HALIFAX
REGIONAL MUNICIPALITY

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Item No. 3

Halifax Regional Council
June 2, 2009
Committee of the Whole
June 16, 2009

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY:

Dan English, Chief Administrative Officer

Geri Kaiser, Deputy Chief Administrative Officer - Corporate Services and Strategy

DATE: May 28, 2009

SUBJECT: **Fiscal Health**

ORIGIN

- Finance Section - Regional Plan
- May 12, 2009 Regional Council discussion of fiscal capacity as it relates Capital Cost Contributions

RECOMMENDATIONS

It is recommended that Regional Council:

1. Define "Fiscal Health" for Halifax Regional Municipality as:

   a) the ability to meet existing financial obligations, both in respect of its service commitments to the public and financial commitments to creditors, employees and others and;

   b) the ability to continue to meet the needs of HRM's citizens in the future by maintaining or enhancing the level and quality of services and programs and to finance new programs, and;

   c) The ability to support HRM's goals contained in the Regional Plan

2. Approve that Fiscal Health be measured by the key indicators included in the discussion section of this report in order of priority as listed.

BACKGROUND

Prior to formally adopting Capital Cost Contributions's for Bedford West, Regional Council requested a Supplemental Report to address several issues, including the fiscal capacity of HRM to invest in infrastructure.
The Finance section of the Regional Plan states that:

"An important requirement for the economic well-being of a community is the financial health of its municipal government in providing necessary services. HRM must provide services to its citizens through sound financial management practices, adequate financial strategies, and competitive and fair revenue generation."

HRM currently reports on the financial health of the organization and the results of operations in many ways. HRM's current reporting is based upon legislative compliance, and provision of information for management and monitoring of organizational performance. The current reporting is not focussed specifically on fiscal health.

The primary reporting processes are:
- annual consolidated financial statements which are audited by independent external auditors (KPMG)
- monthly and quarterly reports that monitor revenues and expenditures as compared to budget, as well as asset and liability balances
- annual municipal indicators compiled by Service Nova Scotia Municipal Relations (SNSMR). A number of indicators are calculated based on the audited financial statements, approved budget, financial information return, and assessment role.
- independent rating of credit worthiness by Standard and Poor's
- municipal expenditures per dwelling unit and debt targets used in the budget process

The main issue that needs to be addressed now is Council approval of how we will define and measure fiscal health. This report makes a recommendation to Council regarding the definition to be used for Fiscal Health on a go forward basis, as well as some key indicators which HRM Finance staff will incorporate into quarterly reporting to Council.

DISCUSSION

The Fiscal Capacity of HRM to Invest in Infrastruture

The Settlement and Housing chapter of the Regional Plan states:

> *" S-3 Further to the principles of this Plan stated in section 1.4, HRM shall consider requests to allow for the initiation of a secondary planning process to consider development of the six sites for new growth provided that any such proposal serves to:*
>
> *(a) protect the fiscal health of HRM and its capacity to meet additional financial commitments; and*

(b) address any deficiencies in municipal service systems which would be needed to service the proposed area and the estimated cost of upgrades needed to provide a satisfactory service level."[1]

The recommendations are based upon best practice research. (Attachment A)

Current Indicators

At the present time, the best independent and objective evidence of HRM's fiscal capacity are the Standard and Poors rating, and the municipal indicators as calculated and reported by Service Nova Scotia Municipal Relations (SNSM

	2002	2003	2004	2005	2006	2007
SNSMR Municipal Indicators						
Taxes as a % of Total Revenue	75.00%	77.00%	78.00%	78.00%	81.00%	76.00%
Liquidity Ratio	101.00%	100.00%	100.00%	97.00%	97.00%	96.00%
Debt Service Ratio	11.00%	10.80%	10.10%	9.80%	14.40%	8.70%
Debt Outstanding/Uniform Assessment	1.50%	1.40%	1.33%	1.80%	1.70%	1.50%
Increase in Uniform Assessment	8.60%	14.80%	19.50%	21.90%	22.00%	25.00%
Commercial/Total Assessment	25.00%	25.00%	19.00%	24.00%	18.00%	21.00%
Standard & Poors Rating	A		A Stable			A Positive

More information on municipal indicators can be found at www.gov.ns.ca/snsmr/muns/indicators.

The 2008 indicators are not yet available.

Reliance upon property taxes - HRM's dependence upon property taxes is evidenced by taxes as a percentage of total revenues. Over the past six years, there has been little change in the reliance upon property taxes.

Liquidity - is a measure of a municipality's ability to meet its current obligations, calculated by dividing short term operating assets by short term operating liabilities. Liquidity has declined slightly over the past six years, partially due to two factors: a) Harbour Solutions project spending, and b) increasing utilization of local improvement changes and capital cost contributions, where the municipality bears the front end cost of capital projects, then gradually recovers the costs through a Local Improvement Charge (LIC) or CCC. HRM's liquidity ratio is still quite strong.

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[1] **Regional Municipal Planning Strategy** August 2006 http://www.halifax.ca/regionalplanning/FinalRegPlan.html - Settlement & Housing

Debt Service Ratio - represents the current operating expenditures incurred for debt services, therefore not available for other use. This ratio is calculated by dividing total long term debt by total own source revenue. HRM's debt service ratio has been improving since the implementation of the Multi-Year Financial Strategy in 1998, and is well below the debt servicing ratio limit recommended by Service Nova Scotia Municipal Relations of 15%. Additional information HRM's existing debt policy and some proposed changes can be found in the March 24, 2009 Report on "HRM's Debt Servicing Plan."

Debt Outstanding/Uniform Assessment - is a measure meant to indicate the level of total outstanding long term debt, as a percentage of the municipality's ability to raise revenues. This is calculated by dividing long term commitments by uniform assessment. This measure is relatively stable for HRM.

Increase in Uniform Assessment (UA) - Uniform Assessment is a measure of a municipality's financial health as it looks at own-source revenue based as represented by the total uniform assessment. U.A. is the total of the taxable property assessments plus the value of grants received from special property tax arrangements. The increase in this measure as calculated by SNSMR, indicates an increase in HRM's ability to raise revenues over the last three years, and may reflect a change in economic well-being of the municipality. HRM exhibits growth in economic well-being based on the increase in this measure. On the down side, a higher than average increase in U.A. indicates that expenditures for Provincial programs will increase. HRM's increase in UA has been higher than average, so HRM's percentage of cost sharing relative to other municipalities is increasing.

Commercial/Total Assessment - This measure shows the relative strength of the municipality's tax base. A higher percentage indicates a higher revenue raising ability, as commercial tax rates are higher than residential tax rates and therefore generate more tax revenue. It is important to note that the Halifax Chamber of Commerce has consistently raised competitiveness of commercial taxation as a concern. The SNSMR measure is calculated by dividing total taxable commercial assessment including Business Occupancy by total taxable assessment. HRM's indicator has fluctuated a bit over the past few years, not so much due to lessening commercial growth, but rather due to growth in the residential assessment base.

The Standard and Poor's Rating is the best current evidence of HRM's fiscal capacity, as it is calculated based on a very thorough assessment of the municipality's financial position, as well as local economic activity, inter-governmental dependencies, and best practices. HRM's Standard and Poor's rating has steadily improved. The most recent Standard and Poor's Rating is attached. (Attachment B)

HRM does not have infinite fiscal capacity however, and it is important to bear in mind that there are always choices to be made with respect to balancing competing priorities to meet service needs and demands from residential and commercial tax payers, while trying to be mindful of tax burden. Additionally, it is difficult to predict what the impact of the current economic downturn will be for the municipality, and how negatively it will affect the growth and development that has been occurring in within HRM.

HRM as a Hub City

The data table below demonstrates that HRM's uniform assessment, as a share of total provincial uniform assessment has been steadily increasing. The most recent Census data, (2006) indicates that the population in HRM is 41% of the provincial population.

($000)	2003	2004	2005	2006	2007	2008	2009
Uniform Assessment	19,254,731	20,663,008	22,297,930	24,063,829	26,211,930	28,438,442	30,182,485
Prov UA Total	40,982,516	42,760,579	45,366,658	48,269,341	51,740,017	55,853,034	58,550,372
HRM as % of Prov	46.98%	48.32%	49.15%	49.85%	50.66%	50.92%	51.55%

The Conference Board of Canada has done a significant amount of work on Hub Cities. This material can be viewed on their website, including a report called :

Canada's Hub Cities: A Driving Force of the National Economy
Report by Natalie Brender , Mario Lefebvre
July 2006, Source: The Conference Board of Canada, 32 pages

The Conference Board of Canada concluded that not only is Halifax an engine for Nova Scotia, but also for all of Atlantic Canada, and is the only regional economic hub city in Canada. The Conference Board of Canada and the Greater Halifax Partnership point out that helping Halifax to reach its economic potential must be a provincial and regional priority as everyone benefits. The Fiscal Health of HRM, and therefore the Fiscal Health Indicators chosen by HRM, should be of interest to other organizations and agencies concerned with HRM's impact as a hub city on the provincial and regional economy.

