



## Fiscal Framework

*Presentation to HRM Committee of the Whole  
February 19, 2008*

## Overview

- CAO – Introduction
- Update on cost of existing & approved services  
(Operating, Capital & Reserves)
- Review of technical / policy matters requiring direction
- Managing Expenditures
- Building Tax rate options
- Direction to proceed
- Questions / direction

## Direction sought today

1. Base / capability allocation
2. New \$ for 2008/09 capital to new capability
3. Option 2 as base case plus implications for options 1 & 3
4. Confine assessment cap impact to residential
5. Investigate costs of delayed recapitalization with possibilities to address including revision to debt strategy to include growth factor

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## Safer, Stronger, Better.. Planning for Now and for the Future

- Strengthen the base – assets, financial plan, human resource plan
- Effective delivery-resource for success
- Select new services strategically- CFA's, criteria, strategies

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## Process: from Feb 19 to approval..

Today		Present Fiscal Framework & proposed draft Capital budget program
Today		Feedback & direction
April 1		Table proposed Business Plans and Budget for 2008/09
April 1 – April 16		Question / Open House – detailed review by Councillors with staff
April 18		Debate & Deliberations
TBD		Approval

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## Total Budget Includes More Than Municipal Expenditures

- A big part (19% in 2007/08) of the HRM budget and tax rate has always been needed to pay for the transfers required to the Province for Provincial services (corrections, housing, education, etc.)
- Last year Council directed that these transfers to the Province be funded by a separate tax rate “Regional Area Rate”

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## Provincial / Municipal Expenses 2007/08 (000's)

Total approved budget	\$ 649,640
Less: Provincial services / transfers to Province ( <b>Regional Area Rate</b> )	\$ 126,423
<b>Total Municipal expenditures (ME)</b>	<b>\$ 523,217</b>

Council decision last year to separate Provincial costs on to a "Regional Area Rate" - Council can focus on the budget it controls & for which Council is responsible.

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## Cost Drivers/Assumptions (000's)

<b>Cost changes on existing services</b>	\$15,177
<b>Budget adjustments</b>	2,313
<b>Sub-total</b>	<b>*\$17,490</b>
<b>Service or contract increases assumed</b>	7,038
<b>Total before 2007/08 projection</b>	<b>\$24,528</b>
*Includes provision for potential deficit of \$2M	

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## Summary of Cost Pressures (000's)

2007/08 Municipal expenditures (ME)	\$523,217
Gross Cost increases to deliver existing and new services (approved 07/08)	
• Costs on Existing Services	<u>\$17,490</u> 3.3%
Sub-total	<b>540,707</b>
• Service / contract increases assumed	17,038 1.3%
2008/09 Estimated Base Mun.Exp.(ME)	<b>\$547,745*</b>
Total Difference	\$ 24,528 4.7%
Difference in Mun.Exp / Dwelling Unit (2007/08 \$3,034)	\$ 3,140 * 3.5%

\* Includes \$2 M provision for potential 2007/08 deficit

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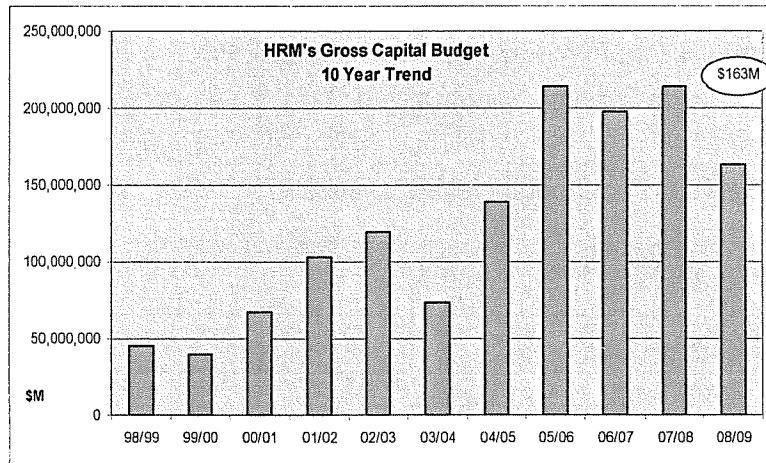


