

Item No. 9.1.2
Audit & Finance Standing Committee
July 23, 2014

TO: Chair and Members of Audit & Finance Standing Committee

Original Signed

SUBMITTED BY:

Richard Butts, Chief Administrative Officer

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Greg Keefe, Director of Finance and ICT / CFO

DATE: June 5, 2014

SUBJECT: **Renewal of HRWC Dividend Agreement**

ORIGIN

The existing five-year Dividend Agreement in place between the HRM and the Halifax Regional Water Commission (HRWC) expires on March 31, 2015.

LEGISLATIVE AUTHORITY

HRWC Act Section 20 (4) and Halifax Charter section 92:

1. “For greater certainty, the Council may levy commercial and business occupancy taxes against the property and assets of the Halifax Regional Water Commission situated within the geographical boundaries of the Municipality.
2. Notwithstanding subsection (1) and the Assessment Act, the Municipality may enter into agreements with the Halifax Regional Water Commission providing for the payment of grants in lieu of commercial and business occupancy rates and taxes against the property and assets of the Halifax Regional Water Commission within the geographical boundaries of the Municipality in such amounts annually as shall be agreed upon between the Council and the Halifax Regional Water Commission.”

RECOMMENDATION

It is recommended that the Audit & Finance Standing Committee recommend to Halifax Regional Council approval of the proposed Dividend Agreement between the HRM and the HRWC, as shown in Attachment 1 of this report, for the five-year period of April 1, 2015 to March 31, 2020, subject to approval of the Nova Scotia Utility and Review Board (NSUARB).

BACKGROUND

Prior to April 1, 2007 HRM received an annual dividend payment from the HRWC based on HRWC revenues from the prior year. In May 2006, the NSUARB suggested that the dividend formula should reflect HRWC's asset base, and directed that the Agreement be reviewed when it expired on March 2007. The result of the review was a formula based on a return on HRWC's "rate base" or value of water infrastructure. A three year agreement between HRM and HRWC was submitted to the NSUARB, and was approved by the NSUARB in May 2007. At the end of the three year agreement, the Dividend Agreement was renewed for a five year period April 1, 2010 to March 31, 2015.

The formula that has been in place for the past eight years closely resembles a Grant in Lieu of Taxes. The annual dividend is calculated by applying a rate of 1.56% or \$1.56 per \$100, to the specific HRWC asset base. The HRWC Water Service asset base reflects all non-depreciated infrastructure paid by rate payers (as shown on HRWC's Audited Financial Statements). This asset base was preferred to the Property Valuation Corporation assessed values, which do not include the value of many below-ground assets, e.g. water pipes. HRWC financial statements are reviewed annually by the NSUARB.

DISCUSSION

The proposed renewal continues with the existing dividend formula based on the rate of 1.56% applied to the water service asset rate base throughout the 5-year period. In addition, the proposed Agreement outlines HRM's intent to nominate HRWC projects for federal and provincial capital programs, recognizing the infrastructure deficit faced by both the HRM and HRWC. The Agreement was approved by the HRWC Board at their meeting on June 3, 2014.

An estimate of the projected dividends over the term of the Agreement is shown in the following table:

Halifax Regional Water Commission

Calculation of Return on Rate Base

Valuation Date	2014-03-31	2015-03-31	2016-03-31	2017-03-31	2018-03-31	2019-03-31
	Actual	← Projected →				
Rate Base	\$278,212,081	\$292,447,029	\$301,298,029	\$309,241,029	\$317,703,029	\$328,598,029
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Dividend *	\$4,340,108	\$4,562,174	\$4,700,249	\$4,824,160	\$4,956,167	\$5,126,129
Annual Increase		5.1%	3.0%	2.6%	2.7%	3.4%

* based on Rate Base as of March 31 of the prior fiscal year X 1.56%

Currently there is no dividend paid on wastewater and stormwater assets. At the last renewal, HRM and HRWC had proposed a nominal dividend for wastewater/stormwater based on 0.5% of the respective rate base. This was not approved by the NSUARB, as it was felt that given the state of the wastewater and stormwater infrastructure and significant funding challenges ahead, it would be inappropriate to pay a dividend to the municipality for these assets.

