
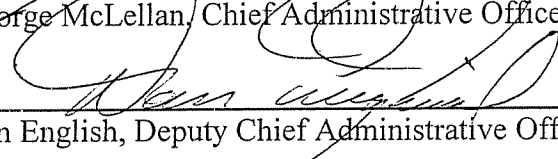




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Halifax Regional Council
Committee of the Whole
January 25, 2005
February 1, 2005

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY: 
George McLellan, Chief Administrative Officer

Dan English, Deputy Chief Administrative Officer

DATE: January 20, 2005

SUBJECT: Environmental Protection Charge (EPC) Rate Increase

ORIGIN

This report originates from Halifax Regional Council Committee of the Whole Report, "Halifax Harbour Solutions Project - Financing Options", dated October 22, 2002 and Halifax Regional Council Report, "Proposed Rate Increase to Wastewater Management Levy", dated February 3, 2004.

RECOMMENDATION

It is recommended that:

1. Council approve the planned 2004/05 increase to the Environmental Protection Charge (EPC) component of the Pollution Control Charge in support of the Halifax Harbour Solutions Project of five cents (\$0.05) per cubic metre of water, effective March 1, 2005;
2. Council approve an additional increase to the EPC, in support of existing stormwater/wastewater infrastructure capital maintenance, of five cents (\$0.05) per cubic metre, effective March 1, 2005.

BACKGROUND

The Pollution Control Charge (PCC) which is levied on HRM water bills consists of three primary components: (see Appendix A)

- 1) The Environmental Protection Charge (EPC). The EPC has two parts:
 - A) The Harbour Solutions Project charge which is the funding source for HRM's portion of the HSP and,
 - B) The Existing Infrastructure charge which provides funding for operational, maintenance, and capital costs of the existing treatment plants, primary collection system, and pumping stations.
- 2) The Wastewater Management Charge which funds the operation of HRM's sewer system, exclusive of the primary collection system.

The present PCC is \$0.929 per cubic metre. The EPC portion of the Pollution Control Charge relating to the Harbour Solutions Project was set in several steps from May of 1999 to 2002. The October 2002 Council approval authorized additional increases of \$0.05 per cubic metre in each of the next 5 years, not to exceed a total increase of \$0.29 per cubic metre. The first of these increases was implemented in October, 2003. There has been no increase to the Existing Infrastructure portion of the EPC (\$0.1804) since 1999/00.

The present Wastewater Management Charge was set in 2003/04.

On September 28, 2004, an information report was delivered to Council with an administrative separation of the EPC Reserve between the Harbour Solutions Project and Existing Infrastructure. This is shown in Appendix A with the splitting of the EPC rate in 2003. This report recommends implementation of the 2004/05 (second HSP) increase required to support the HSP, and consistent with the October 2002 Council approval.

With regard to the Existing Infrastructure portion of the EPC Reserve, increasing legislative and regulatory requirements, inflation, and public demand for improved protection of the environment of public health are placing greater demands on funding levels for HRM's stormwater and wastewater infrastructure .

EMS has completed a comprehensive review to realign these priorities as presented to Regional Council January 25th, 2005, in the "25 Year Stormwater and Wastewater Forecast" and are seeking Council's support for the first step increase of \$0.05 on the Existing Infrastructure rate component. In order to facilitate timely billing and support a single annual EPC rate increase, staff is seeking Council's approval now.

DISCUSSION

Harbour Solutions Project

In the past year, all of the financing components of the Harbour Solutions Project have come together. \$110 million in debt was issued specific to the Project. Monies under the Canada Strategic Infrastructure Fund's original \$30 million announcement have begun flowing to HRM and an additional \$30 million was announced in March 2004. The amended agreement to incorporate the additional \$30 million is before Council on January 25, 2005. The agreement with the Province for a \$30 million contribution over fifteen years, plus land valued at approximately \$2 million, was signed in October, 2004. A low-interest loan, valued at \$20 million, under the Federation of Canadian Municipalities' Green Investment Fund was also finalized in September, 2004.

In June 2004, the budget for the Harbour Solutions Project was presented to Council. The funding for the Project budget of \$332.7 million relies upon the \$0.29 per cubic metre increase in the Environmental Protection Charge approved by Council in October of 2002. These increases will yield an estimated \$28 million over the five year construction period.

Construction of the Sewage Collection System (SCS) has been underway for over a year now. Work is ongoing on both the Halifax and Dartmouth SCS. Required regulatory approvals are in place, as are most of the major agreements for easements and licenses. The contract to build the three Sewage Treatment Plants became effective July 7, 2004 and work is well underway. Current activities include engineering design, plans, manuals, permitting, and excavation for the Halifax STP. Finally, contracts to design, build and operate the Biosolids Processing Facility were signed November 30, 2004, and work has commenced. Overall, the Project is proceeding on schedule and within budget.