Recommended Fiscal Health Definition and Indicators

The recommend definition for fiscal health based on best practice research, and based largely upon Public Sector Accounting Board recommendations, and Standard & Poor's recommendations, is that
Halifax Regional Municipality's fiscal health should be measured by:

a) The ability to continue to meet existing financial obligations, both in respect of service commitments to the public and financial commitments to creditors, employees and others and;

b) The ability to continue to meet the needs of HRM's citizens in the future by maintaining or enhancing the level and quality of services and programs and to finance new programs; and

c) The ability to support HRM's goals contained in the Regional Plan

d) Key indicators included below in order of priority as listed

The measurement of fiscal health should take into account the following information requirements:

- The definition of Fiscal Health supports the goals of the Regional Plan and Council Focus Areas;

- The definition of Fiscal Health can be quantified and measured and the measurements verified by independent parties such as a credit rating agency or external auditors.

- The indicators used to measure fiscal health meet the characteristics of financial indicators and information outlined in PSAB – Statements of Recommended Practise-1 and 4, understandability, relevance, reliability, comparability

Key indicators - in order of relevance to HRM's goals:

1. Debt

2. Asset Condition

3. Sustainability indicators
   i) assets to liabilities
   ii) financial assets to liabilities
   iii) debt to total annual revenues
   iv) expense by function to total expenses
   v) net debt to taxable assessment
   vi) total expenses to taxable assessment

4. Vulnerability indicator
   i) government transfers to total revenues

5. Flexibility indicators
   i) public debt charges to revenues
   ii) own source revenues to taxable assessment

6. Liquidity Ratio

7. Operating and other special reserve balances as a % of projected targeted balances, including:
   i) Variable Operating Stabilization Reserve
   ii) Snow and Ice Reserve
   iii) CCC reserves
   iv) Solid Waste cell construction reserves

8. Commercial/Total Assessment

It is important to note that HRM is currently able to report on all of the recommended indicators in manner that can be independently and objectively verified, with one exception. The one exception to this, is asset condition. HRM's ability to report on asset condition in a way that is quantifiable and verifiable will be improved significantly over the next two years following PSAB 3150 (Tangible Capital Asset Accounting) policy compliance, and next phases of operational asset management. The best practice research report prepared by SDale Contract & Consulting Services (Attachment A) states "the primary need is to ensure that Council has an approved, acceptable working definition of fiscal health, with associated indicators, so that staff, Council, citizens and property owners all have a single, consistent understanding of how fiscal health is being assessed and related decisions are made."

Debt is calculated by HRM now, and is used by Standard and Poor's to assess HRM's credit worthiness. Asset condition is produced now by asset class, but is based largely upon the working experience of HRM's asset managers, with the exception of streets and roads, and sidewalks where there are actually condition rating systems and processes in place. Like many local governments, HRM does not have a lot of independently verifiable data related to asset conditions. Over the next 5 years or so current estimates will be replaced asset class by asset class with independently verifiable data.

The best practice research indicates that to the extent that a local government does not raise enough taxes to pay necessary operating expenses, fund capital needs, pay down debt, or save money to avoid shocks from unexpected events, then the fiscal health of the organization becomes impaired.

"However, as municipalities across Canada and beyond know all too well, if debt and operating budgets are the only focus and the condition of infrastructure is not factored in, all may look well on the surface from a budget and debt perspective, but in fact, the fiscal health of the organization is eroding as asset conditions decline. Therefore, combining the measurement of Net Debt with a measurement of Asset (capital asset) Condition provides a very complete and powerful measurement of fiscal health." Page 11 (Attachment A)

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

HRM Council could elect to use other Fiscal Health indicators, based on the indicators presented in Attachment A.

ATTACHMENTS

Attachment A: Fiscal Health Best Practices - SDale Contract & Consulting Services
Attachment B: Standard & Poors Rating

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.

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HRM Fiscal Health

Defining,

Measuring,

Reporting

Creating a goal-based Council decision support tool

SDale Contract & Consulting Services

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Background and context

HRM currently reports on the financial condition of the organization through a combination of the annual audited financial statements and other reports which provide information on the performance of investments and the results of operations compared to budget to name only a few. In addition, performance reporting is provided on many non-financial matters including program volumes and performance against program and service standards. The annual consolidated financial statements are produced by management and audited by independent, external auditors, and then presented to Council. Monthly and quarterly reports are produced that monitor revenue and expenditures compared to budget as well as provide information related to asset and liability balances. Every two years, Standard and Poor's performs an independent assessment and rating of the credit worthiness of HRM. A list of existing financial reports and measurements is provided in Appendix 1.

Terms such as financial or fiscal 'health' or fiscal 'capacity' or financial condition are used in a number of contexts to describe organizations, the economy, individual financial situations, and to set standards or thresholds when setting specific goals and objectives. These are not terms for which there is one fixed definition. While there is some agreement on the generalities of what these terms describe, particularly for public-sector organizations, a specific definition of 'fiscal health' as a **measureable state**, requires a concrete, agreed-to definition which can be measured as activities and transactions create changes, whether those changes are positive or negative in their effect. With a clear definition and related indicators to measure 'fiscal health' options can be analyzed for their impact on the indicators of 'fiscal health', providing meaningful support to Council as they consider their decision. In a situation where Council might be deliberating on several options, they can ask questions such as - Do the options have any affect on the fiscal health of HRM - using a definition everyone understands and that Council has approved. Does one option have a positive effect or another negative? Do all options have a positive effect but the timing varies from one to another? In this example, having the answers to these questions would be helpful to Council particularly when a decision must be based on a finite measure of fiscal health.

Regional Council sets the priorities for HRM through the annual "Council Focus Area" work done in late fall each year and directs resources against that plan through the annual budget. In addition, Council has approved strategies, policies and by-laws which provide specific direction on a variety of issues including but not limited to, an *Economic Strategy, Cultural Plan, the Multi-Year Financial Plan* and the *Regional Plan*.

"*Council's Focus Areas, listed in no particular order are:*

- *Community Planning: Ongoing implementation of the Regional Plan*
- *Governance and Communication*
- *Infrastructure*
- *Public Safety: Implementation of the Mayor's Roundtable on Violence Report*
- *Transportation"*[1]

[1] Halifax Regional Municipality, Proposed 2009/10 Operating Budget
http://www.halifax.ca/budget/documents/Proposed09-10Operatingbudget_000.pdf

The Executive Summary of the Regional Plan, states that:

> *"The Regional Municipality Planning Strategy (this Plan) is a guide for the future development of the Halifax Regional Municipality (HRM)... It is a framework that outlines how future sustainable growth should take place in the HRM, in a way that preserves the environment while at the same time maintaining a strong economy. The overarching goal of this Plan is to achieve a shared vision of the future of HRM, a vision of healthy, vibrant and sustainable communities, without taking away from the character that makes HRM a distinct and attractive place to live.... By integrating land use and planning activities and directing growth to specific compact centres, this Plan promotes efficiency in transportation and service sectors while maintaining the health of the environment and local communities.."*[2]

The 'HRM Finances' section of the Regional Plan states that:

> *"An important requirement for the economic well-being of a community is the financial health of its municipal government in providing necessary services. HRM must provide services to its citizens through sound financial management practices, adequate financial strategies, and competitive and fair revenue generation."* [3]

A definition of 'fiscal health', as a specific and measureable state for HRM, must be based directly on the goals of the organization. What is good fiscal health? At its core, it is the financial ability to achieve the goals, objectives and commitments that have been set out by Council. The definition then cannot be separated from HRM's core goals and objectives.

So, what are HRM's goals guiding the definition of fiscal or financial health?

'Fiscal Health' – HRM's Goals

As previously stated, no matter how perfectly individual indicators are produced, financial or fiscal health cannot be defined in a meaningful way unless it is understood in the context of the broad goals of the organization.

HRM has a long commitment to improving the financial health of the organization; evidenced 10 years ago through the Council approved '*Taking Care of Business – A Multi-Year Financial Strategy*' (MYFS). While staff and Council are aware of this central set of finance and fiscal policies, what is significant and perhaps less well understood today are the reasons why it was developed in the first place and the specific objectives HRM had when it created the policies and targets.

"The objectives were:

- *To understand the baseline*

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[2] **Regional Municipal Planning Strategy** August 2006 http://www.halifax.ca/regionalplanning/FinalRegPlan.html

[3] **Regional Municipal Planning Strategy** August 2006 http://www.halifax.ca/regionalplanning/FinalRegPlan.html

- *To anticipate future operating, capital and reserve requirements*
- *To reasonably predict tax rates and debt requirements far enough in advance to make decisions in an appropriate time frame with as broad a consultation process as Council wishes*
- *To develop targets for services with clear link between costs, services and financial capacity."*[4]

The environment at the time during 1998/99, saw the municipality facing a large drop in commercial assessment and revenues, at the same time that capital expenditures and debt were rapidly escalating. A large operating deficit was projected. There was a limited policy framework to guide staff and to support Council's direction to address such significant financial challenges.