## 5 Year Capital Planning Approach



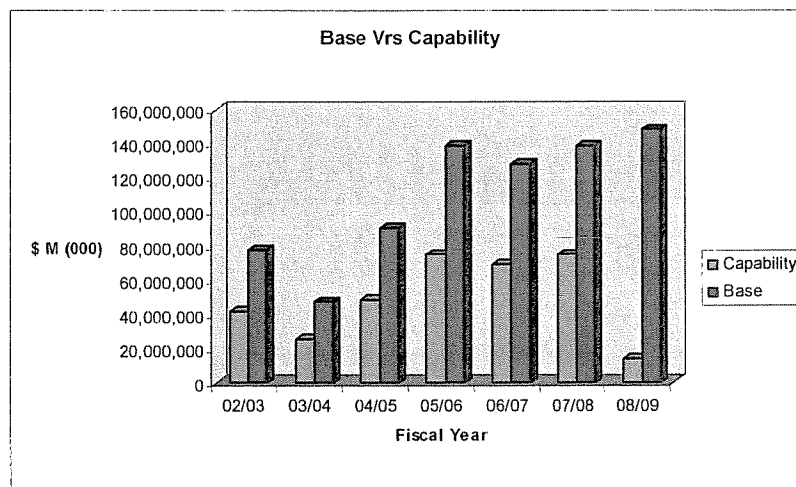
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## Update – State of HRM Capital



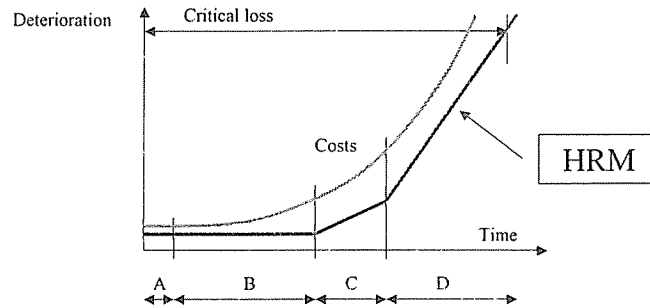
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## Base Versus Capability



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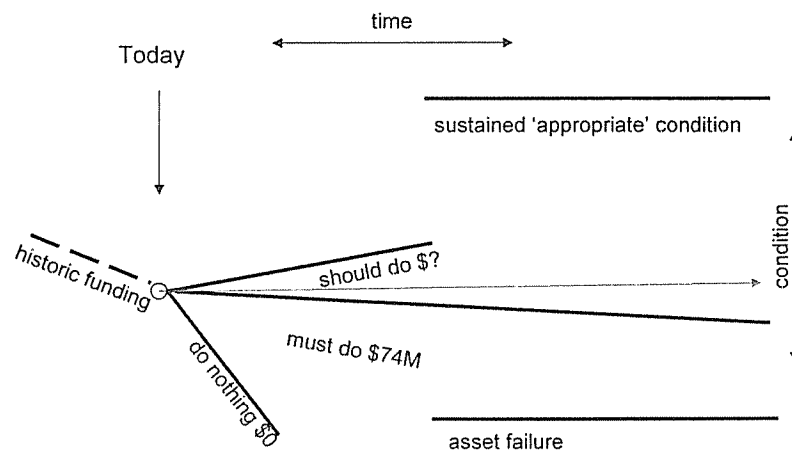
# Our Deteriorating Infrastructure



- Phase A – Design and Construction
- Phase B – Initiation of deterioration
- Phase C – Increasing deterioration
- Phase D – Accelerated deterioration requiring replacement

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## Infrastructure Condition Capital Strategy



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## Where Does Our Capital Capacity Come From?

- Debt
- Capital from Operating
- CRESSPOOL
- Gas Tax
- HRWC Dividend
- Strategic Transit Funding

*What we refer to  
as our net  
capital capacity*

### Other:

- External cost sharing, LICs, CCCs, Area Rates
- Reserves

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## 2008/09 Capital Budget Approach

- Start with Plan from last year.
- Identified capital needs are about \$32 m higher than available capacity.
- Initial screening/balancing.
  - Liability and compliance issues.
  - Projects necessary to maintain current service.
  - Projects with cost sharing.
  - Regional Plan/Council approved strategic objectives.
- Final balancing of Year 1 involved deferring some projects, moving some items to “new”, and looking for additional capacity.