Existing Infrastructure

From 1999/00 until now, \$0.1804 of the EPC rate has been allocated for existing stormwater and wastewater capital and operating requirements. This rate has provided approximately \$7.2 million of revenue annually, of which \$5 million is required to fund STP operations, leaving \$2.2 million for small scale capital upgrades to pumping stations, sewage treatment plants and other components of the sewer collection systems. As noted in the background, increasing compliance requirements, inflation and public demand for improved protection of the environment and public health, are placing greater demands on funding levels for HRM's stormwater and wastewater infrastructure.

The proposed March 1, 2005 EPC rate increase of \$0.05 per cubic metre of water, which will generate approximately \$2 million of revenue per year, is required to fund the first step increase in capital investment of the 25 Year Stormwater and Wastewater Forecast. These estimates assume no growth in water consumption, consistent with projections obtained from the Halifax Regional Water Commission.

The EPC rate increase will be used in 2005/06 to fund a number of currently unfunded or partially funded stormwater and wastewater projects, all of which are compliance-related.

The recommended increases, for both the Harbour Solutions Project and the existing infrastructure, will raise the average household's annual water bill from approximately \$452 to \$485 (of which approximately \$271 is for wastewater) in 2005. This represents an approximate annual increase of \$33/per household (based on an average family of two adults and two children using 64 cubic metres of water per quarter). No further increases for the Wastewater Management Charge are anticipated in 2005/06. Water and sewer charges are detailed in Appendix C - Water Rate Summary- Household Costs and Increases.

BUDGET IMPLICATIONS

Recommendation #1 implements the second in a series of increases that have been approved as part of the financing plan for the Harbour Solutions Project. The 2004/05 rate increase is required now so that budgeted cash flow requirements are not compromised. The remainder of the annual HSP rate increases will be brought forward as part of the annual budget process in future years. The planned 2005/06 increase will be brought forward as part of the budget resolution in March 2005.

Recommendation #2 supports the objective of maintaining cash flow integrity in the Reserve and positions the cash flow in the Reserve to meet 2005/06 Capital requirements without deficit financing. Additionally, the recommendation is consistent with plans to create a separate Reserve for the Harbour Solutions Project as outlined in the September 28, 2004 Information Report (Environmental Protection (EP) Reserve Status Update).

Staff are developing comprehensive financing strategies for the 25 Year Stormwater and Wastewater Forecast for Council's consideration in 2006. This will be done in conjunction with Regional Planning, Revenue Strategy and the annual budgeting process.

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 specifically Bylaw S-100 Respecting Sewer Charges

ALTERNATIVES

Re: Recommendation # 1 - HSP rate planned increase.

1. *Different Implementation Period* - Increases to EPC - HSP could be deferred. This is not recommended due to cash flow needs required to maintain compliance with regulations and is inconsistent with the approved funding plan for the project.
2. *Additional Debt Financing* - This option is not recommended as staff have recently undertaken the task of organizing a \$110 million debenture issue with Nova Scotia Municipal Finance Corporation and \$20 million with the Federation of Canadian Municipalities. Seeking additional debt would place pressure on HRM's debt capacity for other much-needed capital projects.
3. *Approve the 2005/06 planned HSP rate increase of \$0.05 per cubic metre now, with an effective date of July 2005, rather than setting this rate during the 2005/06 budget process.* This alternative could be supported by staff as it represents a planned increase which is part of total the HSP project funding.

Re: EPC - Existing Infrastructure rate

1. *Funding Through The Tax Rate* - Over the next ten to fifteen years, addressing capital budget pressures related to municipal infrastructure and services will be increasingly difficult. Every available appropriate funding source must be examined in order that we are able to meet the needs of HRM's citizens, while recognizing our obligation to ensure citizens receive good value for their taxes. This is not recommended for consideration at this time. In 2005/06 staff will undertake a Revenue Strategy with recommendations for the 2006/07 budget, to support the Regional Plan and the needs of the citizens of HRM in the most appropriate manner. At that time all sources of revenue will be examined .
2. *Increase the EPC even further* - In 06/07, staff must commence construction of the upgrade to Eastern Passage Sewage Treatment Plant. It is possible that this work will be funded from the EPC-Existing Infrastructure reserve. The reserve business case for the EPC Reserve will need to be amended to support this. If this does not take place and if a Capital Cost

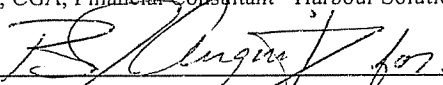
Contribution is not applied, then the EPC rate would have to be increased significantly (\$0.36) next year. Council could choose to collect additional funds for the EPC Reserve now to avoid rate shock in 06/07. Staff are undertaking a comprehensive rates strategy review in 05/06 to ensure revenues are rationalized with the Regional Plan; therefore this option is not recommended at this time.