The policies and targets of the MYFS are familiar now – the debt reduction targets, reserve requirements, Double-entry budgeting, etc., but what was central to all of these policies was what Council was trying to achieve with those policies. The organization set out to improve and stabilize the financial condition and create predictability.

Today, 10 years later, other decisions and strategies have grown from and added to the objectives of the MYFS. These provide more current direction from Council as to the goals and desired outcomes for HRM. The priorities are contained in Council's focus areas, and the goals in the approved Regional Plan.

"This Plan outlines directions and policies in the following sectors to reach the goals of the shared vision for the future of the HRM:

Growth, Development and Settlement: *The fundamental goal of this Plan is to work towards balanced growth and to avoid risk to the natural environment, the character of our communities and the quality of life in our region. Therefore, a key aspect of this Plan will be to direct growth to compact mixed-used settlement centres.*

Natural Environment: *In the short-term, this Plan aims to protect the natural environment by establishing development practices that minimize the impact on water, land and air.*

Economy and Finance: *This Plan includes policies that support and strengthen the role of the Capital District and Halifax Harbour, as well as business parks, other major employment centres and the rural economy, to ensure economic growth and prosperity to our region. Business and economic growth will be encouraged through an Economic Development Strategy, Capital District Functional Plan, Halifax Harbour Functional Plan and Business Parks Development Functional Plan.*

Transportation: *Integrated land use and transportation planning is a fundamental component of this Plan.*

Community: *Community Visioning and secondary planning processes to be undertaken over the next 25 years will ensure community input on design to ensure the retention of each centre's individual community character.*

[4] Taking Care of Business A Multi-Year Financial Strategy – Executive Summary page ii

Services: *The settlement pattern adopted in this Plan will reduce infrastructure costs for services including water, wastewater, utilities and solid waste. Coordinated regional planning will also improve the ability to anticipate future infrastructure needs.*

Culture and Heritage Resources: *This Plan includes policies for the protection of the cultural and heritage resources that are an integral part of HRM's character and quality of life."* [5]

These goals of the Regional Plan serve as the starting point in any definition of financial or fiscal health for HRM.

At this particular point in time, Regional Council is also considering decisions related to Case 01148 – Amendments to the Bedford West Planning Strategy. A report on the subject was before Council on May 12, 2009 and Council requested a Supplementary report on the matter. One part of the matter under discussion by Council, relates to the fiscal health of the organization. The Settlement and Housing chapter of the Regional Plan states:

> *" S-3 Further to the principles of this Plan stated in section 1.4, HRM shall consider requests to allow for the initiation of a secondary planning process to consider development of the six sites for new growth provided that any such proposal serves to:*
>
> *(a) protect the fiscal health of HRM and its capacity to meet additional financial commitments; and*
>
> *(b) address any deficiencies in municipal service systems which would be needed to service the proposed area and the estimated cost of upgrades needed to provide a satisfactory service level."* [6]

As has been stated previously, any definition of fiscal health for HRM must ensure that it provides sufficient clarity and measurability, to address the questions now before Council, in addition to supporting the broad goals of HRM contained in the Regional Plan and prioritized in 'Council Focus Areas'.

In addition to goals, the Regional Plan spells out opportunities available in each section of the Plan as the goals are pursued and achieved. In the finance area of the plan these opportunities are:

> *"• the ability to anticipate what infrastructure is required, where and when based on a known plan;*
> *• the acquisition of strategic parcels of land while they are still available and the scheduling of construction projects in an orderly cycle; and*
> *• by encouraging the right density in proposed developments and reducing the dispersion and distance between communities, the costs of servicing dispersed developments across HRM can be reduced."* [1]

These represent a fundamental shift from the previously limited ability to achieve what residents perhaps always expected - to plan for the long term - to make the most of what we have while minimizing costs where possible.

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[5] **Regional Municipal Planning Strategy** August 2006 http://www.halifax.ca/regionalplanning/FinalRegPlan.html - Executive Summary

[6] **Regional Municipal Planning Strategy** August 2006 http://www.halifax.ca/regionalplanning/FinalRegPlan.html - Settlement & Housing

Defining fiscal health

The Public Sector Accounting Board (PSAB), which is the authoritative body for financial statement preparation and reporting for all public sector organizations in Canada, defines fiscal health or financial condition as:

> "7 Financial condition is a broad, complex concept with both short- and long-term implications that describes a government's financial health in the context of the overall economic and financial environment.
>
> 8 Financial condition is a government's financial health as assessed by its ability to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others." [7]

Other definitions can be found in the annual reports and financial plans of organizations and in various research documents. It has also been defined as: the extent to which a local government has the adequate ability to raise financial resources relative to constituents' needs - the revenue raising capacity and the expenditure need, measured based upon "relevant socioeconomic characteristics". [8]

In determining the definition of fiscal health for HRM, consider the objectives which can be achieved by reporting on financial condition or fiscal health.

The Public Sector Accounting Board states that objectives of measuring and reporting financial condition (beyond mandatory reporting requirements satisfied by audited financial statements) are:

> *"The main objective of reporting on financial condition is to expand on and explain information contained in financial statements by assessing a government's financial condition not only on the basis of its financial position and changes in financial position, but also in the context of its overall economic and fiscal environment. In addition, reporting on financial condition has the following objectives:*
>
> *(a) helps users identify current foreseeable risks and trends;*
>
> *(b) enlightens users about a government's fiscal stewardship;*
>
> *(c) offers insights into the short- and long-term implications of policy decisions;*
>
> *(d) illustrates a government's financial ability to maintain the level and quality of its services and to finance new programs;*
>
> *(e) illustrates a government's ability to meet its financial obligations, both short- and long-*

[7] PSAB - **statement of recommended practice; SORP-4; indicators of financial condition; Sections 7 & 8**
[8] (ACIR 1962; Hendrick 2004; Ladd and Yinger 1989; Yilmaz et al. 2006) as referenced by Weerasak Krueathep

term;

(f) enhances an understanding of government policy and operating decisions; and

(g) provides a basis for comparison, where appropriate, with other similar jurisdictions."[9]

In order to provide credible value as a decision-support tool, HRM's definition of fiscal health should meet the following requirements:

a) The definition of Fiscal Health must support the goals of the Regional Plan and the priorities in the Council Focus Areas;
b) The definition of Fiscal Health can be quantified and measured and the measurements can be verified by independent parties such as Standard and Poor's (credit rating agency) or the external auditors.
c) The indicators used to measure fiscal health meet the characteristics of financial indicators and information outlined in PSAB – Statements of Recommended Practice-1 and 4, namely:
    a. understandability
    b. relevance
    c. reliability
    d. comparability

The indicators discussed in this report and outlined in the table in Appendix 2-1, can all be produced now for HRM, and as noted in the Appendix, many already are. Information on the indicator related to asset condition exists now, and while the data to independently verify statements of asset condition does not exist yet, statements of asset condition based on the experience of asset managers are used in reports to external bodies now.

It is important to note that the primary need here is not to address the technical ability to produce indicators, since most can or are produced now. Rather, **the primary need is to ensure that Council has an approved, acceptable working definition of fiscal health, with associated indicators, so that staff, Council, citizens and property owners all have a single, consistent understanding of how fiscal health is being assessed and related decisions are made.**

"The Public Sector Accounting Board (PSAB) issues standards and guidance with respect to matters of accounting in the public sector." [10] PSAB is the Canadian authority on generally accepted accounting principles for public sector entities. PSAB has developed Statements of Recommended Practice (SORP's) which *"address specific aspects of reporting on financial condition and financial and non-financial performance. ... They are not prescriptive, but offer general guidance to encourage and assist public sector entities in effectively reporting relevant information that is useful in evaluating the entity's financial condition at the financial statement date and its financial and non-financial performance during the reporting period."* [11]

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[9] PSAB - statement of recommended practice; SORP-4; indicators of financial condition; Section 5 & 6

[10] http://www.cica.ca/index.cfm/ci_id/1041/la_id/1.htm#reporting
[11] http://www.psab-ccsp.ca/index.cfm/ci_id/1053/la_id/1.htm

Statement of Recommended Practice-4-Indicators of Financial Condition was developed through PSAB's extensive consultative process which along with other steps solicits input from public sector practitioners and auditors and other interested parties across the country. Statements of Recommended Practice provide guidance only, and local governments are not required to produce Indicators of Financial Condition. Any such information produced and reported is supplementary to the mandatory financial statements and voluntary.

On the basis of the fact that PSAB is the authority on standards for public sector financial reporting, the working draft definition of Fiscal Health included below has been developed directly from the PSAB definitions and characteristics of financial condition or fiscal health. These are included in this document on pages 5 and 6.

Because the definition of fiscal health for HRM will likely be used by Council to measure the financial implications of various options and could have far-reaching impacts, it was judged important to base any definition of fiscal health for HRM on an independent, accepted authority on public sector financial reporting.

