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Halifax Regional Council
Committee of the Whole
January 24, 2006

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY: 
Dale MacLennan, Director of Finance

DATE: January 18, 2005

SUBJECT: Fiscal Framework: Update #2

SUPPLEMENTARY REPORT INFORMATION REPORT

ORIGIN

In a Supplementary Report to Halifax Regional Council dated December 13, 2005 regarding Fiscal Framework – Update, staff committed to provide an update to Council for discussion once the revenue estimates had been updated. This report provides an update on the fiscal framework.

BACKGROUND

In the Supplementary Report, staff provided preliminary estimates of the cost of providing the same services as last year, along with increases in policing and transit as directed by Council during last year's budget discussions. Staff also provided estimates of revenues based on preliminary assessment information and various assumptions about changes in the tax rate (0%, reductions of 1.6%, 4.9%.)

DISCUSSION

The 2005/06 budget provided \$588 million in operating expenditures and \$70 million in capital. This level of expenditure provided for an increase in services in areas such as policing (community response and traffic units), parks and playgrounds, water/wastewater expansions, streetscape improvements, transportation improvements, additional trails, Metro Link to Cole Harbour and Sackville, and the new Integrated Dispatch Centre etc. As well it included initiatives to increase efficiencies, such as the restructuring of snow and ice, implementation of the transit fleet operational review, continued integration of police services, reviews of HRM management agreements for HRM facilities, the consolidation of 911 call taking, and the development of foundation strategies to focus HRM investment and operations (Regional Plan, Economic Strategy, Cultural Plan, 25 year Stormwater and Wastewater Management Plan, the draft Infrastructure Plan)

Service Cost Estimates

To provide the same level of service in 2006/07, and to provide for commitments made last year to increase the number of police officers, to take over animal control and to increase transit service, staff estimate the cost of municipal services to increase by approximately \$14 million. This is an increase of 2.9% . In addition, capital funds provided from operating are proposed to rise by \$8 million. This will support a net increase to the capital budget from \$70 million to \$76.8 million, or 9.7% This estimate includes similar levels of service as in this fiscal year, preliminary assumptions around fuel, electricity costs and other expenses, and departmental revenues.

In addition, staff have assumed the provincial Mandatory Education rate will stay at 35.1 cents per \$100 of assessment. (The rate has not been reduced since 2001-02.) As a result, Mandatory Education payments, along with other required transfers to the Provincial Government, will increase by \$9 million; a 10% increase in the cost of provincial transfers, from \$91 to \$100 million.

In total, in order to accomplish the above, an additional \$31 million is required, bringing the estimated operating cost assumptions to approximately \$620 million, up from \$588 million for 2005/06. Staff are continuing to fine tune these estimates and review assumptions on costs.

Revenue Estimates

In the December 13, 2005 Supplementary Report, staff provided an estimate of revenues based on preliminary assessment information and options on the tax rate. The assessment roll was received in early January 2006, and is extremely close to the December estimate. The average assessment for a single family home HRM has risen 9.4% since 2005/06. All housing (including apartment buildings) has risen 10% on average since last year, slightly higher than the original 9.85% estimate. Part of the growth in assessment (2.4%) comes from newly constructed homes not included in the previous year numbers. The impact of the actual assessment roll on the December revenue estimates is a decline of \$300,000 from the estimate of property tax revenues.

Staff estimate other revenues will increase modestly, including deed transfer taxes (\$1 million) and interest revenues (\$400,000)

Tax Rates

Council, of course, has choices in determining the level of services to be provided and the resulting tax rates to be levied. Whatever Council's direction, staff will return to Council with a balanced budget

It has been Council's practice, in most years, to increase property tax revenues by the amount reflecting new property construction (growth), and by the assumed increase in the cost of doing business. For 2006/07, staff estimate this practice would result in total revenues of \$605 million, allowing a tax rate reduction of 5.1%. Given the total cost pressures (including Mandatory Education) HRM will have to reduce the expected costs by an estimated \$15 million in costs. This will be accomplished by increasing efficiencies and seeking new revenues, but may also necessitate a reduction of services.

Another scenario, for example, would be a 10% reduction in the property tax rate, and would result in the same average tax bill as in 2005-2006, with total revenues of \$583 million. This scenario would require HRM to find an estimated \$38 million in cost savings, instead of the \$15 million estimated with a 5.1% rate reduction. This would undoubtedly require a reduction in services. Under this scenario, staff would propose an acceleration of service review, and may need more time to identify which service areas it would be most palatable to citizens to reduce or eliminate.