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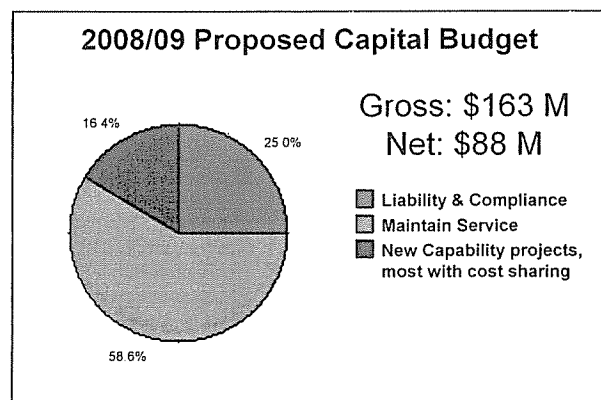
## What Do We Need to Do?

- Need to put forward Year 1 with focus on recap
- Need have re-cap funding at approximately \$80 m for the next 5 years

The \$80 m estimate is based upon today's data. As the Asset Management Project produces condition assessment information for our assets this year, this number will change.

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## What Is Recommended to Include in 08/09?



This chart illustrates the allocation of net capital capacity: \$21.5 m to Liability & Compliance issues, \$51.6 m to Maintaining Service, and \$14.4 to New Capability projects, most with cost sharing.

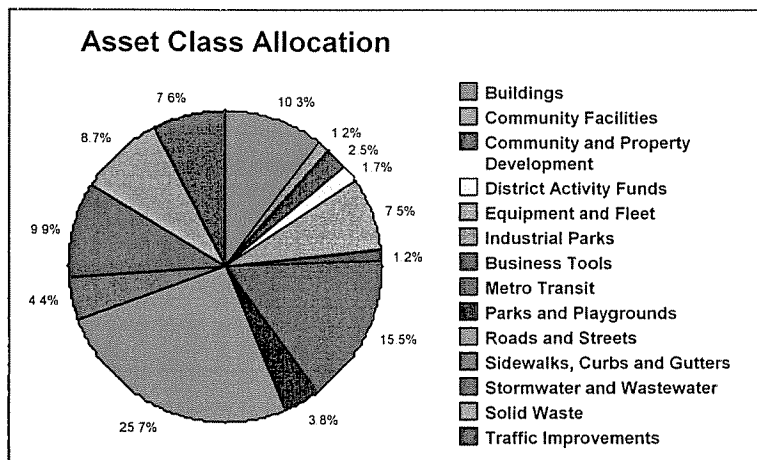
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## New Capability Projects 08/09

- Highfield Park FireStation expansion – USAR Centre
- UG Wiring/Major Streetscape project Spring Garden Road
- Cell 5 – Otter Lake
- Some new paving & new sidewalks
- Some new sportsfield, park and trails development
- Funds to define scope for the Transit Satellite Garage
- Community Event Infrastructure (for concerts)
- Public Art & Civic Collections
- Cogswell Detailed Design
- Design of North Preston Rec Facility expansion
- \$ to complete Rotary Conversion and Chebucto Reversing Lane (was in year 2 of last year's plan)

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## Gross 08/09 Proposed Capital Capacity Allocation by Asset Class



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## New Capability

	08/09	09/10	10/11	11/12	12/13
Base	73,664	80,000*	80,000*	80,000*	80,000*
Capability	14,424	19,957	8,384	10,877	18,188
% of Budget	8%	20%	10%	12%	19%
Other funding incl. Tax/debt/priorities	5,000 *Hoped for add'l capacity	*Future Year TBD	*Future Year TBD	*Future Year TBD	*Future Year TBD
% of Budget	21%	20%	10%	12%	19%
Total	93,088	99,957	988,384	90,877	98,188