Working definition
Defining Fiscal health - Halifax Regional Municipality's fiscal health is measured by:

- the ability to meet existing financial obligations, both in respect of HRM's service commitments to the public and financial commitments to creditors, employees and others and;

- the ability to continue to meet the needs of HRM's citizens in the future by maintaining or enhancing the level and quality of services and programs and to finance new programs.

Indicators of Financial Condition / Fiscal Health

Best Practice Summary

There are numerous sources of guidance and information to assist organizations in defining what fiscal health means for them and how it might be measured. The measurements can then be made and tracked over time to evaluate options and approaches.

The chart in Appendix 2-1 provides a summary of sources of information and guidance respecting possible indicators of financial condition or financial or fiscal health. They have been ranked on relevance to HRM's goals and objectives and the most relevant have been brought forward for consideration here. Full descriptions of the indicators are provided in supporting documents to Appendix 2-2. Particular emphasis and high relevance has been assumed for the PSAB indicators of **Sustainability** and the credit rating agency measure of **Net debt or Debt**.

Based on HRM's goals, the most relevant indicators and sources are:

Table 1 Relevant Indicators of Fiscal Health from Appendix 2-1

Source	**Indicator**
PSAB – Statement of Recommended Practice –4 Indicators of Financial Condition	Sustainability * (i) assets-to-liabilities; (ii) financial assets-to-liabilities; (iii) net debt-to-total annual revenue; (iv) expense by function-to-total expenses; (v) net debt-to-taxable assessment; (vi) total expenses-to-taxable assessment
	Vulnerability * (i) government transfers-to-total revenues;
	Flexibility * (i) public debt charges-to-revenues; (ii) own-source revenues-to-taxable assessment.
SNS&MR Financial Indicators	1.1.2. Transfers from Other Governments - see PSAB 1.3.1. Liquidity Ratio; * 1.3.3. Uncollected Taxes – report already 1.3.4. Reserves as a % of Expenditures; * 1.4.1. Debt Service Ratio – report already 1.5.2. Total Capital From Operating-report already 2.1.2. Commercial/Total Assessment *
Standard & Poor's	Net debt *

It is clear that the possible indicators of financial condition or fiscal health are numerous and that there is a risk that in an attempt to provide all the indicators which can be produced, the key measurements could be lost in a sea of ratios. Assessing the indicators summarized in Appendix 2-1 for relevance to HRM's goals results in a shorter list, included above.

Of the 17 indicators in the table above, the most relevant are further highlighted and marked with an asterisk. These indicators form a more concise list of key indicators of HRM's fiscal health. Listed in ranked order of relevance to HRM's Goals, they are:

1. **Net debt** (S&P) (replace with HRM working definition)
2. **Sustainability** indicators (PSAB)

i) assets-to-liabilities;
ii) financial assets-to-liabilities;
iii) net debt-to-total annual revenue;
iv) expense by function-to-total expenses;
v) net debt-to-taxable assessment;
vi) total expenses-to-taxable assessment

3. **Vulnerability** indicator (PSAB)
   i) government transfers-to-total revenues;

4. **Flexibility** indicators(PSAB)
   i) public debt charges-to-revenues;
   ii) own-source revenues-to-taxable assessment

5. **Liquidity Ratio** (SNS&MR 1.3.1);

6. **Reserves** as a % of Expenditures (SNS&MR 1.3.4); (replace with Operating and CCC Reserve balances compared to projected / targeted balance)

7. **Commercial/Total Assessment** (SNS&MR 2.1.2).

Public sector organizations such as HRM, manage their business by collecting sufficient taxes to pay for necessary operating expenses and to leave enough money after paying for those operating expenses to do these 3 things: 1) invest in capital assets; 2) save money to cushion unexpected events; 3) reduce debt.

To the extent that a local government:

a) raises insufficient taxes to pay necessary operating expenses;
b) raises insufficient taxes to have money left over to:
   a. meet the capital needs of the community;
   b. save enough money to absorb shocks from unexpected events;
   c. avoid or pay down debt....

To the extent that these things occur, the fiscal health of the organization becomes impaired.[12] **However, as municipalities across Canada and beyond know all too well, if debt and operating budgets are the only focus and the condition of infrastructure is not factored in, all may look well on the surface from a budget and debt perspective, but in fact, the fiscal health of the organization is eroding as asset conditions decline.** Therefore, combining the measurement of Debt with a measurement of Asset (capital asset) Condition provides a more complete and powerful measurement of fiscal health. Debt is calculated by HRM now and is the measure that HRM's credit rating agency, Standard and Poor's use to assess and report on HRM's credit worthiness.

[12] Stephen Ogilvie, Primary Credit Analyst, Standard and Poor's, credit rating agency

Asset condition is reported on an asset class basis now during the annual capital budget and to SNS&MR. The information reported now for Asset condition is based on the working experience of HRM's asset managers. Like many local governments, HRM does not have independently verifiable data related to asset conditions at this time. Over the next 5 years or so estimates will be replaced one asset class at a time with independently verifiable data.

It is not a coincidence that simultaneous with the much debated national Municipal Infrastructure Deficit and Gap, the Public Sector Accounting Board is requiring all local governments to record Tangible Capital Assets and to amortize the cost of those assets. Prior to recent years when PSAB became the standard for generally accepted accounting principles for local government financial reporting, local governments did their financial reporting on the same basis as they calculated their taxes annually -- mostly on a cash basis – on the modified accrual basis. The effect of this was that capital assets were not amortized as they were used, and the value of the assets on the balance sheet did not reflect the age of the assets, let alone their condition, making the state of the growing Infrastructure Deficit very difficult to quantify.

The PSAB Tangible Capital Asset (TCA) requirements which are taking effect this fiscal year will result in more information related to capital assets than ever before being recorded in the financial statements of local governments. This project will enable local governments across Canada to be in a much better position to develop and refine asset conditions to support improved asset management.

Recommendations

1.1 Users

One of the underlying basic principles of communicating any information is that the information must be useful to the users.[13]

Who are the users of this information? Users include:

Council – Regional Council will use the definition and indicators to determine how they wish fiscal health to be determined and measured so that it can be used as a tool to support their decisions as they consider options and their implications, now and in the future.

HRM staff-Executive Management (EMT), Senior Management (SMT), managers, supervisors and staff are responsible for ensuring Council has the relevant information required to understand options being considered and their implications as well as understanding the method by which Council will assess this information when they make decisions.

[13] PSAB - statement of recommended practice; SORP-1; financial statement discussion & analysis; Section 17

Citizens / Taxpayers – As Council considers options, citizens understanding of the implications of various options will improve with this information. It will better inform their opinions as they provide Councillors with feedback on their preferences.

Property owners / investors – As property owners invest time and financial resources in land which has or may come forward for initiation of secondary planning process, or other decisions, the criteria Council will use to make decisions must be transparent to allow investment decisions to be made in as informed a manner as possible. Any criteria Council will use to make decisions which impact future investment must be transparent to investors so that the benefits of long-term, planned growth are available to property owners and investors.

Credit rating agencies / external auditors – information must be subject to validation and verification.

1.2 Proposed Definition

Halifax Regional Municipality's **fiscal health** is defined by:

a) The ability to meet existing financial obligations, both in respect of its service commitments to the public and financial commitments to creditors, employees and others and;

b) The ability to continue to meet the needs of HRM's citizens in the future by maintaining or enhancing the level and quality of services and programs and to finance new programs.

c) The ability to support HRM's goals contained in the Regional Plan.

d) And measured by the key indicators included in 1.3 below in order of priority as listed.

Measurement and reporting Standards

i. The definition of Fiscal Health can be quantified and measured and the measurements verified by independent parties such as Standard and Poor's (credit rating agency) or external auditors.
ii. The indicators used to measure fiscal health meet the characteristics of financial indicators and information outlined in PSAB – Statements of Recommended Practice-1 and 4, namely:
    1. understandability
    2. relevance
    3. reliability
    4. comparability

1.3 Indicators[14]

Key indicators – in order of relevance to HRM's goals:

1. **Debt**
2. **Asset condition**
3. **Sustainability indicators**
   i) assets-to-liabilities;
   ii) financial assets-to-liabilities;
   iii) net debt-to-total annual revenue;
   iv) expense by function-to-total expenses;
   v) net debt-to-taxable assessment;
   vi) total expenses-to-taxable assessment

4. **Vulnerability indicator**
   i) government transfers-to-total revenues;

5. **Flexibility indicators**
   i) public debt charges-to-revenues;
   ii) own-source revenues-to-taxable assessment

6. **Liquidity Ratio**

7. **Operating and other special Reserve** balances as a % of projected / targeted balances
   a. Variable Operating Stabilization Reserve
   b. Snow and Ice Reserve
   c. CCC reserves
   d. Solid Waste cell construction reserves

8. **Commercial/Total Assessment**

1.4 Method of use

Most of the proposed indicators of the fiscal health definition can be calculated now and have been for some time. In order for an approved definition of fiscal health to serve as a measureable and objective tool, a methodology must accompany the definition and indicators. Appendix 3 is provided as an example only of how HRM might implement the measurement of performance and options in future against the targets. It is recommended that indicator standards be set which reflect the goals of HRM for that area. Staff and Council may wish to consider different weighting of indicators for other more narrow purposes. For overall assessment of HRM's fiscal health and specifically related to the reference to fiscal health which impacts Regional Plan assumptions, it is recommended that this definition and application apply. It may seem compelling to have different

[14] See Appendix 2-2 for definitions of proposed HRM Indicators of fiscal health

definitions for different decisions, particularly if some indicators better support one type of decision. Broadly however, HRM will continue to produce other financial and performance reports and the group of indicators related to HRM fiscal health is but one group included among this information. While this definition will have value beyond the Regional Plan requirement for a definition of fiscal health, it has been developed to ensure it responds appropriately to Council's needs in this area.