A third scenario is to hold the tax rate flat. In this case estimate revenues would be \$627 million, allowing a small but real increase in both municipal services and capital expenditures.

Staff, along with Council, recognize the sensitivities arising from the variation of increases in assessment across the municipality. The opportunities to address the perceived inequities in property assessments are limited in the short term, and any changes will likely have to be phased in over time. Staff will be working with the Province to examine alternatives to the market-based assessment system. The Provincial Assessment CAP and the HRM Temporary Tax Credit are available to assist those with the highest increases. Last year HRM also enhanced its tax deferral and rebate programs for those finding it difficult to pay their property taxes.

Other Considerations

To assist in Council's deliberations, staff offer the following:

- 1) ***HRM expenditures:*** Over the last ten years, HRM expenditures per dwelling in constant dollars have increased only slightly, but services have, forcing efficiencies. Nearly 25% of HRM's taxes are transfers to the Provincial Government – HRM has no control over these expenditures.
- 2) ***Comparison with other municipalities:*** Attachment A provides a comparison of property taxes on a 25-30 year old detached 3 bedroom bungalow, with 1,200 square feet. This comparison was prepared by the City of Edmonton, in 2005, and shows that HRM taxes would be the 5th lowest of 24 cities on such a dwelling. From HRM's perspective this reveals two issues: HRM receives a significantly smaller amount of financial transfers from

other levels of government; and HRM is likely offering fewer services or lower levels of service. In staff's opinion, HRM's problem is on the revenue side of the ledger rather than the expenditure side.

- 3) ***Efficiency and Effectiveness:*** HRM staff, as well as Council, are committed to finding efficiencies and increasing effectiveness and value for money. The 2006/07 budget will include further initiatives to identify efficiencies and to increase control of expenditures. Staff will be proposing to Council a process to review services.
- 4) ***New Opportunities:*** Staff will continue to pursue opportunities for revenue generation and cost sharing. The Municipal Court is an example, others will be explored.
- 5) ***Mandatory Education:*** The Province views the Mandatory Education rate as a provincial property tax rate, which is set by the Province and applied to property assessments. The Province has not indicated it will be reducing the education rate in recognition of rising assessments even though the Province has suggested this is what HRM should do with its tax rate. The last time the Mandatory Education rate was reduced was in 2001/2 when the rate dropped from 35.15 to 35.1 cents per \$100 of assessment. Council may wish to consider separating the municipal property tax rate from the Mandatory Education rate in its deliberations, recognizing it cannot be accountable for the Province's decisions.

Next Steps

Staff is seeking general direction from Council on the assumption of property tax revenues and tax rates to be used in preparing the 2006/7 budget (e.g., hold the rate, reduce the rate). Staff will seek efficiencies and savings that could be realized within the fiscal year, and pursue partnerships, new revenues and alternative means of meeting the needs of citizens. Whatever the tax rate, staff will balance commitments and requirements for new services and initiatives coming from the Council Focus Areas.

Council is not being asked to set the budget or the tax rate at this time. Pending Council's direction on the assumptions around tax rates and property tax revenues, staff will return to Council shortly with a revised time line and process for preparing the 2006/07 budget and business plan. Should substantial service cuts be necessary, the preparation of the budget will require more time, and may not be finalized until late May or June of 2006. Council should be aware that the longer it takes to approve a budget, the less time is available to achieve substantial savings.

BUDGET IMPLICATIONS

None

FINANCIAL MANAGEMENT POLICIES / BUSINESS PLAN

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, Capital and Reserve budgets, policies and procedures regarding withdrawals from the utilization of Capital and Operating reserves, as well as any relevant legislation.

ALTERNATIVES

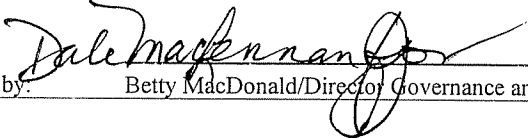
None.