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## Capital Challenges

- Capital Steering Committee Members screened the items on the “New” and “Deferred” lists. Priority items we have not dealt with yet are:
  - Woodlawn Library Expansion \$1.1 m
  - \$3 m joint municipal/provincial land-use transaction
  - Rural Express \$1.3 m
  - Satellite Garage
  - Prospect Community Centre \$2.125 m
  - Lake Banook/World Canoe \$1 m
  - New Arena issue
  - Capital Grant requests \$1 m to give Council opportunity to address their priority item amongst the Pier 21, Farmer’s Market, NSCAD, SMU, Dal
  - \$400 k additional toward new Central Library Design
  - Captain William Spry Retrofit \$1.4 m
  - Streets and Roads funding not optimal

It is hoped \$5 m in additional capacity can be identified for 08/09 to apply against these initiatives

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## Challenges

- Many new capability projects are not in the 5 year plan
- Many efficiency projects that would lower our operating expenses or improve services are not in the 5 year plan
- What IS in the 5 year plan??? The items that really need to be done just to keep our current assets & services going, meet liability & code compliance, and meet confirmed cost sharing opportunities

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## Striking the Balance

- Is the balance right?
- Set a mandatory base level for re-cap?
- Building Canada Funds to go to new capability projects
- If Council wants to direct more money to capability projects the options are:
  - Debt Strategy
  - Tax Revenue
  - Reduce services and lower Operating budget requirement
  - Rationalize some assets... make some hard decisions

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## Summary of Cost Overview

- Cost of providing last years services and minimum requirements of existing assets is significant
  - Operating \$17.5 M
  - Capital \$74 M
- Cost of new services (ie:Animal Shelter) and assumed increases to “Capital from Operating” adds an additional \$7M
- Choices to be made about how much of these pressures are to be included in the 2008/09 budget.

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## Technical / Methodology Direction

1. Impact of the Residential Assessment Cap on the calculation of the Commercial rate
2. Multi-Year Financial Strategy – Growth impact on Debt capacity assessed against cost impacts from worsening asset condition

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## 1) Assessment Cap impact on Commercial rate

- In past when significant assessment adjustment occurred, impact was forced to be isolated;
- BOT assessment elimination is confined to the commercial taxpayer by adjustment of the commercial multiplier;
- To be consistent, residential assessment cap requires a commercial rate adjustment to confine the impact to residential taxpayers;
- If no adjustment made impact is significant and negative

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## 2) Multi-Year Financial Strategy

- Since 1998/99, the Council approved MYFS has been successful in stabilizing HRM's Financial condition (i.e: Interest now paid on reserves, "Pay-as-you-go" to > \$30M, \$90 M debt reduction since 1998)
- MYFS laid out a policy framework and a five year plan in response to rapidly rising debt
- Since that time, other challenges have presented themselves - the Regional Plan was approved, including a Finance section identifying the risk areas now and for the future (versus in 1999)

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## Multi-Year Financial Strategy

- A number of the initiatives in the Regional Plan are underway or complete – i.e: Integration of funding of water and sewer services through the merger to Halifax Water; Tax Reform; Asset Management & Life Cycle Project
- The Finance section of the Regional Plan identifies the top two risk areas as Unplanned Growth & the Infrastructure Gap
- In 2008/09 work will get underway to define the Governance / Committee scope & structure to update the MYFS consistent with the objectives of the Regional Plan and other Strategies

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## Multi-Year Financial Strategy

- Staff have reviewed the MYFS to assess whether any recommendations are warranted for the coming year
- Asset conditions are worsening and the demand for new assets increases
- Neither the 5 year debt plan nor the policy had any growth provision
- HRM has exceeded the debt reduction targets set out

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## Multi-Year Financial Strategy

- Debt per Dwelling unit is now lower than it was in 1995 - \$1,661 to \$2,280 to the current level of \$1,518
- Difference of total net debt capacity between 1995 and 2008 levels of debt per DU is \$31 million; Difference between 1995 and 2008 debt per capita is \$3 million
- Now the risk is that the costs of declining infrastructure condition may exceed the debt service costs we avoid by limiting debt – recall the asset cost curve

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## Multi-Year Financial Strategy