Appendix 1

Existing financial and performance reports

1. Annual audited consolidated financial statements
2. Annual audited non-consolidated operating fund
3. Quarterly reports – financial operating results and balance sheet updates
4. Quarterly Investment reports
5. Annual report (volumetric) and program background
6. Standard & Poor's credit rating
7. Service Nova Scotia Municipal Relations – Municipal Indicators
8. Annual Expenditure Reports – Gas Tax and Transit Trust
9. Monthly – Key Performance Indicator Report (Internal Use Document)
10. Quarterly – Executive Performance Reporting/Corporate Dashboard (Internal Use Document)

Appendix 2

Table Summary of sources of guidance 2-1

Definitions for recommended indicators 2-2

See documents at end of report

Appendix 3

Example of proposed Method applied

See document at end of report

Bibliography

1. Halifax Regional Municipality. (n.d.). *Proposed 2009/10 Operating Budget*. Retrieved from http://www.halifax.ca/budget/documents/Proposed09-10Operatingbudget_000.pdf

2. **Regional Municipal Planning Strategy** August 2006 http://www.halifax.ca/regionalplanning/FinalRegPlan.html

3. Same as 2

4. Taking Care of Business A Multi-Year Financial Strategy – Executive Summary page ii

5. **Regional Municipal Planning Strategy** August 2006 - Executive Summary

6. **Regional Municipal Planning Strategy** August 2006 l - Settlement & Housing

7. Public Sector Accounting Board (PSAB) - **statement of recommended practice; SORP-4; indicators of financial condition; Sections 7 & 8**

8. (ACIR 1962; Hendrick 2004; Ladd and Yinger 1989; Yilmaz et al. 2006) as referenced by Weerasak Krueathep

9. Public Sector Accounting Board PSAB - statement of recommended practice; SORP-4; indicators of financial condition; Section 5 & 6

10. Canadian Institute of Chartered Accountants

11. Public Sector Accounting Board http://www.psab-ccsp.ca/index.cfm/ci_id/1053/la_id/1.htm

12. Stephen Ogilvie, Primary Credit Analyst, Standard and Poor's, credit rating agency

13. PSAB - statement of recommended practice; SORP-1; financial statement discussion & analysis; Section 17

Agency	Title	Focus	Relevance to HRM financial / fiscal health indicators	Measure or indicator	Details	Highly relevant Indicators or information
PSAB	Statement of Recommended Practice SORP-1 Financial Statement Discussion & Analysis	Context and framework for Management Discussion & Analysis (MD&A)	Low - background and context of MD&A reporting requirements and recommendations		This Statement of Recommended Practice (SORP) provides guidance for reporting financial statement discussion and analysis (FSD&A). 1	
PSAB	SORP-2 Public Performance Measurement	Non-financial performance	Low		This SORP addresses the non-financial performance information of a public performance report, as well as the linkage of financial and non-financial performance information.	
PSAB	SORP-4 Indicators of Financial Condition	**Indicators of financial condition.**	High		This Statement of Recommended Practice (SORP) 1 provides guidance to governments that choose to report supplementary information on **financial condition.**	
				SUSTAINABILITY INDICATORS	(a) assets-to-liabilities; (b) financial assets-to-liabilities; (c) net debt-to-total annual revenue; (d) expense by function-to-total expenses; (e) net debt-to-GDP or taxable assessment; (f) accumulated deficit-to-GDP or taxable assessment; (g) total expenses-to-GDP or taxable assessment	(a) assets-to-liabilities; (b) financial assets-to-liabilities; (c) net debt-to-total annual revenue; (d) expense by function-to-total expenses; (e) net debt-to-taxable assessment; (g) total expenses-to-taxable assessment
				VULNERABILITY INDICATORS	(a) government transfers-to-total revenues; (b) foreign currency debt-to-net debt	(a) government transfers-to-total revenues;
				FLEXIBILITY INDICATORS	(a) public debt charges-to-revenues; (b) net book value of capital assets-to-cost of capital assets; (c) own-source revenues-to-GDP or taxable assessment.	(a) public debt charges-to-revenues; (c) own-source revenues-to-taxable assessment.
Service Nova Scotia & Municipal Relations (SNS&MR)	Municipal Indicators	Financial, Community, Governance, Performance (Services)	Medium - many of these indicators are currently reported by HRM. The ones identifed for this report are those with particular significance to a definition of fiscal health. Note: certain financial information used is restated for all municipal units and therefore may require reconciliation to compare to audited financial satements	Financial and selected community indicators	1.1.1 Taxes as a % of Total Revenue; 1.1.2. Transfers from Other Governments; 1.1.3. Residential Tax Burden (RTB); 1.1.4. Uniform Assessment per Dwelling Unit; 1.2.1. Mandatory Expenditures; 1.2.2. Expenditures per Dwelling Unit; 1.3.1. Liquidity Ratio; 1.3.2. Deficits Last 5 years; 1.3.3. Uncollected Taxes; 1.3.4. Reserves as a % of Expenditures; 1.4.1. Debt Service Ratio; 1.4.2. Debt Outstanding/ Uniform Assessment; 1.5.1. Capital from Revenue; 1.5.2. Total Capital From Operating; 2.1.2. Commercial/Total Assessment	1.1.2. Transfers from Other Governments - see PSAB 1.3.1. Liquidity Ratio; 1.3.3. Uncollected Taxes; 1.3.4. Reserves as a % of Expenditures; 1.4.1. Debt Service Ratio; 1.5.2. Total Capital From Operating; 2.1.2. Commercial/Total Assessment

Agency	Title	Focus	Relevance to HRM financial / fiscal health indicators	Measure or indicator	Details	Highly relevant Indicators or information
Government Finance Officers Association (GFOA)	Performance Management: Using Performance Measurement for Decision Making (January 2004) - Updated Performance Measures (January	Program and service performance measures	Low - relates to programs and services. AMANS Best Practice is based on this but was revised for use by NS municipalities.	See AMANS		
Assiciation of Municipal Administrators of Nova Scotia (AMANS); NS Municipal Fuinance Corporation (NSMFC); Financial Management Capacity Building Committee (FMCBC)	Performance Management: Using Performance Measurement for Decision Making	Program and service performance measures	Low - relates to programs and services not fiscal health per se-does provide guidance on characteristics of high quality performance information	Characteristics of good performance information:	1) information that is credible and that embodies: reliability and validity, relevance, fairness, comparability and consistency, and understandability	
S&P	Credit rating (ICR)	Credit worthiness	High	Net debt		Net debt

Appendix 2-2

Indicator descriptions

1. Debt

Total tax-supported and other HRM debt (issued and approved). This indicator can be applied alone or on a per dwelling unit basis.

2. Asset condition

Asset condition is a measurement of the current condition of individual asset classes compared to minimum and desired standards of condition. It is not a financial measure; rather it is a measure of condition against minimum standard. Where they do not currently exist, standards will be developed.

3. SUSTAINABILITY INDICATORS [1]

Government-specific indicators

i. **assets-to-liabilities;**

The "assets-to-liabilities" indicator reports the ratio of a government's financial and non-financial assets to its liabilities. This indicator supports a discussion about sustainability by illustrating the extent to which a government finances its operations by issuing debt. A ratio higher than one indicates that a government has accumulated surplus and has assets greater than debt. A ratio of less than one indicates that debt is greater than assets and that the government has been financing its operations by issuing debt. A trend in this direction may not be sustainable.

ii. **financial assets-to-liabilities;**

The "financial assets-to-liabilities" indicator reports the ratio of a government's financial assets to its liabilities. A result lower than one indicates liabilities exceed financial assets (net debt) and future revenues will be required to pay for past transactions and events. A result higher than one indicates financial assets exceed liabilities (net financial assets) and financial resources are on hand that can finance future operations. A trend showing increases in net debt or reductions in net financial assets may not be sustainable.

iii. **net debt-to-total annual revenue;**

The "net debt-to-total annual revenue" indicator measures government net debt as a percentage of total revenues. Net debt provides a measure of the future revenue required to pay for past

[1] Taken from - PSAB Statement of Recommended Practice-4, Indicators of Financial Condition – there are additional Indicators to those included here in SORP-4 – these are the ones determined to be most relevant for HRM and included in the report on fiscal health.

transactions and events. A ratio that is increasing would indicate that more time to eliminate net debt will be necessary. A trend in this direction may not be sustainable.

iv. **expense by function-to-total expenses;**

The "expense by function-to-total expenses" indicator provides a summary of the major areas of government spending as a proportion of the total expenses. Functions are broken down into separate components such as health, education and transportation, illustrating the trend of government spending in particular program areas over time. A program area that grows at a much faster rate than total expenses may have an impact on the sustainability of other programs.

