



PO Box 1749
Halifax, Nova Scotia
B3J 3A5, Canada

Item No. 11.1.8
Halifax Regional Council
June 22, 2010

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY:

A handwritten signature in black ink, appearing to read "Dan English".

Dan English, Chief Administrative Officer

A handwritten signature in black ink, appearing to read "Mike Labrecque".

Mike Labrecque, Deputy Chief Administrative Officer - Corporate
Services and Strategy

DATE: June 2, 2010

SUBJECT: Guarantee of Halifax Water Debt

ORIGIN

- Wastewater/Stormwater Transfer Agreement
- Municipal Finance Corporation Guidelines

RECOMMENDATION

It is recommended that:

Halifax Regional Council approve the Municipality's guarantee of the Halifax Water (HW) debt related to their 2010 Spring Municipal Finance Corporation Debenture Issue in the amount of \$3,400,000.

BACKGROUND

Debenture financing of \$3,400,000 is required by HW to fund, in part, components of the 2010/2011 wastewater and stormwater capital budget.

The Municipal Finance Corporation (MFC) currently permits HW to borrow up to \$35 million without requiring a guarantee from HRM. Any borrowing in excess of the limit requires a guarantee from HRM. HW does have sufficient room under this “cap” to borrow the \$3.4 million without HRM issuing a guarantee, however, this would have reduced some of their flexibility on a go forward basis and MFC’s general policy is to have HW’s long term debt guaranteed by its parent HRM.

DISCUSSION

Halifax Water has participated in the spring 2010 MFC Debenture Issue in the amount of \$3,400,000. The Halifax Water Board met on April 29, 2009 and approved the borrowing. A copy of resolution is attached to this report. The borrowing complies with HW’s debt policy.

The borrowing resolution approved by the HW Board states approval for a sum or sums not exceeding \$3,400,000; amortized over 20 years with a 10 year term at an all-inclusive rate not to exceed 6.5%.

As HW is a regulated utility under the Public Utilities Act, all long term debt must be approved by the Nova Scotia Utility and Review Board. The Board has approved this borrowing and repayment provisions were included in HW’s rate application presently before the Board.

As Halifax Water is a wholly consolidated entity of the Halifax Regional Municipality; to some extent the issuance of a guarantee can be viewed as redundant. If the HW were to default on debt, creditors would eventually be able to seek recourse through legal means against the Municipality. The issuance of a guarantee just reduces risk for creditors by making the recourse process shorter.

BUDGET IMPLICATIONS

To a large extent the issuance of a guarantee can be viewed as a technical issue. As Halifax Water is a wholly owned entity of HRM, its debt, for all practical purposes, is already effectively guaranteed. If, hypothetically, HW were to default on debt, creditors would eventually be able to seek recourse through legal means against the municipality. The issuance of a guarantee simply provides a more formal guarantee. There is limited additional risk for HRM. In theory, however, this step reduces risk for creditors by making the recourse process shorter and more certain. It may possibly make it easier for HW to access debt funding at a better interest rate.

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

There are no alternatives.

ATTACHMENTS

- Letter from HW to NSMFC requesting Debenture Funding
- HW Borrowing Resolution approved by the HW Board
- HW Borrowing Resolution approved by NSURB

A copy of this report can be obtained online at <http://www.halifax.ca/council/agendasc/agenda.html> then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

Report Prepared by: Nancy Harper, CMM, Team Leader Accounting Operations 490-3696

Report Approved by:



Cathie O'Toole, CGA, Director of Finance/CFO, 490-6308



Louis de Montbrun, CA, Manager Accounting Operations 490-7222



Halifax Regional Water Commission

450 Cowie Hill Road, P.O. Box 8388 RPO CSC, Halifax, Nova Scotia B3K 5M1 phone 902 490-4820 fax 902 490-4808

Attachment 1

May 5, 2010

Nova Scotia Municipal Finance Corporation
P.O. Box 850, Station 'M'
Halifax, NS
B3J 2V2

Attn: Mark Peck, MPA (A) CEO



Dear Mark:

Re: Spring 2010 Debenture Funding

This will confirm our email to Bob Audoux that Halifax Water (HW) wishes to participate in the spring 2010 MFC Debenture Issue in the amount of \$3,400,000.

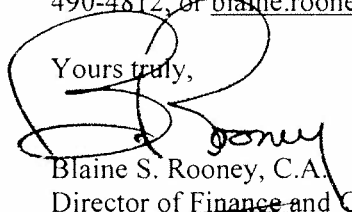
This requirement is to fund in part components of the 2010/2011 wastewater and stormwater capital budget.

The Commission Board met on April 29th, 2009, and approved this borrowing request. Enclosed is a certified copy of the resolution. The terms of the debenture should be ten years with an amortization of 20 years. The debenture should be serial type which is equal payments of principal throughout the amortization period. The resolution contains an all inclusive rate cap of 6.5%.

By copy of this letter, I am advising Municipal Affairs of this request, and an application for the borrowing will be forwarded to the Nova Scotia Utility and Review Board for their information and necessary approval. We have also requested that HRM provide a guarantee for this borrowing in accordance with MFC guidelines

I trust this to be satisfactory. If you require anything further, please do not hesitate to contact me direct at 490-4812, or blaine.rooney@halifaxwater.ca.