- Double-edged sword - Not adjusting for growth has made the debt go down faster, but has significantly limited the investment in capital assets as demand for assets has increased - has no doubt contributed to the worsening condition & may have increased costs
- Capacity has increased as the revenues from new dwelling units is received
- Staff wish to investigate further both the costs of worsening infrastructure and the implications of revising the existing debt strategy to allow for growth to determine best options to consider for 2008/09

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## Multi-Year Financial Strategy

- A number of growth options (i.e: Targeted debt per dwelling unit, targeted reduction in debt per dwelling unit) will be examined
- Cost of deferred recapitalization will be compared to debt service costs and debt targets as well as to the merits of other funding sources
- Standard & Poor's (credit rating agency) will be consulted and their feedback provided for Council at that time

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## Property Tax Direction - Must Manage Both Taxes & Expenditures

- **Expenditures**
  - Make sure they include the right balance of Council priorities
  - Make sure that expenditure growth is managed
  - Make sure that the short and long-term needs of the residents are balanced in the assumptions
- **Revenues**
  - Rates are set to reflect only what is required and be transparent in their impact on taxpayers

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## Managing Expenditure Growth

- Want a simple tool to allow Council & public to assess how well expenditure growth is being managed - to supplement the existing internal cost management tools and to assist in understanding the reasonableness of cost pressures on existing services

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## Managing Expenditure Growth

- How to create a tool?
  - **Select a measure (i.e: Mun. Exp. Per dwelling unit – ME/DU)**
  - **Determine the targeted range (i.e: CPI – MPI)**
  - **Set a ceiling and floor for the range of the new cost of existing services**
  - **Go above the ceiling for new services only**
  - **Go below the floor only if something is being removed (or be aware that the ability to deliver is diminished and standards should be revised where possible otherwise expectations unlikely to be met)**

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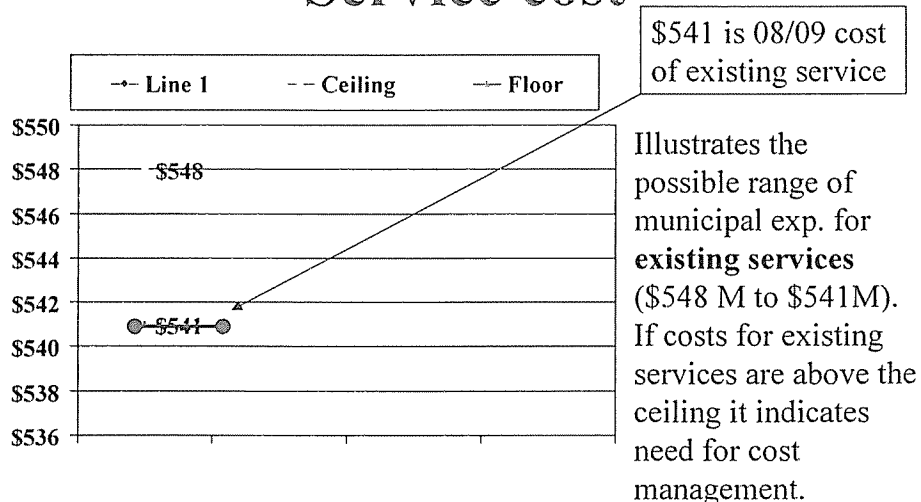
## Managing Expenditure Growth

### Costs of Existing Services

	ME	ME /DU	% change
2007/08 Budget	\$523M	3,034	Starting point
2007/08 Budget plus MPI @ 3.6% <b>Ceiling</b>	\$548M	3,143	3.6%
2007/08 Budget plus CPI @ 2.3% <b>Floor</b>	\$541M	3,104	2.3%
2008/09 (Existing Services at cost to deliver next year)	\$541M	3,104	2.3%
2008/09 (Existing services plus assumed service additions)	\$558M	3,143	3.6%

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## Possible Range of Existing Service cost



If costs are below floor suggests the ability to deliver existing services at the same level is at risk. (No growth factor incl.)