Government-related indicators

v. **net debt-to-taxable assessment;**

The "net debt-to-GDP or taxable assessment" indicator measures a government's net debt — the difference between its liabilities and financial assets — as a proportion of the GDP or the taxable assessment. It shows the relationship between a government's net debt and the activity in the economy. If the ratio declines, government debt is becoming less onerous on the economy. A stable net debt-to-GDP or the taxable assessment ratio indicates a government's overall fiscal policies have been sustainable, to the extent that the rate of economic growth in the economy within which it operates is the same as the growth in net debt. If the ratio rises, government net debt is becoming more onerous on the economy, which may not be sustainable. This may prompt a government to decide whether to increase taxes, reduce program expenses relative to interest charges or increase borrowing further to service the debt.

vi. **total expenses-to-taxable assessment.**

The "total expenses-to-GDP or taxable assessment" indicator provides the trend of government spending over time in relation to the growth in the economy. A trend that shows total expense is growing at a faster rate than the growth in the economy may not be sustainable.

Footnotes

3. When "GDP or taxable assessment" is referred to as the denominator for a particular indicator, sovereign governments would apply the GDP denominator and local governments would apply the taxable assessment denominator (see also paragraph 36).

4. The term "accumulated deficit" has been used but in some cases this may be an "accumulated surplus".

4. **VULNERABILITY INDICATOR**[2]

i. **government transfers-to-total revenues**

The purpose of reporting "government transfers-to-total revenues" is to show the proportion of revenues that provincial or local governments receive from other governments. This indicator offers a perspective on the degree of vulnerability a government faces as a result of its dependence on another level of government for revenues.

An increasing dependence on another level of government for revenues means that the receiving government is increasingly vulnerable to the fiscal decisions of another. Reduced dependence on government transfers may reduce vulnerability but it could also impair sustainability if a government's own tax base has to replace the revenues lost from a reduction in transfer payments. A government that reduces its dependence on government transfers and correspondingly reduces its spending may avoid impairing its sustainability, but it could produce dissatisfaction among constituents.

5. **FLEXIBILITY INDICATORS**[3]

i. **public debt charges-to-revenues;**

ii. **own-source revenues-to- taxable assessment.**

Government-specific indicators

The "public debt charges-to-revenues" indicator measures public debt charges as a percentage of revenues. It illustrates the extent to which past borrowing decisions present a constraint on a government's ability to meet its financial and service commitments in the current period. Specifically, the more government uses revenues to meet the interest costs on past borrowing, the less will be available for program spending.

The public debt charges-to-revenues indicator is important because, when this indicator increases for an extended period of time and assuming relatively stable interest rates, it means that the government has consistently chosen borrowing over increases in taxation or user fees to meet its financial and service commitments. This will eventually have an effect on its flexibility because once a government borrows, its first commitment must be to service its debt. Failing to do so would impair its future ability to borrow or to roll over its existing debt.

The "own-source revenues-to-taxable assessment" (local governments) indicator is important because it shows the ratio of a local government's own-source revenues to its tax base. A change in the size of a

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[2] Taken from - PSAB Statement of Recommended Practice-4, Indicators of Financial Condition – there are additional Indicators to those included here in SORP-4 – these are the ones determined to be most relevant for HRM and included in the report on fiscal health.

[3] Taken from - PSAB Statement of Recommended Practice-4, Indicators of Financial Condition – there are additional Indicators to those included here in SORP-4 – these are the ones determined to be most relevant for HRM and included in the report on fiscal health.

local government's taxable assessment or a change in the rate of growth in assessment in relation to changes in own-source revenues could influence flexibility.

Over time, increases in these ratios suggest reduced flexibility. However, evaluating the extent to which flexibility is diminished by changes in these indicators is difficult. A government that has a lower own-source revenues-to-GDP or own-source revenues-to-taxable assessment figure compared to another does not necessarily have room to raise taxes or increase user fees. When combined with data about the willingness of taxpayers within a jurisdiction to change the level of taxation or user fees they are willing to pay, these indicators provide information that helps a government determine the extent to which it can access own-source revenues in the future.

6. Liquidity Ratio [4]	This indicator measures the short-term ability of a municipality to meet its current obligations. It is calculated by dividing short-term operating assets by short-term operating liabilities.
7. Specific reserves as a % of planned level	Specific year-end reserve balances compared to planned levels, including Variable Operating Stabilization Reserve; Snow and Ice Reserve; CCC reserves; Solid Waste, cell replacement reserve. This list may be revised from time to time to reflect reserve policy and planning approvals. Regarding the use of reserve balances generally as a financial indicator, SNS&MR Municipal Indicator descriptions states - "municipalities that have higher levels of reserves than average are considered financially healthier and may be more advanced in their strategic planning. A low indicator here may not necessarily indicate a financially weak municipality. It may simply reflect council policy to keep tax rates at a minimum rather than building reserves." Therefore, selected reserves and performance against targeted balances has been selected as the indicator, rather than the level of reserves as a whole.

[4] SNS&MR – Municipal Indicator Descriptions
http://www.gov.ns.ca/snsmr/muns/indicators/public/IndicatorDescriptions.asp

8. Commercial/Total Assessment[5]

Indicates the increase in a municipality's *ability to raise funds... and may reflect the change in economic well-being of the municipality.* This indicator could also be viewed in combination with the increase in uniform assessment for the province as a whole because uniform assessment is used in cost sharing and equalization grant formulas. For example, a higher than average increase in U.A. may indicate that expenditures for cost sharing programs will increase.

Shows the relative strength of the municipality's tax base. A higher percentage indicates higher revenue raising ability because commercial tax rates are higher than residential tax rates and therefore generate more tax revenue. *This is calculated by dividing total taxable commercial assessment including business occupancy assessment by total taxable assessment.*

[5] http://www.gov.ns.ca/snsmr/muns/indicators/public/IndicatorDescriptions.asp - amendments made to definition to meet HRM requirements.

Ap, 3

How the indicators of fiscal health can be applied

Indicators - ranked in priority order

Key indicators – in order of relevance to HRM's goals:

Indicator	Type of Value		Year 0 Base year	*** Indicator Value	Current trend	Threshold Year 1 Target	Impact on indicator from each Option: A	B	C
1. **Net debt** (linked to minimum standards for Asset conditic	dollar	$	31-Mar-08	$ 450 M	↓	$ 405	$ 425	$ 405	$ 409
							-1	none	-1
2. **Asset condition**	Note 1		31-Mar-08	see detail	↓	↑	1	none	none
3. **Sustainability indicators**									
i) assets-to-liabilities;	ratio	x:x	31-Mar-08		↑	↑	-1	none	none
ii) financial assets-to-liabilities;	ratio	x:x	31-Mar-08		↑	↑	-1	none	-1
iii) net debt-to-total annual revenue;	ratio	x:x	31-Mar-08		↓	↓	-1	1	+
iv) expense by function-to-total expenses;	ratio	x:x	31-Mar-08		Note 2	Note 2	-1	1	none
v) net debt-to-taxable assessment;	ratio	x:x	31-Mar-08		?	↓	none		
vi) total expenses-to-taxable assessment	ratio	x:x	31-Mar-08		Note 3	Note 3	none		
4. **Vulnerability indicator**									
i) government transfers-to-total revenues;	ratio	x:x	31-Mar-08			↓	none		
5. **Flexibility indicators**									
i) public debt charges-to-revenues;									
ii) own-source revenues-to-taxable assessment									
6. **Liquidity Ratio**									
7. **Operating and other special Reserve** balances as a % of projected / targeted balances									
a. Variable Operating Stabilization Reserve	ratio	x:x	31-Mar-08				none	none	none
b. Snow and Ice Reserve	ratio	x:x	31-Mar-08				none	none	none
c. CCC reserves	ratio	x:x	31-Mar-08				-1	none	none
d. Solid Waste cell construction reserves	ratio	x:x	31-Mar-08				none	none	none
8. **Commercial/Total Assessment**	ratio	x:x	31-Mar-08			↑	-1	1	none
Scoring of projected impact of options on indicator targets or desired trends Note 4							-6	$ 3	-2
							fail	pass	fail

Note 1 Asset conditions are based on the assessment of the asset managers and describe the specific asset classes described.

Note 2 Trends and targets to be set on each function

Note 3 Trends and targets to be set

Note 4 Based on the targets and the performance of options against the target, points are added or taken away. Any score less than 1 should not be pursued on the basis of the fact that it impairs fiscal health.