Yours truly,


Blaine S. Rooney, C.A.
Director of Finance and Customer Service

Encl.

cc: Department of Municipal Affairs
Bob Audoux, Municipal Finance Corporation
NS Utility and Review Board
Carl Yates, M.A.Sc., P.Eng., General Manager, HRWC
Cathie O'Toole, Director of Finance, HRM
Bruce Fisher, Manager, Fiscal and Tax Policy, HRM

HALIFAX REGIONAL WATER COMMISSION
BORROWING RESOLUTION

WHEREAS the Halifax Regional Water Commission, (the Commission) is incorporated under the provisions of the *Halifax Regional Water Commission Act*, Ch. 55 of the Acts of 2007 (The Act);

AND WHEREAS the Act provides that the Commission has power to borrow such sums as may be authorized and approved by the Board of the Commission for the purposes of the Commission, subject to the approval of the Nova Scotia Utility and Review Board;

AND WHEREAS the Commission wishes to borrow for the purpose of funding in part the 2010/2011 wastewater and stormwater capital budget;

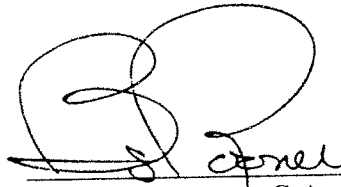
BE IT THEREFORE RESOLVED

THAT under the authority of Section 16 of the Act of the Commission borrow from the Municipal Finance Corporation, for the purpose set forth above, a sum or sums not exceeding \$ 3,400,000 amortized over 20 years with a 10 year term at an all-inclusive rate not to exceed 6.5 percent;

THAT the sum be borrowed by the issue of debentures of the Commission to such an amount at the Commission deems necessary and that the debentures be arranged with the Nova Scotia Municipal Finance Corporation, with interest to be paid semi-annually and principal payments made annually;

THAT this resolution remain in force for a period of not more than 12 months from the passing of this resolution.

I certify the above to be a true copy of a Resolution unanimously approved at a meeting of the Halifax Regional Water Commission held on April 29, 2010.


Blaine S. Rooney, C.A.
Secretary and Treasurer

ORDER

NSUARB - WW-HRWC-R-10
2010 NSUARB 110

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE PUBLIC UTILITIES ACT

- and -

IN THE MATTER OF THE APPLICATION of the HALIFAX REGIONAL WATER COMMISSION for an Order approving a proposed borrowing from the **Municipal Finance Corporation of the Province of Nova Scotia** in the amount of **\$3,400,000** and the securing of the borrowing by the execution of a Debenture in that amount

BEFORE:



Peter W. Gurnham, Q.C., Chair

ORDER

WHEREAS the Halifax Regional Water Commission ("HRWC") made application on May 6, 2010 for approval of the placement of a Debenture, in the Spring of 2010, with the Municipal Finance Corporation of the Province of Nova Scotia ("MFC") in the amount of \$3,400,000;

AND WHEREAS in response to the Board's information requests dated May 12, 2010, HRWC filed an amended Application on May 13, 2010 to correct an error in the particulars in support of the Application;

AND WHEREAS on March 25, 2010, HRWC filed with the Board a rate application for water, wastewater and stormwater service, which will be the subject of a public hearing beginning September 13, 2010;

AND WHEREAS the proposed borrowing amount of \$3,400,000 is for the purpose of funding a portion of the 2010/11 wastewater and stormwater systems capital budgets, as proposed in HRWC's 2010 rate application;

AND WHEREAS the Applicant has indicated that it has included sufficient debt servicing for the financing of this issue in its 2010 rate application;

AND WHEREAS Section 74 of the *Public Utilities Act* states that Board approval is required for the issue of certain securities;

AND WHEREAS Section 33(3) of the *Board Regulatory Rules* states:

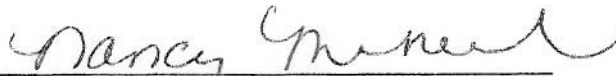
(3) Notwithstanding Rule 33(2), the Board may grant such application without the necessity of requiring notice thereof to be given and without the necessity of holding a public hearing, provided the applicant is participating in a borrowing or the issuance of shares, stocks, bonds, debentures or other evidence of indebtedness through the Nova Scotia Municipal Finance Corporation pursuant to the provisions of the **Municipal Finance Corporation Act**, as amended.

AND WHEREAS the Board has considered the evidence submitted by HRWC;

IT IS HEREBY ORDERED that, pursuant to Section 74 of the *Public Utilities Act*, the Board approves HRWC's placement of a Debenture with the MFC, for the Spring of 2010 MFC Debenture Issue, in the amount of \$3,400,000 to secure financing for the purpose noted above. The Board reserves the right to further review and amend the proposed funding of the capital projects which are included in the 2010 rate application as a part of that application;

IT IS FURTHER ORDERED that the Debenture shall be amortized over 20 years with a ten year term, at an all inclusive rate not to exceed 6.5% and, pursuant to Rule 33(4)(c), that HRWC shall report to the Board once every six months from the date hereof on the use and application by it of the monies realized from the approved borrowing.

DATED at Halifax, Nova Scotia, this 19th day of May, 2010.

A handwritten signature in cursive script, appearing to read "Nancy Munro", is written over a horizontal line.

Clerk of the Board