


HALIFAX

P.O. Box 1749
Halifax, Nova Scotia
B3J 3A5 Canada

Item No. 03
Committee of the Whole
October 20, 2015

TO: Mayor Savage and Members of Halifax Regional Council

Original signed by 

SUBMITTED BY:

Richard Butts, Chief Administrative Officer

Original Signed by Director

Amanda Whitewood, Chief Financial Officer, Director Finance and ICT

DATE: October 5, 2015

SUBJECT: Preliminary Fiscal Direction 2016-17

ORIGIN

The Preliminary Budget and Business Planning fiscal direction for 2016-17 planning purposes needs to be established.

LEGISLATIVE AUTHORITY

Halifax Charter, section 35 (1) The Chief Administrative Officer shall (B) ensure that an annual budget is prepared and submitted to the Council.

RECOMMENDATION

It is recommended that staff develop the preliminary 2016-17 budget based on:

1. Alignment of average tax bills for residential homes and commercial properties with relative economic indicators;
2. Consistent past direction from Council to maintain a moderate and declining debt position; and
3. Positive evidence of expenditure management aligned with growth in inflation, dwellings, personal income and GDP.

BACKGROUND

Staff is currently in the initial stages of planning for the 2016-17 Budget and Business Plans. As a part of that process Council will engage in a debate on priorities and outcomes on November 10, 2015. Commencing December 2nd and continuing through into March of 2015, The Budget Committee of the Whole will begin the review of individual budgets and plans for the upcoming fiscal year. Throughout that time period and per Council's past direction, public consultations will be ongoing. The first stage of the process, however, consists of providing broad direction to staff on the underlying assumptions for taxation and fiscal items in 2016-17. These assumptions, in turn, will influence the available funds for each of the services and projects the Municipality is able to undertake in 2016-17.

DISCUSSION

Preparing and finalizing a budget for HALIFAX is an extensive exercise which includes many iterative steps. There is demand to renew existing infrastructure, maintain and improve the value of existing services, extend current services to new homes and businesses, and maintain the nearly \$2 billion in municipal assets. Balanced against this is the need to set appropriate tax levies on homeowners, businesses and others. The revenues from these rates allow for the provision of these services and must be balanced against the value to society of those services, the ability of taxpayers to pay for those items, and the broad landscape that the mix of services and taxes will support.

The Local Economy

The Halifax economy is generally a strong economy that shows consistent yet moderate growth. That growth is supported by employers in the financial, insurance, post-secondary education and public sectors. While the Conference Board of Canada continues to project modest growth in personal income, and stable growth in GDP and employment, the local housing market is facing lower than average sales and a reduction in growth in market values. Since HALIFAX's revenue mix is proportionately dependent on residential taxes, this economic reality is an important factor in our financial plans.

Key Economic Assumptions

Conference Board of Canada

	Base Year	Year 1	Year 2	Year 3
	2015-16	2016-17	2017-18	2018-19
Inflation (CPI)	1.1%	2.4%	2.1%	2.1%
Income (per person)	\$40,385	\$41,395	\$42,341	\$43,224
- percentage change	1.2%	2.5%	2.3%	2.1%
Employment (000s)	224,000	228,000	230,000	231,000
New Homes	1,845	1,832	1,905	1,854
- percentage change	1.0%	1.0%	1.0%	1.0%
Real GDP	2.3%	3.0%	1.8%	1.7%

While final data is not yet available, we are planning for growth in residential assessments of approximately 1% for the 2014 base year, and commercial assessment growth of approximately 3%

based on 2015 calendar year. Since 2009, the commercial tax base has grown from \$5.581B to 2015 levels of \$7.353B*. This growth continues to position HALIFAX well for the future; however, it represents less than 33% of our total revenue mix.¹

In 2014-15 revenues from the commercial taxable base formed 32.5% of our total revenue mix, 52.1% was residential and 15.4% was from fees and other sources. In a soft real estate market, this proportionate dependency on residential property taxes adds uncertainty to HALIFAX's financial plans. Included in this uncertainty is the declining strength of the deed transfer tax supported by residential sales. This was signalled to Council during last year's financial direction presentation.

Financial and Economic Alignment

In an effort to match the economics of the broader community, HALIFAX's fiscal plans have been developed using Council's past direction of moderate, sustainable and aligned growth. Past growth in expenditures can be mostly explained by the growth in the size of HALIFAX and the growth in the consumer price index. In the last five years, the total growth in municipal expenditures (after inflation is included), is less than \$10 per home. After inflation, the cost per home has declined in the last two years; an outcome that may not be sustainable in an environment that calls for modernization and economic stimulation.