FINANCIAL IMPLICATIONS

Based on estimated projected increases in the water service asset rate base (detailed calculations provided in Attachment 3), the proposed Agreement would provide HRM with an additional \$2,468,000 in dividend revenue over the five year term, with the annual payment increasing by 18.1% by the end of the term. The average annual increase would be 3.4%. The actual dividends may differ from this projection if HRWC capital projects are changed and/or delayed.

COMMUNITY ENGAGEMENT

Not applicable.

ENVIRONMENTAL IMPLICATIONS

Not applicable.

ALTERNATIVES

The Audit & Finance Standing Committee could direct staff to renegotiate different terms with HRWC. This is not recommended given that the status quo dividend formula has been accepted by the NSUARB and Interveners, and any change would be subject to NSUARB approval.

ATTACHMENTS

- Attachment 1: Draft Dividend Agreement for the period of April 1, 2015 to March 31, 2020
Attachment 2: Current Dividend Agreement for the period of April 1, 2010 to March 31, 2015
Attachment 3: Calculation of Return on the Water Service Asset Base.

A copy of this report can be obtained online at <http://www.halifax.ca/boardscom/SCfinance/index.php> 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: Gordon Roussel, Senior Financial Consultant, 490-2500

Original Signed

Report Approved by:

Bruce Fisher, Manager, Financial Policy and Planning, 490-4493

Original Signed

Financial Approval by:

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

Attachment 1

THIS AGREEMENT made this day of , 2014,

BETWEEN:

HALIFAX REGIONAL MUNICIPALITY, a body corporate (HRM)

OF THE FIRST PART

- and -

HALIFAX REGIONAL WATER COMMISSION, a body corporate (HRWC)

OF THE SECOND PART

WHEREAS HRM and HRWC did enter into an agreement (the "Agreement") dated the 29th day of August, 2001, as amended by an agreement dated the 15th day of May, 2007, and as amended by an agreement dated the 10th day of December, 2009 copies of which Agreement and which Agreement as amended are attached hereto as Schedule "A";

AND WHEREAS the Agreement as amended will expire on March 31, 2015;

AND WHEREAS the parties wish to enter into a new Agreement.

NOW THEREFORE WITNESSETH in consideration of One Dollar (\$1.00) for other good and valuable consideration as hereinafter set forth the parties do agree as follows:

1. This Agreement shall be in effect for the fiscal years 2015/2016 to 2019/2020.
2. For each of the fiscal years 2015/16 to 2019/20, the HRWC shall pay to HRM as a grant, by way of dividend, made in lieu of commercial tax rates and taxes against its property and assets within the geographic boundaries of HRM, an amount equal to 1.56% of the HRWC rate base allocated to the water system at March 31 of the previous fiscal year.
3. For the fiscal years 2015/2016 to 2019/2020, HRWC shall not be obligated to pay to HRM as a grant, by way of dividend, any monies respecting its wastewater and stormwater system, as the Nova Scotia Utility and Review Board (NSUARB) has previously rejected a proposed wastewater/stormwater dividend. HRWC and HRM shall revisit this issue in future when wastewater and stormwater infrastructure and financial conditions have improved.

4. HRM covenants and agrees to use its best efforts to nominate HRWC projects for funding programs sponsored by the federal and/or the provincial government that are tailored to water, wastewater and stormwater assets. Additionally, HRM covenants to nominate HRWC wastewater and stormwater projects for other funding programs sponsored by the federal and/or provincial government in recognition of the existing infrastructure deficit faced by both HRM and HRWC, as part of HRM's infrastructure list.
5. This Agreement will expire March 31, 2020, and a new agreement shall be negotiated at least ninety (90) days prior to the March 31st 2020 fiscal year end of the HRM.

