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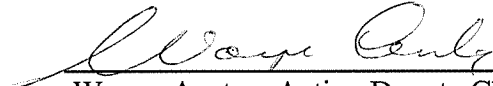
Halifax Regional Council
March 7, 2006

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY:



Dan English, Chief Administrative Officer



Wayne Anstey, Acting Deputy Chief Administrative Officer

DATE: February 17, 2006

SUBJECT: Gas Tax

ORIGIN

On December 13, 2005, the gas tax agreement between Halifax Regional Municipality and the Province of Nova Scotia was signed. A list of projects to which the gas tax will be allocated is now required to enable the transfer of funds for 2005/2006.

RECOMMENDATION

It is recommended that:

1. Council approve the 2005/2006 projects for gas tax funding as listed in Attachment A.
2. Council approve the direction for the allocation of the 2006/2007 gas tax funding as outlined in this report.
3. Council approve the business case for a Gas Tax Reserve (Attachment C).

BACKGROUND

On September 23, 2005 the Province of Nova Scotia and the Government of Canada signed a bilateral agreement to transfer a portion of federal gas tax revenue to municipalities. On December 13, 2005, HRM signed a municipal funding agreement with the Province. This agreement formalizes the criteria and requirements and details the responsibilities of the partners.

Funds from the Gas Tax must be directed at environmentally sustainable municipal infrastructure, such as public transit, water and wastewater systems, community energy systems, solid waste management, rehabilitation of roads and bridges, and capacity building.

Gas Tax Agreement Highlights

Following is a brief summary highlighting some of the terms and conditions contained within the Municipal Funding Agreement.

Municipal Requirements:

- Funds must result in net incremental capital spending on environmentally sustainable infrastructure from April 1, 2005 to March 31, 2010
- The funds will not clawback any current capital funding
- Average annual capital spending on municipal infrastructure will not fall below \$58m
- HRM will supply a capital investment plan by year 5
- HRM will develop over the term of the agreement a community sustainability plan
- HRM will provide access to records related to funded projects if requested
- HRM will comply with the communications protocol outlined
- HRM will retain title to the resulting infrastructure for at least 10 years
- HRM will invest any funds received in advance of the Municipality incurring and paying Eligible Costs in accordance with Section 100 of the Municipal Government Act.

Eligible Projects Include:

- Public transit (rapid transit, transit busses, ITS, HOV lanes etc)
- Water (drinking water supply, distribution, metering)
- Wastewater (wastewater and stormwater)
- Solid waste (diversion, recovery facilities, organics management, landfills, landfill gas recuperation)
- Community energy systems (cogeneration, district heating)
- Active transportation infrastructure (bike lanes, local roads, bridges, tunnels)
- Capacity building (collaboration, knowledge, integration)

Eligible Costs Include:

- Capital costs
- Fees to professionals
- Environmental assessments

Ineligible Costs Include:

- Costs incurred prior to April 1, 2005
- Services normally provided
- Salaries
- Overhead (operating, administrative, planning)
- Feasibility and planning studies
- Taxes
- Land
- Leasing equipment
- Routine repair/maintenance
- Audit/evaluation

Reporting:

- By agreement end, HRM will provide an integrated multi year capital investment plan and an integrated community sustainability plan
- HRM will provide a capital budget, including a list of proposed capital projects, with eligible projects identified prior to fund transfer
- HRM will provide a summary of gas tax fund expenditures for each project
- HRM will provide a summary of actual expenditures on other capital projects
- An annual expenditure report will be provided each year by July 31, which must include a report on amounts held at year end by the Municipality to be spent on Eligible Projects.
- HRM will provide an outcomes report by March 31, 2009 highlighting investments made and the degree they contributed to program objectives – cleaner air, cleaner water, reduced greenhouse gas emissions

Audits:

- Nova Scotia may audit, or ask HRM to audit, any eligible project and costs are paid by the municipality

