

Item No.11.2.1 iv

Audit and Finance Standing Committee

June 5, 2014

June 18, 2014

Regional Council July 29, 2014

TO: Chair and Members of the Audit and Finance Standing Committee

Original Signed

SUBMITTED BY:

Greg Keefe, Director, Finance and ICT

DATE: May 26, 2014

SUBJECT: Strategic Capital Funding Strategy

ORIGIN

Capital Budget presentation from February 26, 2014 Committee of the Whole.

LEGISLATIVE AUTHORITY

Pursuant to the Halifax Charter:

- Section 35 (1), the Chief Administrative Officer shall (b) ensure that an annual budget is prepared and submitted to the Council.
- Section 83 (1) The Municipality may borrow to carry out an authority to expend funds for capital purposes conferred by this Act or another Act of the Legislature.
- Section 93 (1) The Council shall make estimates of the sums that are required by the Municipality for the fiscal year.
- Section 120 (1) The Municipality shall maintain a capital reserve fund.
 - (2) The capital reserve section of a special reserve fund in existence, on the coming into force of this Act, is a capital reserve fund.
 - (3) The capital reserve fund includes
 - (a) funds received from the sale of property
 - (b) the proceeds of insurance resulting from loss or damage of property that is not used for replacement, repair or reconstruction of the property;
 - (c) any surplus remaining from the sale of debentures that is not used for the purpose for which the debentures were issued;
 - (d) the surplus remaining in a sinking fund when the debentures for which it was established are repaid;

Recommendations on pages 2 and 3...

- (e) any capital grant not expended in the year in which it was paid;
- (f) proceeds received from the winding up of a municipal enterprise as defined in the Municipal Finance Corporation Act;
- (g) the current fiscal year's accrual for landfill closure and post closure costs; and
- (h) amounts transferred to the fund by the Council.
- (4) A withdrawal from the capital reserve fund shall be authorized by the Council, by resolution, and may only be used for
 - (a) capital expenditures for which the Municipality may borrow;
 - (b) repayment of the principal portion of capital debt; and
 - (c) landfill closure and post closure costs.

RECOMMENDATION

It is recommended that the Audit and Finance Standing Committee recommend to Halifax Regional Council:

1. Approve the use of the Capital Reserves Q101 Sale of Assets; Q126 Strategic Growth; Q139 Central Library Repayment Reserve; and Q145 Regional Facility Expansion Reserve to fund the **Planned Strategic Projects** and the **Potential Strategic Projects** should they proceed.
2. Dedicate the net proceeds from the sale of Bloomfield, 3rd Queen Street Site, Red Cross Building, Bayne Street and St. Pat's Alexandra to fund the **Planned Strategic Projects** should they proceed.
3. Dedicate the net proceeds from the potential sale of St. Pat's High, Alderney and Ochterloney lot, Lyle Street and the arenas made surplus by the Long Term Arena Strategy for interim financing of **Planned Strategic Projects** and funding of **Potential Strategic Projects**
4. Approve amending the Multi-Year Fiscal Plan to permit up to \$100,000,000 of debt financing above the limits set by that plan for the **Potential Projects**.
5. Approve adding 1 cent to the general tax rate as determined by the 15/16 budget. The proceeds are to be placed in the Q126 Strategic Growth reserve to fund **Potential Strategic Projects**.
6. Approve adding the Library Facilities Plan to the scope of work for the Community Facility Master Plan review so the timing and placement of these potential facilities can be considered in context with other HRM facilities.
7. Direct staff to recommend funding in the 15/16 Capital Budget to:
 - a. Complete feasibility study, business case and Class C costing for the Police Station Renewal and Fire Services Training Facility

Recommendations continued on page 3...

- b. Develop business model and partnerships for a stadium and supporting infrastructure for presentation to the Executive Committee in June 2014.
 - c. Perform a needs assessment, feasibility study and identify potential partners and service delivery model for a Performing Arts Centre
8. Approve the **Planned Strategic Projects** referenced in these recommendations as: Halifax Multi-pad; Dartmouth Multi-pad; Dartmouth Sportsplex; Cogswell and the \$50 million, 5 Year Downtown Investment.
9. Approve the **Potential Strategic Projects** referenced in these recommendations as: the Police Station Renewal; Fire Services Training Facility; Stadium; Library Facilities Plan; Performing Arts Centre or Commuter Rail / Fast Ferry.