DATED at Halifax, Province of Nova Scotia, this _____ day of _____, 2014.

SIGNED, SEALED and DELIVERED

in the presence of:

HALIFAX REGIONAL MUNICIPALITY

Per: _____

Per: _____

HALIFAX REGIONAL WATER
COMMISSION

Per: _____

Per: _____

THIS AGREEMENT made this 10th day of December, 2009,

BETWEEN:

HALIFAX REGIONAL MUNICIPALITY, a body corporate (HRM)

OF THE FIRST PART

- and -

HALIFAX REGIONAL WATER COMMISSION, a body corporate (HRWC)

OF THE SECOND PART

WHEREAS HRM and HRWC did enter into an agreement (the "Agreement") dated the 29th day of August, 2001, as amended by an agreement dated the 15th day of May, 2007, copies of which Agreement and which Agreement as amended are attached hereto as Schedule "A";

AND WHEREAS the Agreement as amended will expire on March 31, 2010;

AND WHEREAS the parties wish to enter into a new Agreement.

NOW THEREFORE WITNESSETH in consideration of One Dollar (\$1.00) for other good and valuable consideration as hereinafter set forth the parties do agree as follows:

1. This Agreement shall be in effect for the fiscal years 2010/2011 to 2014/2015.
2. For each of the fiscal years 2010/2011 and 2011/2012 the HRWC shall pay to the HRM a dividend in an amount equal to 1.56% of the HRWC rate base allocated to the water system at March 31 of the previous year.
3. For each of the fiscal years, 2012/2013 to 2014/2015 the HRWC shall pay to the HRM a dividend in an amount equal to the sum of:
 - (a) 1.56% of the HRWC rate base allocated to the water system at March 31 of the previous year; and
 - (b) 0.5% of the HRWC rate base allocated to the wastewater and stormwater systems as at March 31 of the previous year.
4. The dividends payable pursuant to paragraphs 2 and 3(a) of this agreement are grants made in lieu of commercial and business occupancy rates and taxes against HRWC's property and assets relating to the water system within the geographic boundaries of the HRM.
5. HRM covenants and agrees to use its best efforts to nominate HRWC projects for funding programs sponsored by the federal and/or the provincial government that are tailored to water, wastewater and stormwater assets. Additionally, HRM covenants to nominate HRWC wastewater and stormwater projects for other funding programs sponsored by the federal and/or provincial government in recognition of the existing wastewater and stormwater infrastructure deficit.
6. This Agreement will expire March 31, 2015, and a new agreement shall be negotiated at least ninety (90) days prior to the fiscal year of the HRM.

DATED at Halifax, Province of Nova Scotia, this _____ day of _____, 2009.

SIGNED, SEALED and DELIVERED

in the presence of:

