HALIFAX
REGIONAL MUNICIPALITY

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**Item No. 3**

**Halifax Regional Council**
**March 24, 2009**
**Committee of the Whole**
**March 31, 2009**
**April 7, 2009**
**October 20, 2009**

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

**SUBMITTED BY:** Wayne Anstey

Wayne Anstey, Acting Chief Administrative Officer

G.L. Kaiser

Geri Kaiser, Deputy Chief Administrative Officer - Corporate Services and Strategy

**DATE:** March 19, 2009

**SUBJECT:** **HRM Revised Debt Servicing Plan**

## ORIGIN

- Council approved revisions to the HRM Debt Policy and Debt Servicing Plan in 2008-2009 with the expectation that staff would return in 2009-2010 with debt targets for the next 5 years.

## RECOMMENDATION

It is recommended that Regional Council:

- Approve the revisions to the Debt Servicing Plan as part of the existing Multi-Year Financial Strategy, as outlined in the discussion section of the report.

## BACKGROUND

As part of *"Taking Care of Business: A Multi-Year Financial Strategy"*, the current Capital Debt Policy was approved by Council May 18, 1999. The existing Capital Debt Policy is included as Appendix A. Perhaps the best known element of the Capital Debt Policy restricts new general rated debt issued to a percentage of the amount of debt retired in the same year. The Debt Servicing Plan currently sets this target for debt reduction at 20% of the debt retired in the same year.

The results of the Capital Debt Policy and the MYFS have been significant. The Debt Servicing Plan targeted a reduction in debt in the first 5 years of the Policy of $45.7 million. This target was exceeded by $4.6 million with a total reduction in debt in the first 5 years of the Policy of $50.3 million. To the end of fiscal 2007/08, total net debt funded by the general rate was $265 million for a total reduction of $82.5 million.

In 2008/09 a preliminary review as done on the debt policy. A one-time increase to debt of $6 million was authorized. In addition, $3 million in annual principle and interest savings were identified. These savings were used to leverage additional debt of $21.8 million. Essentially, the future debt charges from that $21.8 million were to be paid off with the $3 million in savings.

## DISCUSSION

The goal of the original Capital Debt Policy was to reduce overall capital debt, provide predictability around debt available for the capital budget each year and to provide improved structure around the capital budget and related assumptions. Healthy use of debt allows the Municipality to grow, however, experience from the early years of HRM and predecesor Municipalities show that discipline helped improve HRM's financial positions.

Based on a staff review, the objective of that policy should be to grow the Capital Budget while reducing reliance on debt, and, increasing capital from operating. The goal is to eventually have all ongoing "Base" Capital (ie recapitalization) funded through Capital from Operating or Reserves and to use debt only for new "Capability" projects. The "Base" capital budget is anticipated to be 80% of total capital.

To achieve this it is recommended that the targets in the Debt Servicing Plan be redesigned around growth factors. A target for tax supported debt will be set based on a per dwelling unit amount. Tax supported debt per dwelling will be reduced by 3% each year. To support the capital budget, Capital from Operating per dwelling will grow by 3% each year after the consumer price index (ie inflation). The combination of these two factors will allow the capital budget to grow but the proportion of that budget being funded by debt to fall. The targets for debt and capital from operating are listed in the Debt Servicing Plan in Appendix A.
It is important that HRM's debt continue to decline as debt financing on-going capital costs leads to greater pressure on future budgets and tax rates, may increase operating costs, and reduces budget flexibility.

## BUDGET IMPLICATIONS

Year two of the five year capital plan (which will become the 2009-2010 capital budget) will differ using these assumptions. Due to the change in the debt servicing plan, and updated data, HRM would issue $28.2m in new debt, not $25.9 million as originally expected. Capital from Operating was expected to be $36.7 million under the five year plan. The assumption under this policy is that it will be initially set at $33.2 million. Overall this means that year two of the capital budget will have $1.2m less in funding that was originally expected. Years three to five will have $21 million in total in additional capital funding than originally expected.

## FINANCIAL MANAGEMENT POLICIES / BUSINESS PLAN

If the recommendations are approved, this report will result in a revision to the Debt Servicing Plan contained in the Municipality's Multi-Year Financial Strategy. Other than this impact the report complies with the remainder of the MYFS, 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

1. Regional Council could leave the existing Capital Debt Policy as it is with no revisions.

2. Regional Council could make changes to the Capital Debt Policy other than the ones recommended in this report.

## ATTACHMENTS

Attachment 1 - Appendix A - HRM Capital Debt Policy & Debt Servicing Plan (Proposed)

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

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Financial Approval by: Cathie O'Toole, Director of Finance 490-6308

# Appendix A

## HRM Capital Debt Policy
(as revised in 2008)

1. Debt can only be issued in compliance with all appropriate provisions contained within the Municipal Government Act and with the CAO's recommendation and Council's approval.

2. The Director of Finance will be responsible for administering capital debt and this policy.

3. A capital Debt Servicing Plan with a five year debt projection will form an integral part of the annual budget. The Debt Servicing Plan will include an upper limit.

4. The CAO will provide Council with a report annually in conjunction with the capital budget as to the total capital debt issued and approved.

5. Debt funding will be restricted to items with a life expectancy of at least 10 years.

6. The dollar amount of new issued debt funded from the general tax rate will be limited to the debt being retired in the same year less a target for debt reduction.

7. Capital Debt will be segregated in the Accounting records which shall ensure the maintenance of accurate information with respect to the purpose, issuance and retirement.

8. The capital debt policy will be reviewed annually in conjunction with the budgeting process.

# **Debt Servicing Plan** (Proposed)

Principal 6 of the Principles of Financial Management, unanimously adopted by Council in December 1998, reads:

*<u>Principal 6</u>*
*Council and Management will develop and adopt a sustainable plan for reducing debt servicing.*

- *Develop five year upper and lower limits consistent with the goals established for debt servicing and operate within these limits which will be reviewed annually.*
- *Review the Debt Servicing Plan every year.*

The five year Debt Servicing Plan is devised with the following assumptions:

1. Current net debt funded from the general tax rate will reduce every year.
2. New issued debt to be funded from the general tax rate will be limited to the debt being retired less a target for debt reduction.
3. The upper limit for debt funded from the general tax rate will be the net debt position at the end of the previous year.
4. The target for total approved and issued "tax supported debt" (ie general rated debt) will be set as an amount per dwelling. The target for debt reduction will be that amount that reduces tax supported debt by at least 3% of the previous year's tax supported debt per dwelling. For the five year's starting 2009-2010 this will produce the following estimates:

| Estimated Amounts for Tax Supported Debt | | | | | | |
|---|---|---|---|---|---|---|
| | | Total ($000) | Target for Debt Reduction ($000) | Total Per Dwelling | Per Dwelling Change | Debt Issued ($000) |
| Year 1 | 2009-2010 | 280,590 | -4,953 | 1,571 | -3.0% | 28,160 |
| Year 2 | 2010-2011 | 275,373 | -5,217 | 1,524 | -3.0% | 31,211 |
| Year 3 | 2011-2012 | 270,216 | -5,157 | 1,478 | -3.0% | 33,393 |
| Year 4 | 2012-2013 | 264,977 | -5,239 | 1,434 | -3.0% | 34,953 |
| Year 5 | 2013-2014 | 259,809 | -5,168 | 1,391 | -3.0% | 34,949 |

5. In order to support the capital budget while debt is being reduced, a target will be set for Capital from Operating. That target will be set at the 2009-2010 budgeted amount per dwelling indexed to the Consumer Price Index plus 3.0%.

6. 100% of the Capital budget funded by debt will be debentured.