BACKGROUND

During the budget presentation on Capital on February 26, 2014, staff identified the need for a plan to address the large capital projects in various stages of the decision making process, and a funding plan to address them. As the funding plan will rely heavily on amounts in capital reserves and proceeds from the sale of high value properties, Council will need to decide if this funding is to be held for these projects or applied elsewhere. Also, as the investment in these projects will be over a decade or more, staff needs direction from Council regarding the priority and timing of these projects.

In suggesting the priority and timing of these projects, staff have considered links to Council priorities, relationships between projects, partnerships, and spending for impact.

The current funding level for capital, as detailed in the 3 year capital plan, is only sufficient to fund that plan, and in fact may not be sufficient to cover all emerging pressures. Staff do not anticipate being able to redirect funding from the capital plan to these projects.

DISCUSSION

The following five of these **Planned Strategic Projects** are in the planning stage. They have all been before Council. They are:

- **Long Term Arena Strategy – Peninsula**
 - **Idea**
 - **Consolidate arenas with new multi-pad facilities on the Peninsula**
 - **Close old arenas and Forum**
 - **Rationale**
 - **It is better to replace than refurbish very old arenas**
 - **Multi-pad is the most efficient way to operate**
 - **Council**
 - **Part of LTAS approved August 14, 2012**
 - **Cost**
 - **Approximately \$33.8M**
 - **Recovery sale of Forum site**

- **Impact**
 - **RP+5 : Increase residential density on the peninsula by releasing forum land for development**
 - **Opportunity**
 - **Partnership with Canadian Forces Base Halifax and potentially Dal and SMU**
- **Long Term Arena Strategy – Dartmouth**
 - **Idea**
 - **Consolidate arenas with new multi-pad facilities on Dartmouth**
 - **Close old arenas**
 - **Rationale**
 - **It is better to replace than refurbish very old arenas**
 - **Multi-pad is the most efficient way to operate**
 - **Council**
 - **Part of LTAS, approved by Council August 14, 2012**
 - **Cost**
 - **Approximately \$43M**
 - **Impact**
 - **RP+5 : Stadium, Transit, achieve walkable, complete communities and density**
 - **Opportunity**
 - **With a future stadium, seed development in Shannon Park, and seed creation of a Ferry Terminal at Shannon Park**
- **Dartmouth Sportsplex Upgrade**
 - **Idea**
 - **Modernization and expansion of the Dartmouth Sportsplex**
 - **Rationale**
 - **Improve impact for the community**
 - **Improve revenue opportunities**
 - **Council**
 - **Approved as a strategic project for consideration by AFSC, April 15, 2014**
 - **Cost**
 - **Approximately \$22M**
 - **Impact**
 - **Ability to consolidate services and focus on the community**
 - **Opportunity**
 - **RP+5 complete communities, Transit**
 - **Potential for facility rationalization**
- **Cogswell Interchange**
 - **Idea**
 - **Demolish the Cogswell Street Interchange repurpose the land for mixed-use development and public amenities**
 - **Rationale**
 - **Interchange is nearing end of useful life**

- It is not needed, and the land can be put to better use
- Council
 - Council approved issuing an RFP for developing Master Plan in 2009
 - Cogswell Lands Plan endorsed by Executive Standing Committee, April 28, 2014 and Regional Council, May 13, 2014
- Cost
 - NO net impact. Costs should be recovered from development
- Impact
 - Centre Plan
 - Downtown Development
- Opportunity
 - Transit Hub and Parkland
 - Integrate Downtown with North End Gateway/Halifax North
- **\$50M, 5 year Downtown Investment**
 - Idea
 - Leverage funds from the Provincial and Federal Governments to make needed investments in the downtown
 - Rationale
 - Help drive downtown development
 - Council
 - Project list endorsed by Council February 11, 2014
 - Funds set aside in Project Budget, from Reserves, for 2014/2015 – 2018/2019
 - Cost
 - Approximately \$50M, although 2/3 share from other levels of Government
 - Impact
 - Centre Plan
 - Downtown Development
 - Convention Centre
 - Opportunity
 - To revitalize downtown through investing in key areas
 - Partnerships with other levels of government as well as private developers

The following six **Potential Strategic Projects** are in the conceptual phase. They have been discussed at various levels, but have not received approval to proceed. These potential projects require more work before they can be considered for approval by Council.