Communications:

- There will be a public Agreement signing event
- Regular announcements of projects that benefited from gas tax
- All communications acknowledge federal contributions
- Permanent signage at location of projects receiving investment

DISCUSSION

Estimated Gas Tax Funding

HRM expects to receive approximately \$60m over 5 years. In year 1 of the agreement (2005/2006) HRM will receive \$7,642,567. In the absence of approved Federal/Provincial criteria, staff included the estimated gas tax revenue as a funding source in the 2005/06 capital budget (originally estimated at \$7.9m). This effectively increased the 2005/06 capital budget and allowed additional projects to be added.

Approval of HRM General Infrastructure Criteria

On October 11, 2005 Council approved general infrastructure criteria to be used for staff to prioritize infrastructure projects for upcoming funding opportunities. As well, it was agreed that additional criteria would be layered on as required for specific program purposes. For Gas Tax it was agreed that this criteria would be used to allocate the funds which were included in the 2005/2006 budget for program reporting purposes.

Allocation Approach for 2005/2006 and 2006/2007 and Future Years

On December 13, 2005, Council approved the allocation approaches for 2005/2006 and 2006/2007 as follows:

For 2005/2006, Council agreed that the general infrastructure criteria approved by Council on October 11, 2005 be used, in addition to federal/provincial criteria outlined in the agreement. Staff were to develop a recommended list for Council's review. This list is contained in Attachment A. The list does not contain any new capital projects as the projects and the gas tax revenue were already included in the approved 2005/06 capital budget. This is simply an allocation of funding for program reporting purposes. It should be noted that the availability of these funds allowed incremental spending and project approval in 2005/06 compared to 2004/05.

For 2006/2007 and beyond, Council agreed that the same general approach be followed. Council's general infrastructure criteria and the Gas Tax agreement criteria will be applied to projects to determine suitability for Gas Tax consideration. Given the Gas Tax agreement criteria and the program outcome indicators of clean air, clean water and lower GHG emissions, staff are recommending that projects selections be in the following eligible categories to the extent possible: wastewater, solid waste, active transportation and transit. Staff are aware of the possibility of Federal Transit funds becoming available in 2006/2007, but feel that HRM's transit budget will exceed Federal Transit funds available and thus the Gas Tax can be used to fund some transit projects. Roads and streets projects would be considered, only after all eligible projects in the other categories have been funded. Once specific projects have been identified, they will be forwarded to Council for consideration and discussion prior to submission to the Province as part of the capital budget process.

Council will note that staff have chosen projects and project categories that focus heavily on the stated outcome of the gas tax program, which is environmentally sustainable municipal infrastructure. It is staff's view that the project allocation should be focussed as much as possible on projects that meet the highest sustainability criteria of the program, thus adding to the national success of the program, and the hopeful continuation of the funding flow. For this reason, staff recommend the project allocation not go towards road and street projects. Road projects do not fit with the sustainability focus. That being said, the gas tax transfer creates capacity in the organization. The additional capacity created could be directed at road and street projects internally.

Accounting and Reporting Requirements

As discussed in the Background section of this report, the agreement requires HRM to invest any funds received in advance of incurring and paying Eligible Costs, in accordance with Section 100 of the Municipal Government Act and to report on amounts held at year end by HRM to be spent on Eligible Projects. Staff is recommending that a Reserve be established. When funds are received, they will be deposited in the Gas Tax Reserve, where they will earn interest until required to pay Eligible Costs. This will also facilitate the requirement to report on the unspent funds at year end. The Reserve Business Case is contained in Attachment C.

BUDGET IMPLICATIONS

Otter Lake Cell 4 project was budgeted to be funded from a reserve and based on the criteria is now recommended as part of the 2005/06 gas tax allocation. This requires adjustment to the planned reserves contribution and capital from operating. The estimated gas tax transfer of \$7.9m was included in the 2005/2006 HRM Budget. In year 1 of the agreement (2005/2006), HRM will receive approximately \$7.6m. HRM will have to reduce or delay a capital project or find another funding source to make up the shortfall. Staff are actively pursuing alternative funding sources. The results of this work will be reported with regular financial reports.