Fiscal health is protected when the impact on indicators is no less than 1.

*** Data to be input by HRM

STANDARD & POOR'S

RatingsDirect®

September 22, 2008

Halifax Regional Municipality

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Halifax Regional Municipality

Major Rating Factors

Issuer Credit Rating

A+/Positive/--

Strengths:

- Moderate and declining debt burden
- Strong economic performance in 2007 and 2006
- A history of robust financial results
- Healthy liquidity support

Weaknesses:

- Substantial increase in debt burden since fiscal 2004
- Lower level of senior government support

Rationale

The rating on Halifax Regional Municipality, in the Province of Nova Scotia (A+/Stable/A-1+), reflects the following credit strengths:

- Halifax's direct debt began to fall in fiscal 2007 (year ended March 31), reversing three years of consecutive increases. At the end of 2007, direct debt stood at C$435 million, which was down about 4% from its peak in 2006 of C$450 million. The decline in direct debt coupled with healthy operating revenue growth drove the city's debt burden down to 78% of 2007 operating revenues from 87% at the end of fiscal 2006. Amortization will exceed new issuance in the next five years and both direct debt and debt burdens will continue their steady decline. Direct debt should reach below C$420 million or 72% of projected operating revenues by the end of the current fiscal year (2009).
- The Halifax economy produced strong results in both 2006 and 2007. Real GDP increased 2.2% in 2007 from 2006 by the city's estimates, following a 1.9% gain the previous year (2005-2006). Employment growth was quite solid in both years, increasing 1.1% in 2006 and 1.8% in 2007. The unemployment rate, which stood at 5.8% in 2005, fell to 5% in 2006 and inched up to 5.2% in 2007. Although building permit values declined about 4% in 2007, they remained at historically high levels and propelled strong taxable assessment base growth in the period.
- Halifax improved on its solid fiscal 2006 performance with an operating surplus of 17.5% of operating revenues in 2007. The 2007 result was Halifax's second-largest surplus and was only a shade below the 2004 surplus of 17.7%. With a major sewer upgrade nearly complete and capital expenditures beginning to decline, the 2007 after-capital results improved significantly as the deficit fell to below 5% of total revenues in 2007 from almost 10% a year earlier.
- Cash and investment holdings remained healthy despite a moderate drop in fiscal 2007. At the end of fiscal 2007, cash and investment holdings stood at about C$140 million (or 25% of 2007 operating revenues), which was down about 22% from the previous year-end. The decline was the result of a planned drawdown of reserves to fund a major sewer project. Although Standard & Poor's Ratings Services expects another drawdown for 2008, cash and investment balances should stabilize and resume their upward trend in 2009.

The following factors partially offset these credit strengths:

- Halifax's debt burden remains somewhat high compared with that of peers despite the decline in fiscal 2007. At the end of 2007, debt outstanding represented 78% of operating revenues, which was slightly above the median burden of the 'A' category and was significantly above the 2006 average of 'A' rated Canadian municipalities of 51%.
- Halifax does not enjoy the same level of support from senior governments as similarly rated Canadian peers. Transfer revenue constituted the lowest share of total revenues for the city of all 'A' rated Canadian municipalities.

Outlook

The positive outlook reflects our expectation that Halifax's debt and debt burden will drop steadily during the next three years, reaching a level that is consistent with 'AA' rated peers. Cash and investment balances should be maintained close to fiscal 2007 levels at a minimum. We expect that the pace of economic activity and assessment growth in the city should remain healthy. Operating surpluses should continue to be robust and after-capital deficits should continue to decline toward balance. A material increase in debt and the debt burden or a marked deterioration in financial performances could place downward pressure on the ratings. Continued declines in debt and the debt burden and an improvement in liquidity levels with the maintenance of solid financial performances are definite preconditions for an upgrade.

Comparative Analysis

We compare Halifax's key credit metrics with those of a group of 10 similarly-rated local governments and with the medians for all 'A'-rated governments. Halifax's immediate peer group includes the French city of Avignon (A-/Stable/--); the Canadian cities of Belleville (A+/Stable/--) and Kingston (A+/Positive/--), Ont.; the Czech city of Brno (A-/Stable/A-2); the Italian cities of Bologna (A+/Stable/--) and Genoa (A-/Positive/--); the Swiss city of Lausanne (A+/Stable/--); the Spanish city of Malaga (A/Stable/--); and the New Zealand cities of Tauranga (A/Stable/A-1) and Waitakere (A+/Stable/A-1). Although there is little economic data consistently available across the entire group, Halifax's economy appears to compare well with those of its peers. The city's unemployment rate was lower than those of the entire group and the median for the 'A' category. Despite a lack of data, Halifax has one of the highest population growth rates of the group and of employment concentration in the service sector.

The city's financial performances in the past three years (2004-2006) compares very well with those of immediate peers and the 'A' category medians. Halifax's average annual operating surplus (as a share of operating revenues) is better than the 'A' median and the entire immediate peer group except those of Belleville, Brno, and Tauranga. Although Halifax's average annual after-capital deficit (as a share of total revenues) for the three-year period is somewhat larger than the 'A' category median, it is well within the range of averages of the immediate peer group. Brno, Kingston, Tauranga, and Waitakere all produced larger after-capital deficits in the 2004-2006 period. Halifax relies significantly less on senior government transfers than almost all immediate peers (except Waitakere) and the majority of the category peer group.

Although Halifax's direct debt burden is higher than the 'A' median, the city is one of the less indebted members of the immediate peer group, behind Belleville, Bologna, Brno, and Kingston. The comparison improves further with respect to the burden of interest expense. Halifax's interest expense (as a share of operating revenues) is lower than that of the 'A' median and the immediate peer group save Belleville and Kingston.

Strong Economic Performances In 2006 And 2007

Halifax is on Canada's Atlantic coastline and has a population of approximately 390,000. The city is the capital of Nova Scotia, the most populous of the four Atlantic provinces, and is the financial, socioeconomic, and cultural center of Atlantic Canada. The city is the most important part of the provincial economy as the output of the greater Halifax area represents about half of the province's output. Halifax is home to more than 41% of the province's population, a share that has steadily increased each year.

The city possesses one of the finest harbors in world and is one of the top three ports in the country in terms of traffic. As one of Canada's chief ports of entry, the port handles a large amount of container traffic through its large intermodal (rail, ship, and road) transfer facility. As well, the port is home to Canada's main naval base on its east coast.

Both 2006 and 2007 were very good years for the Halifax economy. Real GDP increased 2.2% from 2006 to 2007 by the city's estimates, following a 1.9% gain the previous year (2005-2006). In contrast at the provincial level, real GDP increased 1.6% (2006-2007) and 0.9% (2005-2006).

Strong labor force mirrored the output gains in both years. Employment growth was quite solid in both years, increasing 1.1% from 2005 to 2006 and 1.8% from 2006 to 2007. The unemployment rate, which stood at 5.8% in 2005, fell to 5% in 2006 and inched up to 5.2% in 2007. The city's unemployment rates in both years were well below the provincial rates for those years. The rise in 2007, which came despite solid job growth in that year, was the result largely of an increase in the participation rate to 70% in 2007 from 69% a year earlier. Halifax has one of the highest participation rates of the 29 major urban centers in the country.

The city's strong institutional employment base includes universities and colleges, hospitals and regional health centers, school boards, provincial ministries and institutions, and significant federal and local government operations. The top five employers are Queen Elizabeth II Health Sciences Centre, Aliant Inc. (the former Maritime Telephone & Telegraph Co.), Dalhousie University, IWK/Grace Health Centre, and Nova Scotia Power Inc. (BBB/Stable/--).

As of the end of 2007, 86% of employment in Halifax was in the service sector. The public sector (health, education, and public administration), commercial services, and trade dominate service-sector employment. The secondary sector represented 12% of 2007 employment.

Construction sector remains healthy

The pace of activity in the local construction sector has remained healthy in the past two years. Building permit values decline slightly in 2007 from 2006 by about 4% but remained at historically high levels. Housing starts also increased modestly in the same period, rising 7%. Growth in the taxable assessment base has been very strong, thanks to continued high levels of building permits. Taxable assessment has increased 9% year-over-year in both 2006 and 2007. Rising property values have also boosted assessment gains, as evidenced by steadily increasing new home values.

Demographics continue to favor long-term assessment growth. Both the city's estimates and the recently announced 2006 Census results indicate that Halifax's population has been increasing in at just below 1% a year. As the largest urban center in Atlantic Canada, the city's attractiveness to new residents will only likely increase as the city generates more critical mass and growth trends continue.

Despite slowing Canadian and U.S. economies, the provincial and local economies should maintain its steady growth track. Real GDP and employment growth should moderate in 2008 from 2007 levels but continue to be healthy.