- **Police Station Renewal**
 - Idea
 - Need identified for a new facility
 - Rationale
 - The current facility is old and not meeting needs
 - If retained, will require an investment of \$15M to replace cells

- Council
 - 2014/2015 budget accommodates a Strategic Plan that includes facilities review
- Cost
 - Estimate \$60M
 - Suitable for Debt financing
- Impact
 - Centre plan
 - Safe Communities
 - RCMP
- Opportunity
 - Land at existing site will be made more valuable by Cogswell project
 - Police structure / provincial force
- Fire Services Training Facility
 - Idea
 - Need identified for a training facility
 - Rationale
 - Existing facility (non-HRM) is at end of life
 - Council
 - Business Case is a deliverable of the 2014/2015 FES Business Plan
 - \$1M in the Capital plan for land acquisition in 2015/2016
 - Cost
 - Estimate \$30M
 - Impact
 - Safe Communities
 - Opportunity
 - This is a province wide need so there may be potential partners from the Province, other municipalities, Federal Government and HIAA
- Stadium
 - Idea
 - There is a desire for a multi-use stadium.
 - Rationale
 - Halifax is now large enough to support a stadium
 - Council
 - Although Council rejected the idea in March 2012, they directed staff to monitor and potentially revisit
 - Cost
 - Estimate \$60M
 - Suitable for Debt financing
 - Impact
 - Centre Plan, Transit
 - Opportunity
 - With a multi-pad arena, seed development in Shannon Park, and seed creation of a Ferry Terminal at Shannon Park
 - Will need cost sharing from other levels of Government and the private sector

- **Library Facilities Plan**
 - **Idea**
 - The Library Board has submitted a multi-year plan for future facilities
 - **Rationale**
 - Modern libraries need a regional infrastructure
 - **Council**
 - Library Board developed multi-year facilities plan
 - **Cost**
 - Estimate \$60M
 - **Impact**
 - Healthy Communities
 - **Opportunity**
 - Co-location with other facilities
- **Performing Arts Centre**
 - **Idea**
 - Halifax is now large enough to have a 2,500-3,000 seat performing arts centre
 - **Rationale**
 - There is no venue for attractions too large for the Cohn, but not appropriate for Metro Centre
 - **Council**
 - Approved a grant to performing arts society towards an arts venue feasibility study, June 25, 2013.
 - **Cost**
 - Estimate \$60M
 - Suitable for Debt financing
 - **Impact**
 - Arts and Culture
 - **Opportunity**
 - Partnership with Universities, NGOs and the private sector
- **Commuter Rail / Fast Ferry**
 - **Idea**
 - Halifax needs to more efficiently move people from the commuter shed to their workplace
 - Establish commuter rail on existing rail corridors to downtown
 - **Rationale**
 - Rail is used elsewhere to achieve this.
 - The harbour is a resource that could be leveraged
 - **Council**
 - Approved funds in 2012 for Commuter Rail Feasibility Study
 - **Cost**
 - Rough estimate \$31M from Feb 2011
 - **Impact**
 - Integrated Transportation Plan
 - Transit

- Parking Strategy
- Opportunity
 - Existing rail lines
 - Harbour

The four major Capital Reserves have \$30,694,702 available:

- Sale of Assets: -\$1,351,394
- Strategic Growth: \$21,065,732
- Central Library: -\$302,105
- Regional Facility Expansion: \$11,282,375

In addition, the operating budget includes a \$5,000,000 annual contribution to the Strategic Growth Reserve and a \$1,000,000 annual contribution to Regional Facility Reserve. The accumulated funds from the major capital reserves over a 7-year period are expected to be \$76,444,000.

