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Item No. 9.1.1
Audit & Finance Standing Committee
February 20, 2015

TO: Chair and Members of Audit & Finance Standing Committee

Original Signed

SUBMITTED BY:

Richard Butts, Chief Administrative Officer

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Greg Keefe, Director, Finance & Information, Communication and
Technology/CFO

DATE: February 9, 2015

SUBJECT: Third Quarter 2014/2015 Financial Report

ORIGIN

Staff has committed to provide Council with quarterly financial reports including:

- a report of the projected General Rate surplus/deficit by area;
- a report detailing District Capital expenditures in accordance with the District Capital Fund Policy approved by Council on July 31, 2007;
- a report detailing District Activity expenditures in accordance with the District Activity Policy approved by Council October 7, 2003;
- regular updates on the balance in the Capital Reserve Pool (CRESPOOL) as requested by Regional Council on October 23, 2001;
- a report detailing Recreation Area Rate expenditures in accordance with the Recreation Area Report Policy approved by Council on May 14, 2002; and,
- a report of Project budget increases related to cost-sharing, with no net impact to HRM as per the policy approved by Council April 24, 2007 and amended May 2013.

LEGISLATIVE AUTHORITY

Halifax Regional Municipality Council approved, December 11, 2012, that all budget increases are to be presented to the Audit and Finance Standing Committee, prior to submission to Council.

Halifax Charter, section 93(1) - The Council shall make estimates of the sums that are required by the Municipality for the fiscal year; Halifax Charter, section 79(1) - Specifies areas that the Council may expend money required by the Municipality; Halifax Charter, section 35(2)(d)(i) - The CAO can only authorize budgeted expenditures or within the amount determined by Council by policy; Halifax Charter, section 120(6) - The Municipality may maintain other reserve funds for such purposes as the Council may determine; Halifax Regional Municipality policy on Changes to Cost Sharing for Capital Projects - Changes requiring Council approval; and the Halifax Regional Municipality Reserve Policy - No reserve funds will be expended without the CAO's recommendation and Council approval.

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RECOMMENDATION

It is recommended that the Audit & Finance Standing Committee:

1. Recommend to Regional Council to approve the withdrawal of up to \$3,101,000 from the following reserves to eliminate the 14/15 General Rate Deficit that is projected as at December 31, 2014; \$1,700,000 from Q309 Snow and Ice Control Variable Operating Reserve, \$300,000 from Q306 Self Insurance Reserve and \$1,101,000 from Q328 Operating Surplus Reserve.
2. Forward the Third Quarter 2014/15 Financial Report to Regional Council for their information.

DISCUSSION

Operating Statement:

At the end of December 31, 2014, HRM had projected a General Rate deficit of \$3.1m (Attachment #1).

The business units have a projected surplus of \$2.3m which is offset by a deficit of \$5.4m in Fiscal Services.

The key changes from the business units' budgets are as follows:

- CAO projected a surplus of \$624k primarily due to vacancy savings (\$500k), grant and sponsorship funding (\$65k), community event expense savings (\$30k) and a net surplus in non-compensation related items (\$29k).
- Fire Services projected a deficit of \$37k primarily due to decreased revenue from Fire Prevention Inspections that were planned to start but are not going forward (\$200k). A significant amount of overtime (\$1.9m) is being covered with savings from vacant positions (\$2.1m). Miscellaneous non-compensation adjustments have further contributed to the deficit (\$37k).
- Finance & Information, Communication and Technology projected a surplus of \$699k. Vacancy savings (\$775k), less than anticipated costs for the Print Smart Project due to a delay in deploying technology due to technical issues (\$550k), reductions in computer purchases (\$250k) and other miscellaneous net savings (\$50k) are offset by increased costs to support IT initiatives (\$586k), unbudgeted computer software and license costs (\$255k) and a reduction in revenue (\$85k).
- Human Resources projected a surplus of \$184k primarily due to vacancy savings (\$366k), partially offset by consulting costs related to HR Service Review (\$100k) and net costs in other non-compensation items (\$81.6k).
- Transportation and Public Works projected a deficit of \$1.2m. Increased revenues (\$498.5k), and vacancy savings (\$1.6m) are offset by pothole repairs and asphalt work required before winter (\$800k), an increase in contract costs for traffic lights (\$242k), removal of tree roots (\$310k), snow & ice operations (\$1.7m), funding for positions in Parks and Recreation but paid by TPW (\$284k) and miscellaneous net overages (\$11k).
- Halifax Transit projected a surplus of \$441k which will be carried forward to 2015/16 resulting in revenue equalling expenses. The surplus is primarily due to Local, Regional and Commercial Transit tax revenues being slightly higher than budgeted (210k), compensation surplus related to wage step savings in the ATU contract, vacancies and changes to scheduled expansion (\$2.1m). Savings in fuel due to declining pricings (\$900k), savings due to expansion delays (\$360k) and net savings in various non-compensation items (\$216k). The surplus is partially offset by fare revenue being lower than what was predicted from the expansion of services (\$500k), additional bus maintenance costs (\$1.1m), overtime costs to cover vacancies and the additional work in bus maintenance (\$745k) and additional costs to maintain transit facilities (\$1m).