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

Council could select different projects for 2005/2006. Attachment B denotes 2005/2006 capital budget projects that meet the program criteria.


Council could choose to emphasize different project categories for 2006/2007 and beyond.

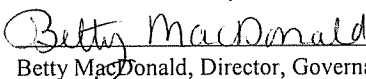

ATTACHMENTS

- Attachment A: 2005/2006 Proposed Gas Tax Projects
- Attachment B: 2005/2006 Projects that meet the Agreement Criteria
- Attachment C: Gas Tax Reserve Business Case

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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Financial Review: 
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Report Approved by: 
Betty MacDonald, Director, Governance and Strategic Initiatives/490-4769

S. Dale MacLennan, CA, Director of Finance/ 490-6308

Attachment A 2005/2006 Proposed Gas Tax Projects

Project	Budget \$
<u>Strategic Transit:</u>	
Fleet:	
CVD00434 Conventional Transit Expansion	3,361,000
CVD00429 Access-A-Bus Vehicle	120,000
Total Strategic Transit	3,481,000
<u>Active Transportation:</u>	
CPV00735 Portland Estates Residents Assoc	50,000
CPV00735 St Margaret's Bay Rails to Trails	18,000
Total Active Transportation	68,000
<u>Sewers:</u>	
CGU00688 Greenhead Rd PS	50,000
CGU00579 Crescent Ave PS	100,000
Total Sewers	150,000
<u>Solid Waste:</u>	
CWI00446 Otter Lake Cell 4	3,943,567
Total Solid Waste	3,943,567
Total Gas Tax Funding	7,642,567

Attachment B

2005/2006 Projects that meet the Agreement Criteria

Project	Eligible \$	Budget
Buildings:		
No projects	-	
Total Buildings	-	8,451,000
Community Property & Development:		
Watershed/Env. Studies	300,000	
Harbour Plan	150,000	
Water quality monitoring pilot program	125,000	
Total Community Property & Development	575,000	3,870,000
Councillor's Funds:		
No projects	-	
Total Councillor's Funds	-	920,000
Equipment - Heavy:		
No projects	-	
Total Equipment - Heavy	-	1,255,000
Equipment - Light:		
No projects	-	
Total Equipment - Light	-	825,000
Fleet:		
Access-A-Bus	120,000	
Access-A-Bus Replacement	388,000	
Conventional Transit Expansion	3,361,000	
Conventional Transit Replacement	5,345,000	
Total Fleet	9,214,000	19,534,000
Industrial Parks:		
No projects	-	-
Total Industrial Parks	-	-
Information Technology:		
No projects	-	
Total Information Technology	-	3,857,000

Attachment B

2005/2006 Projects that meet the Agreement Criteria

Parks & Playgrounds:

Trails, active transportation	68,000	
Total Parks & Playgrounds	68,000	4,961,000

Roads & Streets:

Resurfacing Various Locations	8,519,000	
Paving Renewals	4,198,000	
New Paving (Inside Core)	485,000	
Bridge Repair and Renewal	900,000	
Main Artery Patching	750,000	
Total Roads & Streets	14,852,000	15,917,000

Sewers:

Plymouth Rd PS	200,000	
Crescent Ave PS	100,000	
Dingle Tower PS	50,000	
Street Drainage Systems	95,000	
Studies & Investigations	94,000	
Greenhead Rd PS	50,000	
Beaver Cres PS	40,000	
Total Sewers	629,000	654,000

Sidewalks, Curbs, & Gutters:

No projects	-	
Total Sidewalks, Curbs, & Gutters	-	3,146,000

Solid Waste:

