



PO Box 1749
Halifax, Nova Scotia
B3J 3A5, Canada

Item No. 11.1.6
Halifax Regional Council
October 20, 2009

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY:

A handwritten signature in cursive script, appearing to read "Dan English".

Dan English, Chief Administrative Officer

A handwritten signature in cursive script, appearing to read "Cathie O'Toole".

Cathie O'Toole, Acting Deputy Chief Administrative Officer - Corporate Services and Strategy

DATE: October 16, 2009

SUBJECT: Renewal of HRWC Dividend Agreement

ORIGIN

The existing three-year Dividend Agreement in place between the HRM and the Halifax Regional Water Commission (HRWC) expires on March 31, 2010.

RECOMMENDATION

It is recommended that Halifax Regional Council approve the proposed Dividend Agreement between the HRM and the HRWC, as shown in Attachment 2, for the five-year period April 1, 2010 to March 31, 2015, 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 better reflect HRWC’s asset base and directed that the Agreement be reviewed when it expired in March 2007. The resulting dividend agreement – the one currently in place (see Attachment 1), based on a return on the HRWC's “rate base” or value of their infrastructure – was approved by the NSUARB in May 2007 and closely resembles a Grant in Lieu of Taxes.

The current three-year Agreement calculates the annual dividend by applying a rate of 1.56%, or \$1.56 per \$100, to the specified HRWC asset base. The HRWC Water Service asset base reflects all non-depreciated infrastructure paid by rate payers (as shown on HRWC financial statements). This asset base was preferred to the Property Valuation Services 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 builds upon the existing agreement. The rate of 1.56% continues to be applied to the water service assets throughout the 5-year period. New wastewater and stormwater assets are being brought into the calculation in 2012/13, at an interim rate of 0.5%, for the final three years of the agreement. This proposed Dividend Agreement was approved by the HRWC Board at their meeting on September 24, 2009.

An estimate of the projected dividend revenues is shown in Table 1, below.

Table 1 – Estimated HRWC Dividends* (Grants in Lieu of Taxes)

<i>Fiscal Year</i>	----- Period of proposed Dividend Agreement -----				
	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13</i>	<i>2013/14</i>	<i>2014/15</i>
from Water Assets	3,720,600	3,775,200	3,829,800	3,884,400	3,939,000
from Wastewater/ Stormwater Assets**	0	0	342,800	442,800	567,800
Projected Dividend Revenues	3,720,600	3,775,200	4,172,600	4,327,200	4,506,800

* Based on HRWC Projections

** Assets transferred in 2007, as well as Harbour Solutions and donated assets, are excluded.

The rate of 0.5% is considered a an acceptable interim rate, by HRWC and HRM staff, for new wastewater/stormwater assets. This rate will be reviewed prior to the renewal of the proposed agreement, i.e. by the end of 2014, with the objective of establishing a methodology for both the water and wastewater rates that would be transparent, equitable and logical, for use in subsequent agreements.

In addition, this revised 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.

BUDGET IMPLICATIONS

The proposed Agreement would see an estimated increase in the annual HRWC dividend payment of approximately \$840,000, or 23%, over the five-year period of the agreement, as shown in Table 1 of the Discussion section. The actual dividends may differ from this projection, if HRWC capital projects are changed and/or delayed.

The 2009/10 fiscal year marks the end of the wastewater/stormwater transition agreement to allocate the full dividend amount to wastewater/stormwater capital projects. Commencing in 2010/11, the dividend revenue will be available for other municipal (capital) priorities.

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

Regional Council could provide specific direction to HRM Finance staff to change the proposed terms of the Agreement and attempt to re-negotiate with the HRWC.

ATTACHMENTS

Attachment 1: Current HRWC - HRM Dividend Agreement, 2007 - 2010

Attachment 2: Proposed HRWC - HRM Dividend Agreement, 2010 - 2015

**Renewal of HRWC Dividend Agreement
Council Report**

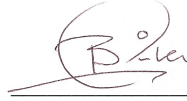
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A copy of this report can be obtained online at <http://www.halifax.ca/council/agendasc/agenda.html> then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

Report Prepared by: Andre MacNeil, Financial Consultant, 490-6241

Report Approved by:



Bruce Fisher, Manager, Fiscal & Tax Policy, 490-4493



Report Approved by:

Cathie O'Toole, CGA, Director of Finance, 490-6308

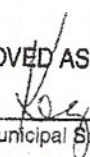
THIS AGREEMENT made this 15 day of ~~March~~ ^{May}.

BETWEEN:

HALIFAX REGIONAL MUNICIPALITY, a body corpo

APPROVED AS TO FORM

OF THE FIR


Municipal Solicitor

- AND -

HALIFAX REGIONAL WATER COMMISSION, a body
(HRWC)

OF THE SECOND

WHEREAS HRM and HRWC did enter into an agreement dated the 29th day of August, 2001 a copy of which is attached hereto a

AND WHEREAS HRM and HRWC have agreed that the agreement expires on March 31, 2007 should be amended and to provide for a different method of calculating the annual grants payable there under by HRWC to HRM.

NOW THEREFORE WITNESS in consideration of One Dollar each party to the other, the receipt whereof is hereby acknowledged and valid consideration the parties agree as follows:

1. The provisions of the Agreement are rescinded;
2. Commencing with the fiscal year 2007/2008 and continuing 2009/2010, the HRWC shall pay to the HRM as a grant, by way of equalizing commercial and business occupancy rates and taxes against it within the geographic boundaries of the HRM, an amount equal to the HRWC rate base allocated to the water system at March 31 of the previous fiscal year.
3. This Agreement will expire March 31, 2010 and a new agreement shall be entered into at least 90 days prior to the fiscal year of the HRM.

THIS AGREEMENT made this day of , 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 to 2014/2015, the HRWC shall pay to the HRM as a grant, by way of dividend, made in lieu of commercial and business occupancy tax rates and taxes against its property and assets within the geographic boundaries of the HRM, 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 the fiscal years 2010/2011 and 2011/2012, the HRWC shall not be obligated to pay to the HRM as a grant, by way of dividend, any monies respecting the wastewater and stormwater system. Commencing with the fiscal year 2012/2013, and continuing through to the year 2014/2015, the HRWC shall pay to the HRM as a grant, by way of dividend, made in lieu of commercial and business occupancy rates and taxes against its property and assets relating to the wastewater and stormwater system within the geographic boundaries of the HRM, an amount equal to 0.5% of the HRWC rate base allocated to the wastewater and stormwater system as at March 31 of the previous year.
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, 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:)

) HALIFAX REGIONAL MUNICIPALITY

) Per: _____

) Per: _____

) HALIFAX REGIONAL WATER
) COMMISSION

) Per: _____

) Per: _____