There are five major properties planned for disposal in 14/15 that should yield \$33,296,000. The properties for planning purposes are:

- Bloomfield
- 3rd Queen Street Site
- Red Cross Building
- Bayne Street
- St. Pats Alexandra

*Estimates are conservative and subject to market at the time of sale.

In addition, the potential sales of St Pat's High, Alderney and Ochterloney lot, Lyle Street, and the sale of 4 arenas in Halifax, Dartmouth, and Bedford after the completion of the Long Term Arena Strategy could yield \$31,290,000.

In summary:

Funding:	
Reserves (over a 7-year period)	\$76,444,000
14/15 Land Sales	\$33,296,000
Potential Land Sales	\$31,290,000
Subtotal:	\$141,030,000
Planned Projects	-\$97,467,000

Net	\$43,563,000
------------	---------------------

Using funding from the sale of land, reserve balances and contributions to capital reserves for 7 years, the planned projects can be funded without debt. The \$43 million balance remaining is available for potential projects in the conceptual stage. There will be a need for interim financing to a maximum of \$25,000,000 until the Cogswell lands are sold.

The table below provides an approximate timing of the projects in the planning stage, and the projected cash flow.

Project	Total	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22
Funding	162,059	70,605	95,967	60,626	36,105	19,310	(10,473)	(20,436)	50,435
Halifax Multipad	15,800	-	23,000	10,800	(18,000)	-	-	-	-
Dartmouth Multipad	43,000	-	-	-	23,000	20,000	-	-	-
Dartmouth Sportsplex Renewal	22,000	2,000	20,000	-	-	-	-	-	-
Cogswell Street Interchange	-	-	-	17,860	17,860	15,650	12,630	(64,000)	-
50 Million 5 Year	16,667	-	3,333	3,333	3,333	3,333	3,333	-	-
Closing Balance	64,592	68,605	49,633	28,633	9,912	(19,673)	(26,436)	43,564	50,435

The recoveries shown for the Halifax Multipad and the Cogswell Street Interchange are conservative and subject to market at the time of sale.

The \$43 million remaining after 7 years will not be sufficient to fund all of the potential projects currently being considered. Budgeted contributions to capital reserves in years 8-15 will contribute \$50.9 million including interest.

Similar to the strategy used to fund the Harbour Solutions Project, to minimize debt a Strategic Capital Tax Surcharge of 1 cent on the general tax rate would generate \$4 million per year, or \$56 million over the 15 year plan, assuming a start in 15/16. This is \$22 on the average household, and \$138 on the average commercial account.

HRM has low debt, and there is capacity to borrow above the multi-year fiscal limits. An additional \$100 million would cost \$5.74 million per year. This is the equivalent of 1.5 cents on the general tax rate, and would increase debt servicing costs by 0.8% of revenue. How much of this \$100 million that would be needed is dependent on which of the potential projects proceed, and the degree of partnering involved.

These three sources of funding would yield up to \$250 million.

The funding plan is designed to address the projects identified with the financial resources available. Additional projects, or the allocation of these financial resources to other initiatives, will require modification of the plan by dropping a project or projects from the plan, or reducing spending elsewhere in the City's budget to free up funding.

Some of these projects will make existing infrastructure redundant. It is important, and will be identified in the individual business cases, that the redundant facilities be declared surplus and disposed of. Expedient disposition of old facilities allows the related operating funding to be redirected to new facilities, and avoids maintenance on aging, dilapidated facilities.

FINANCIAL IMPLICATIONS

There is no financial implication for this report. Decisions on whether to proceed with any specific project, when to proceed, and the amount of debt financing, will be made on a project by project basis.

COMMUNITY ENGAGEMENT

Community engagement will be a component of each project submission.

ENVIRONMENTAL IMPLICATIONS

Environmental implications will be a component of each project submission.

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

Report Prepared by : Greg Keefe, Director of Finance & ICT, 490-6308

Original Signed

Financial Approval by:

Greg Keefe, Director of Finance & ICT, 490-6308