Original Signed

HALIFAX REGIONAL MUNICIPALITY
Original Signed

Per: _____

Per: _____

HALIFAX REGIONAL WATER
COMMISSION

Original Signed

Per: _____

Per: _____

APPROVED
Original Signed

Municipal Solicitor

HALIFAX REGIONAL WATER COMMISSION
Calculation of Return on Rate Base

		March 31 2012 Actual	March 31 2013 Actual	March 31 2014 Actual	March 31 2015	March 31 2016	March 31 2017	March 31 2018	March 31 2019	March 31 2020
Utility Plant in Service Water		\$501,068,358	\$528,938,888	\$547,055,038	\$547,055,038	\$547,055,038	\$547,055,038	\$547,055,038	\$547,055,038	\$547,055,038
Exclude Bannery Lake Assets from Urban Core		(\$594,546)	(\$865,724)	(\$828,140)						
	Less expected Aerotech balance				(\$1,245,000)	(\$2,038,000)	(\$2,038,000)	(\$2,871,000)	(\$3,704,000)	(\$4,451,000)
	Net Capital Additions				\$22,640,000	\$40,369,000	\$56,798,000	\$75,040,000	\$95,682,000	\$111,872,000
	2015	\$22,640,000								
	2016	\$17,729,000								
	2017	\$16,429,000								
	2018	\$18,242,000								
	2019	\$20,822,000								
	2020	\$16,210,000								
Utility Plant In Service Water Urban Core		\$500,473,812	\$528,273,162	\$546,225,898	\$568,450,038	\$585,386,038	\$601,815,038	\$619,224,038	\$639,013,038	\$654,476,038
Authorized Working Capital		\$920,000	\$920,000	\$920,000	\$920,000	\$920,000	\$920,000	\$920,000	\$920,000	\$920,000
Reserve Depreciation		(\$118,560,412)	(\$123,724,117)	(\$130,572,999)	(\$138,817,999)	(\$146,767,999)	(\$155,334,999)	(\$164,378,999)	(\$173,403,999)	(\$182,184,999)
Add back Bannery Lake Asset depreciation		\$181,587	\$188,149	\$235,192						
	Add back expected Aerotech balance				\$291,000	\$358,000	\$437,000	\$534,000	\$665,000	\$820,000
		(\$118,398,825)	(\$123,525,967)	(\$130,337,807)	(\$138,326,998)	(\$146,411,999)	(\$154,897,999)	(\$163,844,999)	(\$172,738,999)	(\$181,364,999)
Less: Contributed Plant Excluded from Rate Base by Order of NSUARB		(\$592,743)	(\$592,743)	(\$592,743)	(\$592,743)	(\$592,743)	(\$592,743)	(\$592,743)	(\$592,743)	(\$592,743)
Less: Contributed Plant after 1986										
	1987	\$3,140,001								
	1988	\$1,550,552								
	1989	\$564,002								
	1990	\$638,635								
15 months	1992	\$3,258,627								
	1993	\$837,848								
	1994	\$1,500,638								
	1995	\$1,056,294								
	1996	\$1,388,179								
Donated Assets County at transfer		\$11,233,993								
Donated Assets Dartmouth at transfer		\$11,314,943								
	1997	\$430,074								
	1998	\$8,643,502								
	1999	\$3,798,868								
	2000	\$7,641,452								
	2001	\$3,382,772								
	2002	\$3,090,010								
	2003	\$4,788,889								
	2004	\$5,265,521								
	2005	\$4,150,154								
	2006	\$4,109,802								
	2007	\$8,294,155								
	2008	\$8,327,270								
	2009	\$8,857,302								
	2010	\$9,218,781								
	2011	\$9,619,440								
	2012	\$5,725,398	(\$129,822,455)							
Set these amounts to \$0 for future years because capital additions above do not include donated assets.			(\$136,669,233)							
	2013	\$8,846,778		(\$138,003,267)						
	2014	\$1,334,034			(\$138,003,267)					
	2015	\$0				(\$138,003,267)				
	2016	\$0					(\$138,003,267)			
	2017	\$0						(\$138,003,267)		
	2018	\$0							(\$138,003,267)	
	2019	\$0								(\$138,003,267)
	2020	\$0								
		\$138,003,267								
Rate Base as at March 31		\$254,579,789	\$288,405,218	\$278,212,081	\$292,447,029	\$301,298,029	\$309,241,029	\$317,703,029	\$329,598,029	\$335,435,029
Next Year Dividend based on 1.56%		2012-13 Actual	2013-14 Actual	2014-15 Current Year	2015-16 New Budget	2016-17 New Budget	2017-18 New Budget	2018-19 New Budget	2019-20 New Budget	2020-21 New Budget
		\$3,971,445	\$4,187,121	\$4,340,108	\$4,582,174	\$4,700,249	\$4,824,160	\$4,956,167	\$5,126,129	\$5,232,786