- Planning & Development projected a surplus of \$872k as a result of vacancy savings (\$646k) and Development permit revenue (\$690k). Partially offsetting this surplus is a deficit for summary offence tickets revenue (\$380k) and other miscellaneous areas (\$84k).
- Parks and Recreation Services projected a surplus of \$1.1m resulting primarily from increased revenues from facilities rental, aquatic, oval, play and camp program revenue (\$244k), vacancy savings (\$363k), funding for positions in Parks but paid from TPW (\$284k) and savings in non-compensation areas (\$332k). These are partially offset by a deficit in wage costs for Bedford Hammonds Plains Community Centre (\$89k) and an operating loss at Sackville Sports Stadium (\$68k).
- Halifax Regional Police projected a surplus of \$97k primarily due to vacancy savings (\$1.5m), various recoveries including secondments and record check revenue (\$424k) and outside policing due to reduced joint investigations with the RCMP (\$150k). The surplus is partially offset by increased costs for equipment, communications and training (\$1.2m), overtime required for operational requirements (\$581k) and net costs in other non-compensation items (\$196k).
- Outside Police Services (RCMP) projected a surplus of \$99k due to actual contract costs billed by the Provincial Department of Justice being lower than budget.
- Operations Support projected a surplus of \$443k due to vacancy savings and internal labour chargebacks (\$763k); lower than budgeted oil prices and reduced fuel consumption due to change in Fire and Emergency Services medical response protocol (\$384k); termination of the property management agreement at Alderney Gate resulting in savings in operating costs for the building (\$217k); lower than budgeted new contracts for snow removal and ice control services (\$195k); and net savings in various accounts (\$60k). The surplus is partially offset by increased operating costs for the transitional properties due to disposal of surplus properties not occurring as planned (\$803k); and external resources required to cover staff sick time, long-term disabilities and vacancies (\$373k).
- Library projected a deficit of \$627k due to funding shortfall on the employer's share of matched pension contribution and costs to operate new Library are higher than anticipated.

In Fiscal Services, the key changes resulting in a projected deficit of \$5.4m are as follows:

- Increase in Payments in Lieu of Taxes of \$1.1m due primarily to increased land value for Citadel Hill.
- Deed Transfer Taxes were projected at \$4m under budget reflecting reduced sales activity in the real estate market.
- The projected deficit in Insurance of \$2.1m is primarily the result of unexpected expenditures of \$2.6m for the emergency response to, and remediation of, a diesel fuel leak at a Halifax Transit Facility.
- Projected surplus of \$1.4m in Capital from Operating is due primarily to the receipt of unplanned Transit funding from the Province of Nova Scotia used to partially offset planned transfers.
- Projected surplus of \$409k for the Barrington Street Heritage Incentives Program is due to lower than anticipated development activity in 2014/15.
- Increase in Provision for Valuation Allowance to reflect increased collection risks on Citadel Hill PILT account (\$1.9m) and other general receivable accounts (\$400k).

Consolidated Financial Statements:

The unaudited consolidated financial statements of HRM are included as Attachment #2.

Project Statement:

The Project Statement as at December 31, 2014 is included as Attachment #3 to this report. The current budget for active projects is \$928m. The actual expenditures as at December 31, 2014 were \$682m and commitments were \$84m, resulting in total actuals and commitments of \$766m, leaving an available balance of \$162m.

Capital Projection Summary:

The Capital Projection Summary is included as Attachment #4. The 2014/15 capital work plan, approved by Council April 1, 2014, totalled \$215,248,000. As at December 31, 2014 project managers have projected that expenditures for the twelve (12) months ending March 31, 2015 will total \$204.7m, which is 5.0% less than the budgeted work plan. We anticipate \$161.4m will be available to carry over to 2015/16. Funding available for current projects has increased since the second quarter by \$39m due to advanced budget approval for select 2015/16 projects by Council December 3, 2014 and by \$6m due to Council approved budget adjustments during the third quarter.

The March 31, 2015 total projected expenditures are \$613k lower as at the end of the third quarter than the second quarter estimate. The change is due to refinement of projected information.

The summary table by budget category highlights a high-level status of projects:

- Buildings, Equipment & Fleet, Roads & Streets and Sidewalks all have a negative variance to work plan but positive variance to funding available. This indicates that project managers anticipate completing the current year's commitments and additional commitments carried over from prior years.
- Industrial Parks, Halifax Transit and Traffic Improvements are projecting less than the 2014/15 work plan. The detailed projects within these categories reflect work plans requiring upfront approval for extended plans, such as land acquisition opportunities and large multi-year contract awards.

District Capital Funds:

The report of expenditures from Councillors' District Capital Funds is included as Attachment #5 and shows that \$2.9m of the \$3.3m budget has been expended or committed.