Otter Lake Cell 4	6,000,000	
Total Solid Waste	6,000,000	6,000,000

Traffic Improvements:

No projects	-	
Total Traffic Improvements	-	6,572,000

Total Capital Budget:	31,338,000	75,962,000
Less Solid Waste (Reserve Funded)		6,000,000
05/06 Capital Budget		69,962,000

Reserves Business Case

Halifax Regional Municipality • Corporate Services • Finance Division • 490-4446 • Fax: 490-4175

Date: March 1, 2006
Contact: Director of Finance

Qxxx Gas Tax Reserve

Purpose

To provide a financial vehicle for maintaining the funds received under the Canada-Nova Scotia Agreement on the Transfer of Federal Gas Tax Revenues.

Source of Funds

As outlined in the Municipal Funding Agreement (2005) between the Province of Nova Scotia and Halifax Regional Municipality, HRM will receive annual Gas Tax funding for the five years April 1, 2005 to March 31, 2010. In return, the municipality is required to use the funds for sustainable infrastructure and provide accountability documentation to the provincial government, who will act as administrator of the funds. The Municipality is required to maintain a separate accounting for the funds provided and for the interest earned on unexpended funds. The Gas Tax Reserve has been set up for the funds received each year until they are required to fund expenditures on approved eligible capital projects. All funds provided and income earned that are not expended prior to March 31st of any year, will be retained in the Reserve and expended in accordance with the Municipal Funding Agreement (Gas Tax) in the following fiscal years.

If funds are received by HRM in advance of incurring and paying eligible costs, such funds shall be invested in accordance with Section 100 of the *Municipal Government Act* and interest earned will be retained in the reserve for expenditure on eligible costs.

Application of Funds

The Municipal Funding Agreement stipulates the following terms and conditions on use of the Gas Tax revenue:

“The Municipality shall ensure the Funds will result in net incremental capital spending on environmentally Sustainable Infrastructure over the period April 1, 2005 to March 31, 2010 by continuing to invest in capital municipal infrastructure projects in addition to this and other grants, and commits that the Funds will not displace or be used to clawback any capital infrastructure funding that is currently being made available for infrastructure”;

“The Municipality agrees that Funds provided under this Agreement and income earned will be used only for capital expenditures of the general types of capital infrastructure projects listed in Schedule 1 (attached) of the agreement, and meeting the criteria for costs listed in Schedule 2 (attached) of the agreement.

Time Line

The reserve will be maintained until all funds received through the five year Municipal Funding Agreement have been received and expended or returned to the Province as required in the Municipal Funding Agreement. In the event that the Funding Agreement is extended beyond the initial five years, the Gas Tax Reserve will continue to be used for this purpose.

Approval Process

The reserve will be used to fund eligible costs as outlined in the attached Schedule 2 for projects approved by Council annually as part of the budget process. Finance is responsible for ensuring availability of funds and appropriateness of expenditure prior to Council approval.

Attachments

Municipal Funding Agreement Schedule 1 - Eligible Project Categories
Municipal Funding Agreement Schedule 2 - Eligible Costs
Municipal Funding Agreement Schedule 8 - Funds to be Paid to the Municipality
Projection for fiscal year 2005/06

Approval

CAO

SCHEDULE 1
Eligible Project Categories

1) ESMI Projects include the following:

a) Public transit, e.g.:

- i) Rapid Transit:** tangible capital assets and rolling stock (includes light rail, heavy rail additions, subways, ferries, transit stations, park and ride facilities, grade separated bus lanes and rail lines);
- ii) Transit Buses:** bus rolling stock, transit bus stations;
- iii) Intelligent Transport System (ITS) and Transit Priority Capital Investments;**
- iv) ITS technologies to improve transit priority signalling, passenger and traffic information and transit operations;**
- v) Capital investments, such as transit queue-jumpers and High Occupancy Vehicle (HOV) lanes.**

b) Water, e.g.:

