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Halifax Regional Council  
December 12, 2006

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

**SUBMITTED BY:**

A handwritten signature in black ink, appearing to read "Brad Anguish", written over a horizontal line.

Brad Anguish, P.Eng., Director, Environmental Management Services

**DATE:** December 4, 2006

**SUBJECT:** Status of Herring Cove Sewer and Water Project/Investigation of Additional  
Funding Sources - UPDATE

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## INFORMATION REPORT

### ORIGIN

Regional Council Meeting September 5, 2006; Item 10.3.1 - Councillor Adams requested that staff look at alternate sources of funding for the Herring Cove Sewer and Water Project; however, that funding is not to displace anything off the MRIF list that is in place or other funding that is currently in place. It was also asked that the tenders be brought forward and addressed at this time.

## **BACKGROUND**

On November 7, 2006 staff provided an update report to Council on this subject.

It was initially estimated that the cost to implement the approved Herring Cove servicing plan, would result in a property owner with 100 feet of road frontage paying a Local Improvement Charge (LIC) of \$5600 for sewer and \$6700 for water (approximately \$12,300 for both). Due to higher than expected tender prices received, staff are projecting the same property owner will pay a LIC of \$15,500 for sewer and \$12,500 for water (approximately \$28,000 for both), which is more than double the original estimate.

## **DISCUSSION**

Staff have reviewed a number of potential funding strategies that may be available to address the projected \$5.1M increase in net costs. These strategies include (1) reduce the gross costs, (2) obtain additional project funding (3) raise the LIC rate (4) other strategies. Each strategy under consideration is described briefly below.

### **1. Reduce the Gross Cost**

To potentially reduce the cost of the project, staff have considered two options, renegotiate with the contractor or retender the project.

#### **1.1 Renegotiate with the contractor**

Staff have negotiated with the low bidder for Phase 1B and 2A (the same company was the low bidder on each phase) to look for cost reductions available by making the design more economical from a construction perspective. The company has offered some cost reductions and staff are currently reviewing this proposal.

#### **1.2 Retender the project**

Retendering one or more of these phases is another option that may reduce the gross cost.

### **2. Obtain Additional Project Funding**

Additional project funding can potentially be obtained from three sources: internal HRM Capacity, external funding programs and HRM Reserves.

#### **2.1 Internal HRM Capacity**

Water and sewer service is a user pay service, meaning those who use the service will pay for the service and the upkeep of the infrastructure to deliver the service. To maintain the integrity of the user pay system, HRM capital capacity (funded through general tax revenue) is not a recommended source of funding for projects in this asset category.

## **2.2 HRM Reserves**

Reserve funding is generated within the context of By-Law S-100 (Respecting Sewer Charges) through the collection of the Sewer Redevelopment /Trunk Sewer Charges (Reserve Account Q-104), Environmental Protection Charges (Reserve Account Q-105), and the Wastewater/Stormwater Management Charges (Reserve Account Q-106). These funds are collected from existing users of the municipal stormwater and wastewater systems and are to be used for the purposes for which they were collected, in accordance with By-Law S-100. Funds from Reserve Account Q-104 are currently being used to fund the trunk sewer (or oversized) portions of the sewer system in Herring Cove in accordance with By-Law. Funds from the Reserve Account Q-105 and Q-106 are not permitted to be spent to extend water and sewer services in accordance with By-Law.

## **2.3 Halifax Harbour Solutions Project (HHSP) contingency fund**

The HHSP contingency fund is one source of funding that may be available to reduce the Herring Cove Servicing Project shortfall. This fund has been used to benefit other host communities in similar ways, such as burying overhead wiring. Additionally, this community will be the site of a treatment facility and staff believe it would be unfair if some of the residents living near the facility (Phase 1B) were unable to afford services. Staff have discussed this possibility and reasoning with the Energy and Underground Services Advisory Committee & Harbour Solutions Advisory Committee and it was agreed that this would be brought forward as a potential source of funding. The HHSP contingency fund will be the subject of a separate report to Council.

