0	-3,933,900
BOT - 50%	37,389,500	-7,477,900	31,966,000	-5,423,500
BOT - 75%	3,269,700	0	3,494,000	224,300
Other Taxable	5,011,600	0	5,011,600	0
Sub-Total	165,437,700	-11,411,800	164,260,600	-1,177,100
Federal Payments-in-Lieu	13,761,900	-16,200	14,690,000	928,100
Provincial Payments-in-Lieu	3,376,700	-129,500	3,470,000	93,300
Sub-Total	17,138,600	-145,700	18,160,000	1,021,400
Efficiencies	-400,000	100,000	-244,300	155,700
Total	182,176,300	-11,457,500	182,176,300	0

- C Overall, property tax assessments are up from \$23.4 billion to \$25.5 billion. This is an increase of \$2.1 billion or 9.2%. Total general property tax revenues have increased from \$390.6 million to \$411.7 million. This is an increase of \$21.1 million or 5.4%. Residential property taxes have increased \$19.6m. The increased residential property tax revenues are attributable to a number of factors including: an average increase in residential taxation of approximately 5.0% or \$11.1m, the elimination of the Temporary Tax Credit (\$2.5 million), the addition of sidewalk plowing on arterials and transit routes (\$1.9 million) and the addition of new properties (\$ 4.9 million). Allowance for Assessment Appeals has been budgeted at \$1.0 million. Property tax revenues are included net of these appeals.

Property Tax Assessment

	2005-2006	2006-2007	Change	Percent
Residential Property Tax	17,809,545,000	20,022,703,000	2,213,158,000	12.4%
Resource Property Taxes	163,294,000	168,309,000	5,015,000	3.1%
Sub-Total	17,972,839,000	20,191,012,000	2,218,173,000	12.3%
Commercial Property Taxes	3,919,114,000	4,149,334,000	230,220,000	5.9%
Business Occupancy Taxes	1,465,994,000	1,155,079,000	-310,915,000	-21.2%
Sub-Total	5,385,108,000	5,304,413,000	-80,695,000	-1.5%
Total	23,357,947,000	25,495,425,000	2,137,478,000	9.2%
Weighted Assessment	31,704,864,000	34,672,059,000	2,967,195,000	9.4%

- C Area rates must also be approved by Council. Except for Supplementary Education, Fire Protection, and Local Improvement Charges, area rate revenues and transfers are included within departmental revenues.
- C Due to the housing market and several large property sales, Deed Transfer Taxes are projected to total \$31 million in 2006-07. This is an increase of \$2.0 Million or 7% over the \$29 million budgeted for 2005-06.

General Property Tax Revenues

	2005-2006	2006-2007	Change	Percent
Residential Property Tax	220,755	240,327	19,572	8.9%
Resource Property Taxes	1,795	1,748	-47	-2.6%
Sub-Total	222,550	242,075	19,525	8.8%
Commercial Property Taxes:	122,418	131,417	8,999	7.4%
Business Occupancy Taxes	45,586	38,185	-7,401	-16.2%
Sub-Total	168,004	169,602	1,598	1.0%
Total	390,554	411,677	21,123	5.4%

Debt Charges and Debt

Included in Fiscal Services are the majority of HRM's debt charges. Debt charges consist of payments made on outstanding debentures (principal) and the interest costs associated with those debt charges. However, it is important to note that not all of HRM's debt charges are included in Fiscal Services. The debt costs for Metro Transit are allocated to Transportation and Public Works, and those for Solid Waste and Wastewater Treatment are allocated to Environmental Management Services.

Some debt charges are included in Fire Services. The breakdown for debt costs is as follows:

Debt Indicators	
Total Debt :	\$273.2 million
Debt Per Dwelling:	\$1,594
Debt/Revenues:	43.3%
Credit Rating:	A
Debt Charges/Revenues:	8.7%

- C The total combined debt of HRM (including debentures, temporary debt and debt approved but not yet incurred) is estimated as of March 31, 2005 at \$281.3 million. This includes all of the funding required for the debt transferred from the predecessor municipal units, transition expenditures, work in progress and the approved capital budget. In 2006-2007 HRM will decrease its debt by \$8.1 million or 2.9%. HRM's debt as of March 31st, 2007 is targeted to be \$273.2 million. As part of its 2006-2007 budget, HRM intends to issue \$32.2 million in additional debt.

HRM Principal and Interest by Business Unit - 2006-2007

	Principal	Interest	Total
Fiscal Services	30,564,062	9,427,216	39,991,278
Metro Transit	4,350,200	1,545,200	5,895,400
Wastewater	1,282,700	244,642	1,527,342
Solid Waste	4,939,183	1,698,069	6,637,252
Other	752,540	347,703	1,100,243
Total	\$41,888,685	\$13,262,830	\$55,151,515

Note: Includes Amalgamation Costs, Loans, Debenture Discount. Excludes repayable debt and interest.