In 2016-17 and forward, the pressure to renew infrastructure and the upward pressure on prices continues. While fuel prices appear to have stabilized, inflation is expected to be 2.4% in 2016. Cost pressure also comes from the need to service newer dwelling units and to fund a growing capital budget. Council's continued discipline of alignment of financial plans with key economic indicators is recommended.

Scenario Development/Planning Assumptions:

Staff's preliminary planning assumption will maintain the residential and commercial tax burdens (that is, the average tax bill), at current levels.

For example, the working assumption for 2016-17 is that the average home will rise in value by 1%. In order to maintain the same average tax bill, the tax rate would need to be decreased by a similar 1%. When the final assessment roll is available at the end of December, staff will be able to confirm the total and average assessment increases and confirm next year's revenues and tax rates.

As noted throughout this Report, this strategy is not sustainable in the long-term, however, since 2015-16 tax burden rose to cover inflation and to provide additional funding for strategic capital projects, staff recommend continuing to stimulate growth while containing costs in 2016-17. At this point in the budget debate, it will be important to focus on cost containment and reduction and to understand the service implications of any changes. With respect to the capital budget, staff is reviewing the Municipality's ability to fund and deliver new and additional projects while continuing to manage the long-term debt per household ratio.

¹ Source: *Historical Population, Employment and Commercial Tax Base Figures (Halifax, NS and Canada | 2009-2014) Halifax Partnership Attachment 3 Council Report dated June 2, 2015, Economic Strategy & Halifax Partnership Update Year End 2014-2015*

Average Assessments and Tax Rates

	Base Year 2015-16	Year 1 2016-17	
Average Assessment (Single Family Home)	\$223,100	\$225,300	} The property tax rates will be reduced to offset any assessment increase.
* Urban Tax Rate	0.820		
Average Tax Bill	1,829	1,829	

In addition, the Deed Transfer Tax is assumed to drop in 2016-17 before levelling out in 2017-18.

The net result of these initial assumptions is a shortfall of \$18.7M in the first year, which rises by year 3 to nearly a \$56M planning gap. This can be explained by holding the tax burden at the current amount, while costs rise and contracts settle within the organization. Obviously, this is not sustainable and over the next several months staff will work to confirm these assumptions and to make recommendations which reduce or eliminate that gap and project a long-term sustainable financial future for HALIFAX.

Pressures for the Next Three Years (\$ millions)

Tax Bills remain Flat, No Adjustments for Expenditure

	Base Year 2015-16	Year 1 2016-17	Year 2 2017-18	Year 3 2018-19
Gross Expenditures	\$726.5	\$749.8	\$777.3	\$803.1
Revenues	\$213.3	\$213.0	\$215.7	\$218.8
Property Taxes	<u>513.3</u>	<u>518.2</u>	<u>523.2</u>	<u>528.7</u>
Total	\$726.6	\$731.1	\$738.9	\$747.5
Planning Gap	\$0.0	\$18.7	\$38.4	\$55.6

FINANCIAL IMPLICATIONS

There are no immediate financial implications associated with this recommendation. The preliminary budget targets that will be provided to business units are scenarios for development, feedback and presentation purposes.

COMMUNITY ENGAGEMENT

Budget Consultations will consist of an on-line balance-the-budget tool (the “budget allocator”) as well as an opportunity for the Public to discuss the Budget and the process with Councillors and the Mayor during the Community Council meetings scheduled in October 2015.

The Community will also be provided the opportunity to attend the Business Unit draft budget presentations to Committee of the Whole, and afforded the opportunity to ask questions afterwards.

ENVIRONMENTAL IMPLICATIONS

There are no immediate environmental implications to this recommendation.

ALTERNATIVES

There are no specific alternatives included but as the Budget review develops Council may develop specific alternatives for taxation, fiscal items and individual services.

ATTACHMENTS

None

A copy of this report can be obtained online at <http://www.halifax.ca/commcoun/index.php> then choose the appropriate Community Council and meeting date, or by contacting the Office of the Municipal Clerk at 902.490.4210, or Fax 902.490.4208.

Report Prepared by: Bruce Fisher, Manager of Financial Policy and Planning, 902-490-4493

Report and Financial
Approved by:

_____ *Original Signed* _____
Amanda Whitewood, Chief Financial Officer, Director Finance and ICT, 902.490.6308
