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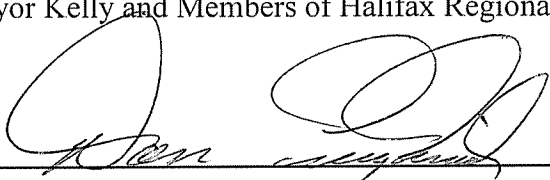


PO Box 1749  
Halifax, Nova Scotia  
B3J 3A5 Canada

July 13, 2004  
Halifax Regional Council

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

**SUBMITTED BY:**

  
\_\_\_\_\_  
Dan English, Acting Chief Administrative Officer

**DATE:** July 6, 2004

**SUBJECT:** Halifax Harbour Solutions Project Borrowing & Investment in Province of Nova Scotia Promissory Notes

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**ORIGIN**

Approval by Regional Council at the June 22, 2004 meeting for the immediate borrowing of \$110,000,000 from the Nova Scotia Municipal Finance Corporation for the Permanent Financing of the Halifax Harbour Solutions Project. Staff report advising that as a result of the Province of Nova Scotia request to borrow funds not immediately required by the Harbour Solutions Project that staff would report back to Council with a formal agreement as well as a recommendation on changes to the Halifax Regional Municipality Investment Policy which may be necessary.

**RECOMMENDATION**

**IT IS RECOMMENDED THAT:**

- 1) Council approve the attached amendments to the Halifax Regional Municipality Investment Policy, and
- 2) Council authorize the Mayor and Municipal Clerk to sign the attached Memorandum of Understanding - Investment with Province of Nova Scotia, and
- 3) The investment return on the Province of Nova Scotia Promissory Notes be paid to the Environmental Protection component of the Pollution Control Reserve.

**BACKGROUND**

Approval by Regional Council for the immediate borrowing of \$110,000,000 for the Halifax Harbour Solutions Project (HSP) has created an opportunity for the investment of funds not immediately required for Project expenditures. The Province of Nova Scotia has expressed an interest in borrowing these funds which would be an investment for HRM.

**DISCUSSION**

Staff have reviewed the options available for the investment of the \$110,000,000 to be received from the issuance of bonds for the HSP both in the context of the current Investment Policy and the offer by the Province of Nova Scotia to borrow these funds through Promissory Notes until required for Project expenditures.

The majority of the investments will be made to mature at the dates that were identified as optimum for borrowing as discussed in the June 22, 2004 Halifax Harbour Solutions Permanent Long Term Debt Financing report as follows:

September 30, 2005	\$40 Million
May 31, 2006	\$40 Million
October 31, 2007	\$30 Million

In addition to these dates it is also anticipated that maturities of lesser amounts will be targeted for those dates when principal and interest payments will be made on the \$110,000,000 borrowing. This will be done to ease the “strain” put on the Harbour Solutions financing model introduced by the repayment schedule. A total of nine maturities would be anticipated under this approach. Discussions with Provincial staff indicate that this can be accommodated.

Based on current market conditions the lending of these funds to the Province of Nova Scotia under the terms of the attached Memorandum of Understanding (MOU) will result in a rate of return to the Halifax Regional Municipality which compensates the HRM for the credit quality of this investment. However, the placing of the entire amount of \$110,000,000 with the Province of Nova Scotia will exceed the Sector Weight, Credit Quality and Maximum Percentage of Portfolio per Issuer restrictions of the Investment Policy. The Investment Policy currently allows for a maximum of 20% of the Reserve Portfolio to be invested in A- rated entities. The current rating of the Province of Nova Scotia by the Dominion Bond Rating Service (DBRS) is A-. Additionally there is a limit of 25% of the Reserve Portfolio for investments in any individual Province or its Guarantees. The investment would be held in the Reserve Portfolio. Based upon \$110,000,000 investment and using Reserve balances as at March 31, 2004 the applicable percentage would be 43% respectively. This percentage will change over time as Reserve balances fluctuate and the Promissory Notes mature.

Given the unique circumstances surrounding this particular investment opportunity, including that it is anticipated that the last of the Promissory Notes would mature by October 31, 2007, staff are recommending changes to the Investment Policy required to permit this investment. This matter has been discussed with the Investment Policy Advisory Committee and it is in concurrence with the recommended changes. Once approved by Council, the changes would be forwarded to the Minister of Service Nova Scotia and Municipal Relations for approval.

The Memorandum of Understanding (MOU) contains a number of provisions which safeguard the interests of the HRM and provide for contingent liquidity. These Notes are irrevocable except upon mutual agreement and there is no right of offset by the Province of Nova Scotia with respect to payment to the HRM upon maturity of each Note. One concern of staff is the possibility that the credit rating of the Province of Nova Scotia as measured by DBRS be reduced in the future. The usual option to sell a downgraded investment would not be available for these Promissory Notes. However, the MOU does provide HRM the ability to change the maturity dates of the Promissory Notes upon reasonable notice.

Currently the rate of return paid to Reserves is based upon the rate of return for all short term investments. Since these Promissory Notes are dedicated to the HSP, staff are recommending that the investment return earned on these Promissory Notes be paid to the applicable Reserve.