District Activity Funds:

The report of expenditures from Councillors' District Activity Funds is included as Attachment #6 and shows that \$44k of the \$69k budgeted has been spent.

Recreation Area Rate Accounts:

The details of the Recreation Area Rate Accounts are in Attachment #7. These Accounts began the year with a surplus of \$6.0m. \$2.0m in Area Rate revenue has been earned and \$1.8m has been spent, leaving a surplus of \$6.2m.

Reserves Statement:

The reserve balances at December 31, 2014 are \$187.3m. There are approximately \$98.3m of approved transfers out and revenue of \$32.2m that is pending to March 31, 2015. The net projected available funds as at March 31, 2015 are \$121.2m. This is a decrease of \$33m from the 2014/15 Reserve Budget. The net decrease can be attributed to the following significant decreases (increases) to the budgeted reserves balances:

Summary of Unbudgeted Reserve Transactions by Type	
As of December 31, 2014	
	Decrease (Increase) in Projected Reserve Balance
Approved Council expenditures/pending Council approvals to increase transfers from reserves to fund either capital projects or operating costs	20,353,421
Decreased revenue as land sales are projected to close after March 31, 2015	13,242,137
Decrease in other revenue is due to increase in parkland dedication fees, vehicle sales and non-development penalties offset by a decrease in transfers from operating to LED reserve as purchase of street lights was delayed	311,890
Net adjustments to commitments reflects reduction in transfers required to fund capital projects, operating fund or transfers within reserves	(723,807)
Increase in interest earned on reserves	(135,285)
Total decrease in reserve balances	33,048,356

Further reserve details are included in Attachment #8 to this report.

Capital Reserve Pool Balance:

Any unexpended debt budget in a project, at the completion of that project, will be moved to CRESPOOL and will be used to cover cost overruns on approved projects and/or to reduce the amount of long-term debt required to fund the Project Budget of the following fiscal year. Attachment #9 shows the balance in the Capital Reserve Pool (CRESPOOL) as \$266.4k, as of December 31, 2014.

Changes to Cost Sharing for Projects:

For the nine month period ended December 31, 2014, HRM received cost sharing for 35 projects totalling \$8.2m. The increase relates to cost sharing from Halifax Water, Province of Nova Scotia and Heritage Gas. Complete details of the amounts received and the associated projects are included in Attachment #10.

Miscellaneous Trust Funds Financial Statements:

The unaudited financial statements of the miscellaneous trust funds of HRM are included as Attachment #11 and show equity of \$7.6m.

FINANCIAL IMPLICATIONS

The reserves recommended to be used to fund the 2014/15 projected deficit are as follows:

Detailed Budget Summaries

Budget Summary, Snow and Ice Control Variable Operating Reserve, Q309

Projected available balance March 31/15	\$ 4,422,478
Per recommendation of withdrawal	<u>\$(1,700,000)</u>
Revised projected available balance March 31/15	\$ 2,722,478

Budget Summary, Self Insurance Reserves, Q306

Projected available balance March 31/15	\$4,228,349
Per recommendation of withdrawal	<u>\$ (300,000)</u>
Revised projected available balance March 31/15	\$3,928,349

Budget Summary, Operating Surplus Reserve, Q328

Projected available balance March 31/15	\$ 5,184,908
Per recommendation of withdrawal	<u>\$(1,101,000)</u>
Revised projected available balance March 31/15	\$ 4,083,908

COMMUNITY ENGAGEMENT

N/A

ENVIRONMENTAL IMPLICATIONS

N/A

ALTERNATIVES

1. Audit and Finance Standing Committee may choose not to approve the proposed recommendation.
2. Audit and Finance Standing Committee may approve the proposed recommendation subject to requested modifications.

ATTACHMENTS

1. Halifax Regional Municipality Operating Results Projected to March 31, 2015.
 2. Halifax Regional Municipality Unaudited Consolidated Financial Statements for December 31, 2014.
 3. Halifax Regional Municipality Project Statement as at December 31, 2014.
 4. Halifax Regional Municipality Capital Projection Summary as at December 31, 2014.
 5. Report of Expenditures in the Councillors' District Capital Funds to December 31, 2014.
 6. Report of Expenditures in the Councillors' District Activity Funds to December 31, 2014.
 7. Report of Changes in the Recreation Area Rate Accounts to December 31, 2014.
 8. Halifax Regional Municipality Reserve Funds Projected to March 31, 2015.
 9. Capital Reserve Pool (CRESPOOL) - Details of Amounts Transferred In and Out to December 31, 2014.
 10. Changes to Cost Sharing for Projects Approved by Council, Directors, DCAO or CAO to December 31, 2014.
 11. Miscellaneous Trust Funds Unaudited Financial Statements for December 31, 2014.
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A copy of this report can be obtained online at <http://www.halifax.ca/boardscom/SCfinance/index.php> then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

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