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Halifax Regional Council
December 13, 2005

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY: Dale MacLennan
Dale MacLennan, Director of Finance

DATE: December 8, 2005

SUBJECT: **Fiscal Framework - Update**

SUPPLEMENTARY REPORT

INFORMATION REPORT

ORIGIN

At the November 15, 2005 Committee of the Whole, staff presented the 2006-2007 Fiscal Framework. Council asked for supplementary information "… on the implications and impact of a 0%, 1.8% and 4.9% reduction in the tax rate for 2006/07".

This report provides information on the impact of various tax rates and provides a context for considering these impacts. It is not necessary for Council to make a decision on this issue at this time, given that in early January HRM will receive the final assessment roll from the Province. Staff will return to Council for discussion on the fiscal framework once the revenue estimates have been updated for the fiscal framework.

BACKGROUND

There are two steps in the development of the fiscal framework and budget assumptions. First staff estimate what it will cost to provide the same level of service as in the previous budget, including the cost of all commitments (e.g.contracts, agreements, legislative requirements) and anticipated increases in the cost of doing business (inflation). For the 2006/7 fiscal year, this is estimated at $620 million. This represents a 5.5% increase over last year's budget of $588 million. Included in this estimate is an anticipated increase in Mandatory Education and other provincial charges - if this were not included, the estimated budget would be 4.8 % above the previous year.

The second step is to estimate revenues. An assumption has been made on the expected revenues based on preliminary assessment information and a tax rate. Following normal practices, the starting point is to assume HRM increases its revenues to capture new properties and any increases in the cost of doing business (inflation). This assumption implies a tax rate reduction of 7.6%. On this assumption, staff estimate a shortfall in revenues of $31 million. There are only two ways to reduce this deficit - one is to cut back on expenditures, the other is to increase the amount of taxes paid.

DISCUSSION

Expenditures

HRM has no control over nearly 20% of its expenditures - in last year's budget $111 million was transferred to other agencies, primarily to the Provincial government for mandatory and supplementary education. HRM can only control the amount of expenditures incurred in providing its services, $477 million, nearly 45% of which went to salaries and benefits. In the short term, HRM must continue to honour its commitment to staff, pay the heat and lights in the buildings, outstanding debt charges, and pay for supplies. Staff have kept expenditures relatively level, in constant dollars, while increasing services. In the longer term, there are more choices and opportunities, for example, closing and selling buildings, eliminating or contracting out services, investing in efficiency improvements.

Ongoing Initiatives to Control Expenditures

Council needs to be assured staff continue to seek cheaper and better ways to provide services, and to cut back on unnecessary expenditures. There is a perception that HRM spends a lot on discretionary items, for example, items such as training and travel. In last year's budget, training and travel accounted for about half a percent of the total budget ($3.4 m), which is less than average compared to similar organizations. Business units were given no increase in their expenses budgets, in spite of the increases in the prices of supplies. This forces constraint in operational expenditures.

As Council is aware, there is a Business Systems and Controls (Internal Audit) unit in the organization that has identified areas of high risk, in terms of potential to save money, or in terms of liability. This unit reports their findings to the Audit Committee, and improvements in processes have resulted. As well, staff have initiated a number of in depth reviews, such as the snow and ice review, that have led to savings.

Options/Implications of Reducing Expenditures

In the short term, reductions in expenditures, depending on the magnitude, lead very quickly to reductions in services. A review of services in terms of establishing their relative importance would be an option for Council to consider. Staff propose to begin this exercise once Council has provided direction on the Council Focus Areas, as this will assist staff in understanding what is most important to Council and the community. Staff are also aware that Council would like to see the capital budget increased If total expenditures remained the same, services on the operating side would have to decrease to divert dollars to the capital program.

Once the level of services and expenditures are determined, the assessment base is divided by the required expenditures to determine the tax rate. Assessments are increasing, so if expenditures remained the same, the tax rate would be reduced. Given our market based assessment, some assessments are rising significantly higher than others so that even if the total level of taxes remained the same, some homeowners will pay more, and some less.

Council requested information on the impact of various reductions in the tax rate. Specific impacts such as which services would be impacted have not been identified, as there is significant work required in assessing options and impacts. General direction can be provided, but it will depend to a large part on where Council wants the capital budget to be, and the changes in the level of services to be provided. The following provides some options, based on our current assumptions on assessment and services. **Council can change the relative balances between the capital and operating budgets.** For comparison, the 2005/6 budget included an expenditure level of $588 million and a capital budget $70 million

a) Small increases in services and capital

Expenditure level	$627 million
Capital budget	$83.6 million
Tax Rate	**0% change**

b) Last year's level of services, with a modest increase in capital

Expenditure level	$620 million
Capital budget	$76.8
Tax Rate	**Reduction of 1.6%**

c) Reduction in both services and capital (If Council wishes the Capital budget to remain the same as last year, including increases in the cost of doing business, services would have to be reduced by $14 million)

Expenditure Level	$606 million
Capital budget	$63 million
Tax Rate	**Reduction of 4.9%**

Understanding the Level of Municipal Taxes

Staff is very conscious of the public's expectation that municipal taxes be spent efficiently and that the level of taxation be kept to a minimum. Staff have benchmarked HRM municipal taxes from a number of perspectives.

1) Comparison of municipal taxes with other cities of similar size

In 2005/6 HRM's average house was assessed at $135,000, with general property taxes at just over $1,700. In a comparison of 2004 property taxes in 25 municipalities across Canada, HRM's property taxes were 4th lowest on average. Cities in Alberta tended to be lower, all others, such as Victoria, Winnipeg, Regina, Vancouver, Fredericton, Saint John, St. John's, London and Ottawa are higher.

2) Comparison with other taxes

HRM's property tax is about one-seventh of average income taxes. In HRM the average household pays over $12,000 in income taxes, and $1,700 in property tax. Yet services provided by the municipality touch citizens every day. Income taxes and other taxes levied by provincial and federal governments increase automatically as the economy grows. These governments rarely change their tax rates - if the economy of a municipality grows, there is an expectation the municipality will cut its tax rate.

3) Comparison with other household expenditures

Property taxes represent about 2.6% of household expenditures, as reported in a Statistics Canada survey. For this they receive services such as police and fire protection, garbage pick up, plowed and maintained streets and roads, parks and playgrounds, traffic control, public transit, libraries, community and recreation facilities. For low income families who are having difficulty, HRM offers a tax deferral and a tax rebate program, and staff have proposed an extension to the HRM temporary tax credit.

Conclusion

There is no doubt increasing property taxes are a significant concern to Council and the public. Yet expectations for increasing services are high, and work needs to continue to identify for greater efficiency and for potential to reallocate resources from services of lower priority to those of higher priority.

Staff will return to Council with an update on the fiscal framework and an approach to business planning and budgeting for 2006/7 that reflects a balance in the directions provided to staff through the discussions on Council Focus Areas.

BUDGET IMPLICATIONS

None at this time.

FINANCIAL MANAGEMENT POLICIES / BUSINESS PLAN

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

ALTERNATIVES

None.

ATTACHMENTS

None.

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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