

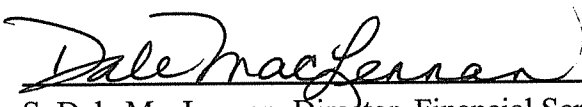
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**Halifax Regional Council**  
**February 11, 2003**

**TO:** Mayor Kelly and Members of Halifax Regional Council

**SUBMITTED BY:**   
S. Dale MacLennan, Director, Financial Services

**DATE:** January 31 , 2003

**SUBJECT:** Harbour Solution Project Permanent Financing

**INFORMATION REPORT**

**ORIGIN**

1. Legislative approval allowing the Halifax Regional Municipality to borrow money by the issue and sale of debentures to persons other than the Municipal Finance Corporation for the sole purpose of financing the Halifax Harbour Solution Project.
2. Staff's intention to issue an Expression of Interest to determine whether borrowing money by issue and sale of debentures to persons other than the Municipal Finance Corporation may be beneficial to HRM and reduce the financing costs of the Harbour Solution Project.

## **BACKGROUND**

At the request of the Halifax Regional Municipality, Bill No. 123, the Halifax Regional Municipality Harbour Solution Financing Act, was approved by the Nova Scotia Legislature and received Royal Assent on May 30, 2002. This legislation allows HRM to borrow money by the issue and sale of debentures to persons other than the Municipal Finance Corporation (MFC) and the Federal, Provincial and Municipal Governments for the sole purpose of financing the Halifax Harbour Solution Project.

HRM staff have been actively working with the MFC as well as staff of the Provincial Finance Department in considering how the opportunities afforded by this legislation can be maximized.

## **DISCUSSION**

Staff believe that the positive environmental aspects of the Project, the security of repayment derived from the water bill charge and the commitment of Regional Council should make debentures issued for the Project an attractive investment opportunity. The HRM Standard and Poors bond rating of A Stable will also be a positive factor. However, the size of the financing, while large from the perspective of HRM, is relatively small in relation to many capital market financings. The fact that HRM would be looking for financing for this one project as opposed to an ongoing presence in the financial markets may also be a drawback. A certain level of marketing will be required to raise the profile of the financing. Geography is also a factor with many of the investment dealers located in Central Canada. It is anticipated that some travel will be needed to promote interest in the financing. The Halifax Regional Water Commission and the MFC will be supporting this promotional effort.

An Expression of Interest (EOI) will be used to determine whether there are demonstrably superior alternatives to the issuance and sale of debentures to the MFC, which include the guarantee of the Province of Nova Scotia. The EOI should produce one of the four outcomes outlined below:

- A) No alternatives submitted, financing to be done through MFC
- B) Some alternatives identified and proceeding to a formal Request for Proposal (RFP) selection process will result in a preferred financing approach.
- C) Some time sensitive alternatives identified which will require negotiations directly with respondents to the EOI .
- D) A partnership between the MFC and one or more of the proponents.

Staff will report to Regional Council on the results of the evaluation of the EOI responses and recommend pursuit of one of the four options above.

It is anticipated that the entire EOI and RFP process (if required), including the final recommendation to Regional Council, would be concluded by the end of May 2003.

The permanent financing costs of the Harbour Solutions Project will be substantial. It is possible that the interest costs could exceed the capital cost of the Project. In reviewing interest rates over the past 13 years, staff have determined potential costs of financing from \$348,800,000 to \$562,390,000 including repayment of the anticipated \$200,000,000 principal amount. The lower figure reflects rates which have recently been available while the latter figure reflects rates from the early 1990's. Details of the calculations can be provided to individual members of Council upon request.

Long term interest rates are currently at levels that are at or near 13 year lows. Proponents will be asked to address how the opportunity created by the current low interest rate environment may be maximized, bearing in mind that Permanent Financing may not be completed until year 5 of the Project. Knowing in advance with a high degree of certainty the cost of financing for the Project may be appealing to Regional Council over and above the potential financial benefits.

The EOI should elicit a variety of financing alternatives.

As with most financial decisions it ultimately comes down to the appetite for risk versus what one is willing to pay to reduce risk. This has implications from the perspectives of both the borrower and the lender. Staff believe that the time to pursue the financing is now.

### **BUDGET IMPLICATIONS**

N/A 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**

N/A at this time.

**ATTACHMENTS**

None

Additional copies of this report, and information on its status, can be obtained by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

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