In the staff report of June 22, 2004, Regional Council authorized the payment of issue costs directly from the Environmental Protection Levy. It is estimated these fees will amount to \$1,298,550 of which \$275,000 is allocated to the MFC Reserve and \$22,000 is allocated to MFC administrative costs. The balance of \$1,001,550 is retained by the Province of Nova Scotia as a fee for executing the borrowing. HRM staff have been advised that this amount is within industry standards. The analysis of the MFC submission to the Expression of Interest for the Permanent Financing of the HSP, which resulted in the recommendation of the MFC solution, included these fees.

### **BUDGET IMPLICATIONS**

Issue costs have been included in the Harbour Solutions Financing model.

### **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 the withdrawals from the utilization of Capital and Operating reserves, as well as any relevant legislation.




ALTERNATIVES

- 1) Council could direct staff to disregard the offer by the Province of Nova Scotia to borrow the \$110,000,000 through the issuance of Promissory Notes.
- 2) Council could direct staff to only invest the amount currently permitted under the Investment Policy with the Province of Nova Scotia and to invest the balance with other entities.

These are not recommended by staff as the investment opportunity offered by the Province of Nova Scotia is more attractive when compared to other opportunities.

ATTACHMENTS

- 1) Amendments to the Halifax Regional Municipality Investment Policy
- 2) Memorandum of Understanding between the Province of Nova Scotia and the Halifax Regional Municipality

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.		
Report Prepared by:	Reg Ridgley, Manager Strategic Capital Project Support, 	490-6475
	Derek Tynski, Investment Analyst, 	490-6471
Report Approved by:	 S. Dale MacLennan, Director, Financial Services	490-6308

## **Amendments to the Halifax Regional Municipality Investment Policy**

The following be added to Section D - Investment Policy:

“For the purpose of the Investment in the Province of Nova Scotia Promissory Notes of \$110,000,000 by the Halifax Regional Municipality from the borrowing for the Halifax Harbour Solutions Project, an exception be made to the provisions on Sector Weight, Credit Quality and Maximum Percentage of Portfolio per Issuer. These Promissory Notes will mature over a period commencing from the beginning of 2005 and to end no later than October 31, 2007. These Promissory Notes shall be held as investments of the Reserve Fund.”

That the following be added to Schedule A (3) Sector Weights - Reserves:

“\*\*\*\* For the purpose of the Investment in the Province of Nova Scotia Promissory Notes of \$110,000,000 by the Halifax Regional Municipality from the borrowing for the Halifax Harbour Solutions Project, an exception be made to the provisions on Sector Weight, Credit Quality and Maximum Percentage of Portfolio per Issuer.”

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That the following be added to Schedule A (3) Sector Weights - Reserves:

“\*\*\*\* For the purpose of the Investment in the Province of Nova Scotia Promissory Notes of \$110,000,000 by the Halifax Regional Municipality from the borrowing for the Halifax Harbour Solutions Project, an exception be made to the provisions on Sector Weight, Credit Quality and Maximum Percentage of Portfolio per Issuer.”

MEMORANDUM OF UNDERSTANDING - INVESTMENT WITH PROVINCE OF NOVA SCOTIA

WHEREAS the Halifax Regional Municipality (“HRM”) intends to borrow from the Nova Scotia Municipal Finance Corporation \$110,000,000 for the purposes of the Halifax Harbour Solutions Project in accordance with the *Municipal Government Act* and the *Municipal Finance Corporation Act*.

AND WHEREAS HRM intends to borrow said \$110,000,000 in advance of its intended use and both parties have expressed interest in placing said funds with the Province of Nova Scotia Department of Finance (“the Province”) by way of Promissory Notes,

IT IS HEREBY AGREED AS FOLLOWS:

1. HRM shall invest the entire \$110,000,000 with the Province until such time as the funds, in whole or in part as identified at the time the investment is placed, are required for the purposes of the Harbour Solutions Project.
2. To accommodate the investment in a Promissory Note, HRM shall recommend altering its current Investment Policy to the Minister of Service Nova Scotia and Municipal Relations to allow for the investment of the entirety of the funds with the Province.
3. The Province shall provide Term Sheets outlining the terms and conditions offered for the investment vehicles. The Province shall provide flexibility with respect to term and structure where and if possible. The Province will allow for early redemption of the outstanding notes with accrued interest paid to the investor at a reasonable cost of breakage.
4. The Province shall guarantee that the investment is irrevocable, contains no right of offset and is offered at rates competitive in the context of the market for provincially issued debt securities of similar term and structure. The rates of return shall approximate as close as practicable the all in rates of interests on Nova Scotia Municipal Finance bonds issued for the Halifax Harbour Solutions Project of the same term.
5. Each party represents to the other that it has all the requisite competence, power, authority and capacity to execute and deliver this memorandum and to perform any and all obligations hereunder.
6. The terms of this memorandum of understanding may be varied from time to time only by mutual agreement of the Department of Finance of the Province of Nova Scotia and HRM.

IN WITNESS WHEREOF the parties hereto have caused these presents to be properly executed this day of July, 2004.

Halifax Regional Municipality

Department of Finance  
Province of Nova Scotia

\_\_\_\_\_  
Mayor            Peter J. Kelly

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A/Clerk            Jan Gibson