## **2.4 External Funding Programs**

Herring Cove has received external funding from the Canada Nova Scotia Infrastructure Program (CNSIP). Staff has prepared a letter to the Infrastructure Secretariat requesting they approve an increase in costs of \$600,000 related to Phase 1A (the only phase included in CNSIP). If approved, this will allow staff to direct excess CNSIP funding, to a maximum of \$400,000 (or 2/3 of \$600,000), to Phase 1A. As this program has closed, staff can not request that additional phases of the Herring Cove project be added to the program.

In terms of provincial level funding, staff is aware of the Provincial Capital Assistance Program (PCAP) that offers up to 50% cost sharing on eligible infrastructure construction projects. Based on a review of the criteria, staff believe the Herring Cove project would be eligible. However, the amount of funding available under this program is limited and subject to approval by the province. Staff will continue to pursue this option to determine the suitability.

Under the Wastewater Funding Strategy approved by Council, Gas Tax and the HRWC Dividend are sources of funding currently committed to Stormwater/Wastewater projects. Given the extreme funding challenges being faced with deteriorating and out of compliance existing sewer infrastructure, staff would not support directing this funding to service extension projects, which are priority 4 projects. This funding is intended to be directed to address liability and compliance issues in our current infrastructure.

The HRM allocation of Municipal Rural Infrastructure Funds (MRIF) has been approved by Council and applications submitted. To include Herring Cove Sewer and Water Service Extension in this program would require a re-prioritization of projects by Council and the submission of an application for approval by the funding agencies.

Staff are not aware of any other current or future Federal/Provincial cost sharing programs that have the capacity to assist with the Herring Cove Servicing project.

### 3. Raise the LIC

Asking the residents to pay higher LICs is another option. Staff have been advised by Legal Services that the LIC rate can be raised 10-15% without requiring a public hearing. As an example, raising the LIC rate by about 10% (\$600 for water and \$600 for sewer) would provide an additional (approximately) \$370,000. This amount can be used to reduce the financial shortfall but would likely make it more difficult for some homeowners to pay. Staff do not recommend this approach at this time, however, once the financial situation with respect to the project becomes clearer, this option may have to be utilized in order to complete the project.

### 4. Other Strategies

The fourth strategy considered to potentially reduce the cost of LICs for the project is to defer parts of the work and defer the reservoir and watermain twinning.

#### 4.1 Defer parts of the work

This approach may be used to help ensure that services get delivered to the maximum number of residents and the LIC rate is not compromised. Some phases or parts of phases could be deferred until a future date when additional funding may become available or other opportunities may exist that will allow this deferred work to proceed without impacting the LIC rates. For example, certain side roads or parts of the project where only a small number of residents are serviced could be delayed. This would help keep the LIC rate down for now. However, some residents who require or want servicing now would not get services. There is also the risk that future cost sharing or other opportunities may not arise and these deferred areas may not get services or may be serviced at a higher rate. The CLC should be consulted before this approach is considered further.

#### 4.2 Defer the reservoir and watermain twinning

Some parts of the master water infrastructure such as the reservoir and watermain twinning are not needed at the immediate time and may be deferred. The reservoir and watermain twinning will be required once growth in the community reaches a certain point. The cost of these components can be removed from the LIC now and recovered later via an area rate or another mechanism within the scope of notice previously given at the Public Hearing. Council would have to agree to this change now and agree to provide this component of the funding in the future when needed.

Staff are currently dealing with a priority 1 (legal and liability) sewer emergency with the Freshwater Brook sewer. Once this situation is dealt with, these and other options for Herring Cove will be explored further and, staff will return with a more detailed report in 2007 with an objective of awarding tenders for the next phase(s) of the project.

### **BUDGET IMPLICATIONS**

There are no Budget Implications at this time.

### **FINANCIAL MANAGEMENT POLICIES/BUSINESS PLAN**

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, budget, policies and procedures regarding withdrawals from the utilization of Capital and Operating reserves, as well as any relevant legislation.

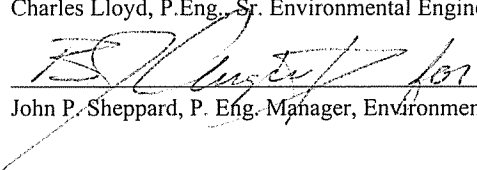
### **ATTACHMENTS**

None

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

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