Budgetary Performance

To improve comparability across local and regional governments globally, Standard & Poor's adjusts the published figures of all cities to reflect their budgetary balances on a cash basis. This includes adjusting for certain major accruals and the increase in equity of government business enterprises, and removing one-time revenue influences and provincial pass-through income support grants.

Bigger operating surplus in fiscal 2007

Halifax improved on its solid fiscal 2006 operating result with an operating surplus of 17.5% of operating revenues in fiscal 2007. The 2007 surplus was the city's second-best ever. The after-capital deficit improved as Harbour Solutions moved closer to completion. For fiscal 2007, Halifax generated an after-capital deficit of just less than 5% of total revenues, which was less than half of the deficit produced a year earlier. After-capital results should continue to improve as Harbour Solutions winds down. Operating surpluses should also strengthen as the city expands its internal capital funding capacity.

Operating revenues grew 7.5% from fiscal 2006 to 2007, thanks to increases in senior government grants and property taxes. In the long term, operating revenue growth has been robust: Since amalgamation in 1998, operating revenues have increased almost 6% a year on average. The biggest boost to operating revenue growth since amalgamation has been the imposition of the environmental protection charge. Nevertheless, property tax revenues have increased solidly with the expanding taxable assessment base and new residential construction. Capital revenues have received a much-needed boost with federal gas tax money flowing to municipalities across the country and federal and provincial contributions to Harbour Solutions. We expect that operating revenues will continue to expand at about the same long-term rate, driven by solid gains in the taxable assessment base.

Operating revenues grew 6.6% in fiscal 2007, thanks largely to increased costs for protective and transportation services. Operating expenditures have also expanded since amalgamation but at a significantly lower rate: Since 1998, operating expenditures have increased at an average annual rate of 3.4%.

Harbour Solutions project nearing completion

Harbour Solutions is a multiyear project that will dramatically enhance the city's sewer network and wastewater treatment capabilities and significantly improve the water quality in Halifax Harbour. Total cost of the project is estimated to be C$330 million, of which Halifax's share will be C$270 million. The remaining project costs are the responsibility of Nova Scotia and the federal government. The project remains on-time and on-budget. Two of the three wastewater facilities are finished and one of those is now fully operational. Construction on the remaining facility is nearing completion.

In May 2008, Halifax Council transferred wastewater and storm sewer responsibilities and its associated debt service requirements to the Halifax Regional Water Commission (HRWC), the city's wholly owned potable water utility. HRWC will be responsible for debt service for all existing and future water, sewer, and storm related issuance, including city debt to fund Harbour Solutions.

With Harbour Solutions' completion and the transfer of responsibilities, annual capital programs should return back to more typical levels. The city is budgeting for a capital program of just less than C$140 million for fiscal 2009. Transit, roads and facilities are the biggest planned expenditures.

As a rule, the general capital program is funded through a combination of contributions from reserves and operations and with debt. Typically debt is a minor share of the funding package. Debt, however, has played a larger role in funding Harbour Solutions, and debt could eventually constitute about 40% of the total project funding.

Liquidity, Debt, And Contingent Liabilities

Cash and investment holdings decline again in 2007

Cash and investment holdings retreated again in fiscal 2007 from their high of about C$240 million in 2005. At the end of fiscal 2007, cash and investment holdings stood at about C$140 million or 25% of 2007 operating revenues, which was down about 22% from the previous year-end. The declines were the result of planned draws on the water pollution reserve put in place for the funding of Harbour Solutions--the environmental protection charge established for the project's internal funding was largely responsible for the extremely rapid build-up of cash and investments in 2004 and 2005. With most of the project's funding complete, the reserve established to provide internal funding for Harbour Solutions will be drawn down. Liquidity levels should resume a gradual upward trajectory in fiscal 2009 and beyond.

Debt begins to decline in 2007

Direct debt, which includes capital leases and the debt of HRWC, began to decline in fiscal 2007, reversing a three years of consecutive increases. At the end of fiscal 2007, direct debt stood at C$435 million, which was down about 4% from its peak in 2006 of C$450 million. Solid revenue growth, coupled with a decline in direct debt, propelled a drop in Halifax's debt burden. At the end of fiscal 2007, direct debt represented about 78% of operating revenues, which was down from 87% a year earlier. HRWC has issued a modest share of Halifax's debt, although the utility will be responsible for servicing the debt issued by the city to fund Harbour Solutions. At the end of fiscal 2007, HRWC debt stood at C$66 million (or 15% of Halifax's total direct debt).

Amortization will exceed new issuance in the next five years and both direct debt and debt burdens will continue their steady decline. Direct debt should reach below C$420 million, or 72% of projected operating revenues by the end of the current fiscal (2009). Halifax's direct debt burden could reach as low as 50% of operating revenues by the end of fiscal 2012.

The city's net financial liabilities burden, as a share of total revenues, was considerably lower than its direct debt burden. At the end of fiscal 2007, net financial liabilities stood at 48% of total revenues, which was up slightly from 46% a year earlier. The rise was due predominantly to the substantial draw on reserves in 2006 for Harbour Solutions funding, but a drop in direct debt and revenue growth in fiscal 2007 offset much of the liquidity decline. Net financial liabilities have generally declined since the beginning of the decade as a result of increasing cash holdings, improving operating results, and healthy revenue growth.

The 2007 financial statements indicate that the city's pension plan has moved from a solid surplus position to a slight deficit. The city has other postretirement benefit obligations amounting to about C$30 million for retirement allowances, long-term disability payments, and early retirement programs. In addition, Halifax has perpetual care obligations for two landfills, one of which is inactive, that total to less than C$10 million. At the end of fiscal 2007, reserves of about C$8 million were in place for these expenditures. The statements do not disclose any other material unfunded obligations.

Table 1

Halifax Regional Municipality--2006 Peer Comparison

	'A' Median	Halifax (Regional Municipality Of)	Belleville (City Of)	Bologna (City Of)	Kingston (City Of)	Waitakere City Council*
Issuer credit rating as of Sept. 22, 2008 (local currency)	N/A	A/Positive/--	A+/Stable/--	A+/Stable/	A+/Positive/--	A+/Stable/A-1
Three-year averages, using actual results only						
Operating balance (% of operating revenues)	10.2	16.0	17.4	3.4	13.6	10.1
Balance after-capital expenditures (% of total revenues)	(3.2)	(4.5)	2.2	(2.8)	(5.3)	(29.6)
Capital expenditures (% of total expenditures)	25.0	25.8	19.8	16.9	25.0	37.4
Transfers received (% of total revenues)	20.5	4.1	10.5	8.5	18.2	0.2
2006 results (mil. C$)						
Total revenues	614.2	585.2	100.2	776.9	310.3	154.5
Modifiable revenues (% of operating revenues)	62.3	93.3	88.5	72.5	81.4	N.A.
Direct debt (at year-end)	465.9	449.1	29.9	464.8	117.2	172.3
Direct debt (% of operating revenues)	74.7	86.5	31.6	66.3	45.7	120.5
Tax supported debt (% of total revenues)	69.3	76.7	2.0	59.8	34.6	111.6
Interest (% of operating revenues)	3.0	2.5	2.2	3.0	1.6	6.9
Debt service (% of total revenues)	7.8	10.5	4.0	7.7	4.0	12.0
Free cash & equivalents (% of debt service)	237.7	289.0	602.2	39.8	989.9	24.4
Population	509,140	385,500	48,821	951,499	117,207	191,900
Unemployment rate (%)	6.4	5.0	6.2	N.A.	6.2	N.A.

*Waitakere figure for 2005. N/A--Not applicable. N.A.--Not available.

Table 2

Halifax Regional Municipality--Economic Statistics

	--Year ended Dec. 31--				
(% change)	**2007**	**2006**	**2005**	**2004**	**2003**
Population	0.6	0.7	0.4	0.6	0.9
Unemployment rate (%)	5.2	5.0	5.8	6.1	7.1
Employment	1.8	1.1	(0.3)	8.1	2.4
Building permit values	(3.5)	11.0	(6.3)	40.4	(9.6)
Taxable assessment base*	9.1	9.2	8.7	7.4	8.1

*Values include increases in market value.

Table 3

Halifax Regional Municipality--Financial Statistics					
	--Year ended March 31--				
(%)	**2007**	**2006**	**2005**	**2004**	**2003**
Operating balance/operating revenue	17.5	16.8	13.5	17.7	13.9
After-capital spending balance/total revenue	(4.9)	(9.9)	(4.9)	1.3	(1.7)
Operating revenues (% change)	7.5	8.6	(0.9)	6.7	5.2
Operating expenditures (% change)	6.6	4.4	4.2	2.0	5.6
Total municipal debt/operating revenues	78.1	87.3	90.7	67.9	71.4
Interest expense/operating revenue	2.3	2.5	2.8	3.6	3.4

Ratings Detail (As Of September 22, 2008)*

Halifax Regional Municipality	
Issuer Credit Rating	A+/Positive/--
Issuer Credit Ratings History	
11-Sep-2008	A+/Positive/--
14-Dec-2006	A/Positive/--
02-Jul-2002	A/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country