Drinking water supply; drinking water purification and treatment systems; drinking water distribution systems; water metering systems.

c) Wastewater, e.g.:

Wastewater systems including sanitary sewer systems; and separate storm water systems.

d) Solid waste, e.g.:

Waste diversion; material recovery facilities; organics management; collection depots; waste disposal landfills; thermal treatment and landfill gas recuperation.

e) Community Energy Systems, e.g.:

- i) Cogeneration or combined heat and power projects (where heat and power are produced through a single process);**

SCHEDULE 2 Eligible Costs

Eligible Costs

1. Project Costs

Eligible Costs will be all direct costs which are in Canada's opinion properly and reasonably incurred and paid by an Municipality under a contract for goods and services necessary for the implementation of an Eligible Project. Eligible Costs may include only the following:

- a) The capital costs of acquiring, constructing or renovating a tangible capital asset and any debt financing charges related thereto;
- b) The fees paid to professionals, technical personnel, consultants and contractors specifically engaged to undertake the surveying, design, engineering, manufacturing or construction of a project infrastructure asset and related facilities and structures;
- c) The costs of environmental assessments, monitoring, and follow-up programs as required by the *Canadian Environmental Assessment Act*; or a Nova Scotia equivalent; and
- d) The costs related to strengthening the ability of Municipalities to develop Integrated Community Sustainability Plans.

1.1 Employee and Equipment Costs

In the case of Municipalities having a population less than 75,000 the out of pocket costs (not overhead) related to employees or equipment may be included in its eligible costs under the following conditions:

- a) The Municipality has determined that it is not economically feasible to tender a contract;
- b) Employees or equipment are employed directly in respect of the work that would have been the subject of the contract; and
- c) The arrangement is approved in advance and in writing by Nova Scotia.

1.2 Administration Costs

That portion of Funds representing income earned, may be used to pay for administration costs.

Ineligible Costs

Costs related to the following items are ineligible costs:

- a) Eligible Project costs incurred before April 1, 2005;
- b) Services or works that, in the opinion of Nova Scotia, are normally provided by the Municipality or a related Party;
- c) Salaries and other employment benefits of any employees of the Municipality except as indicated in Section 1.1;
- d) A Municipality's overhead costs, its direct or indirect operating or administrative costs, and more specifically its costs related to planning, engineering, architecture, supervision, management and other activities normally carried out by its staff;
- e) Costs of feasibility and planning studies for individual Eligible Projects;
- f) Taxes for which the Municipality is eligible for a tax rebate and all other costs eligible for rebates;
- g) Costs of land or any interest therein, and related costs;
- h) Cost of leasing of equipment by the Municipality except as indicated in Section 1.1 above;
- i) Routine repair and maintenance costs;
- j) Legal fees;
- k) Administrative costs incurred as a result of implementing this Agreement, subject to 1.2 above; and
- l) Audit and evaluation costs.

SCHEDULE 8

Funds to be Paid to the Municipality

This page contains an outline of the proposed maximum Funds to be paid to Municipality.

Payment of any Funds under this program is subject to:

1. The availability of funding for this program.
2. Completion of financial reports for previous years
3. Compliance with all other terms of the Agreement.

The Funding Formula on which Funds are based may be amended at the request of the Union of Nova Scotia Municipalities after two years. A change in this Schedule does not alter any other term of this Agreement.

Year 1 \$ 7,642,567

Year 2 To be determined

Year 3 To be determined

Year 4 To be determined

Year 5 To be determined

Projection For Fiscal Year 2005/2006

GAS TAX RESERVE Cash Flow Projections

	2005/06	2006/07	2007/08	2008/09	2009/10
Contribution per Funding Agreement	7,642,567	TBD	TBD	TBD	TBD
Interest	0	TBD	TBD	TBD	TBD
Withdrawals	-7,492,567	-150,000	TBD	TBD	TBD
Balance Forward	150,000	TBD	TBD	TBD	TBD