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## Expenditure/Tax Rate Scenario's

- Build rates based on the balance of what's needed to deliver the services Council wishes while managing tax bill impact for residents and commercial
- Even when holding the residential rate, some are not capped so impact for those > 2.3%
- Commercial assessment has grown (11% total – 8% market, 3% growth)

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## Expenditure Scenarios

	<b>Expenditure Scenarios &amp; resulting tax rates</b>	<b>Net Municipal Exp. (millions)</b>	<b>% Increase in ME/DU</b>
1	Existing services plus strategic enhancements	\$558	5.9% total; 2.3% for existing services, within ME/DU range
2	Existing services plus base assumptions – if wish additional new must reduce existing services	\$545	3.6% total; 2.3 % for Existing Services, within ME/DU range

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## Expenditure Scenarios

	Expenditure Scenarios & resulting tax rates	Municipal Exp. (millions)	% Increase in ME/DU
3	Significant service reductions. Available expenditures based on last year's tax rate	\$536	1.3% Below ME/DU Floor of 2.3%

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## Exp./Tax Rate Scenarios

	Expenditure Scenarios & resulting tax rates	Municipal Exp. (millions)	Difference based on recommended Base Case
1	Existing services plus strategic enhancements Rate - Last years rate + 5.9%	\$558	\$13 million more
2	Existing services – if wish new must reduce existing services Rate - Last years rate + approx 2.6%	\$545	\$0

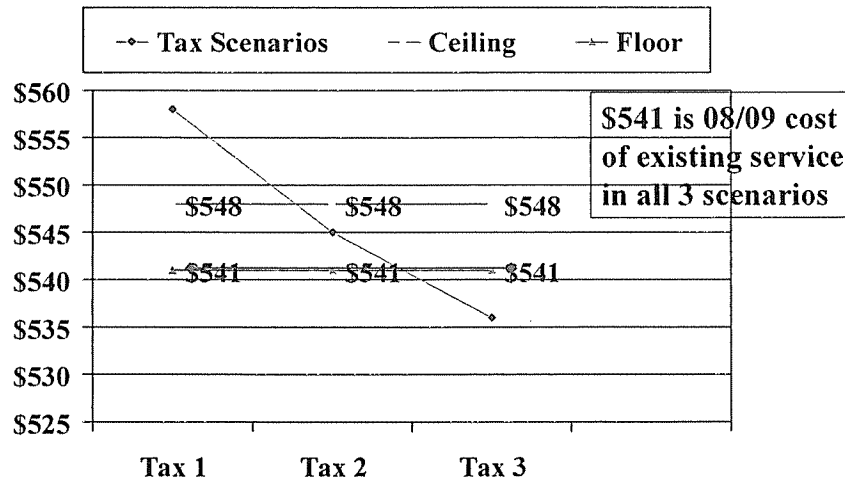
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## Exp./Tax Rate Scenarios

	Expenditure Scenarios & resulting tax rates	Municipal Exp. (millions)	Difference based on recommended Base Case
3	Requires significant service reductions. Expenditures at what last year's rate produces Rate - Last years Rate	\$536	(\$9 million)

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## Putting the two together



Compare Expenditure Levels to range

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## Summary

- Cost pressures on existing services are within range of MPI & CPI
- Council is not confined to an option – just different implications – need to know where preference is
- A revenue increase of less than expected cost pressures on existing services will have some service impact because resources will be lower than the expected costs to provide

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## Direction to staff

1. Proceed with the proposed Base / Capability allocation for the 2008/09 Capital Budget
2. Apply any new \$ raised for the Capital budget for 2008/09 to capability projects;
3. Direct staff to use Option 2 as the Base case for the Proposed Operating budget to be tabled in April and also to provide the implications for Options 1 and 3.

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## Direction to staff (cont'd)

4. That Council confirm that the commercial rates be adjusted so that the residential assessment cap does not impact commercial taxpayers, because this is consistent with the way the elimination of Business Occupancy assessment is being treated (to ensure there is no impact on residential taxpayers), is also consistent with previous residential / commercial rate decisions and is supportive of the approved Economic Strategy;

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## Direction to staff (cont'd)

5. That staff investigate the cost implications of continued deferral of recapitalization, along with the implications of various growth options applied to the existing Debt Policy, to be brought back to Council for consideration with the tabled budget;

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## Next Steps

- Council discussion and direction on options
- Business units prepare draft budget and business plans
- Tabling – April 2008

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