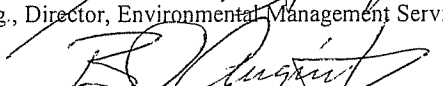
ATTACHMENTS

- Appendix A: Pollution Control Charges Rate Schedule
- Appendix B: Water Rate Summary - Household Costs and Increases

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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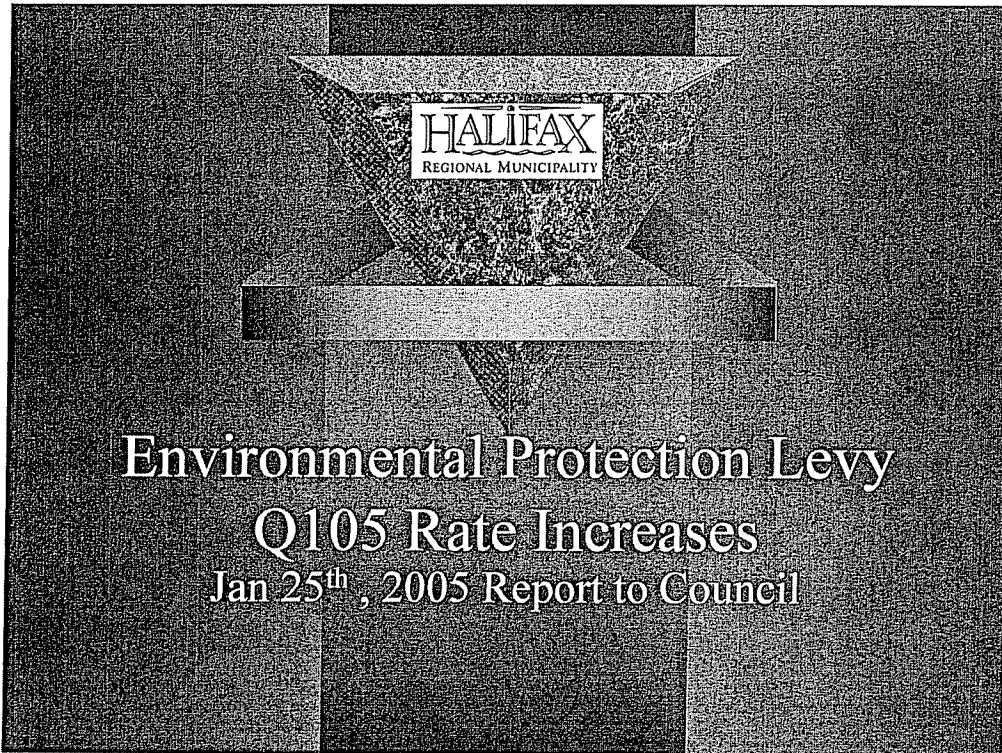
APPENDIX A

Pollution Control Charges Rate Schedule

Date	Total Pollution Control Rate	Environmental Protection Rate		Wastewater/ Stormwater Management	Increase
		Harbour Solutions	Existing Infrastructure		
2002/03	0.7828	0.3700	0.1804	0.2324	
2003/04	0.9290	0.4200	0.1804	0.3286	
2004/05	1.0290	0.4700	0.2304	0.3286	0.1000
2005/06	1.0790	0.5200			0.0500
2006/07	1.1290	.05700			0.0500
2007/08	1.2190	0.6600			0.0900

NOTE: Future rates required for “existing infrastructure” and “wastewater/stormwater management” for 05/06 through 07/08 are unknown at this time. A comprehensive rate strategy review in 05/06 will provide this information for consideration as part of the 2006/07 budget and over the next 10 years. The “Harbour Solutions” rates reflect the future increases required to fund the Project as approved by Council in 2002.

Water Rate Summary- Household Costs and Increases



Water Rate Summary

Current Water and Sewer Rates (as of Jan25th/05)	2005	Household Costs
Base Water Charge- HRWC	\$35.26qtr	\$140
Water Consumption Rate	.291	\$75
Wastewater Rate	.3286	\$84
EPC Rate	.6004	\$154
Average Annual Household Cost		\$453



Water Rate Summary

Proposed Water and Sewer Rates	2005	Household Costs
Base Water Charge- HRWC	\$35.26/qtr	\$140
Water Consumption Rate	.291	\$75
Wastewater Rate	.3286	\$84
EPC Rate (April-.7004 Oct.-.7504)	.7504	\$186
Average Annual Household Cost		\$485
Total Average Increase		\$33
Water Component		\$0
Sewer Component		\$33



Comparative Canadian Sewer Rates 2005