ATTACHMENTS

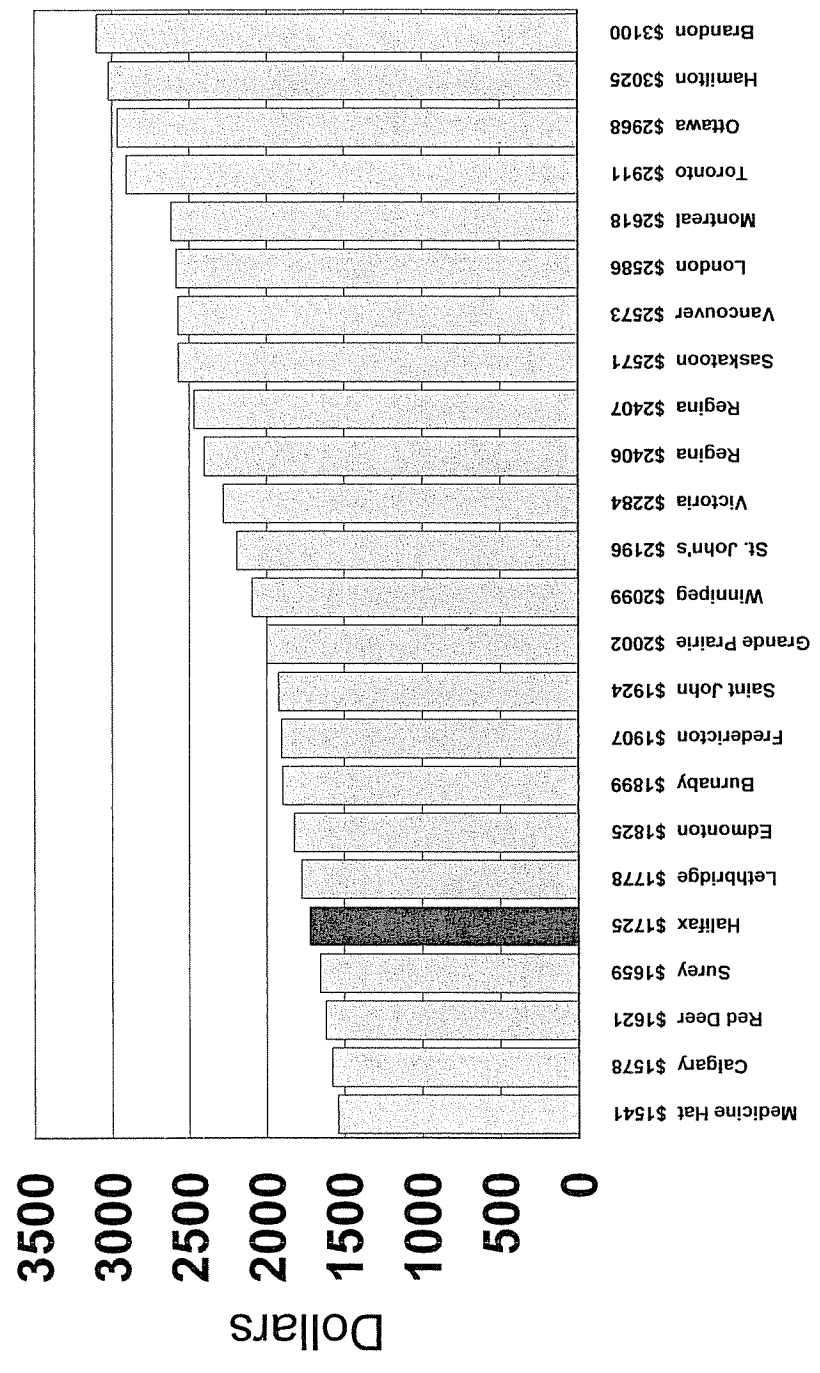
Attachment A: Comparison of Property Taxes.

A copy of this report can be obtained online at <http://www.halifax.ca/council/agendasc/cagenda.html> then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

Report Prepared by:


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Total Property Tax for a Single Detached House in 2005 Canadian Cities



Prepared by: city of Edmonton, Planning and Development Department. November 2005

Notes:

1. Figures include municipal, regional and school taxes, net of homeowner grants if applicable.
2. The sample house is defined as a 25-30 year-old detached 3 bedroom bungalow with a main floor area of 1,200 square feet, finished full basement and a double car garage, on a 6,000 square foot lot.
3. Information for Vancouver, Burnaby and Surrey is based on an average value single detached house which may not correspond to the sample house as described above.