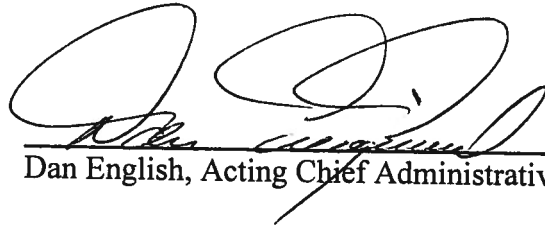


Halifax Regional Council
July 13, 2004

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY:



Dan English, Acting Chief Administrative Officer

DATE: July 7, 2004

SUBJECT: Reserves Business Cases and Transfers - 2003/04

ORIGIN

Finalization of year-end results for the fiscal year ended March 31, 2004.

RECOMMENDATIONS

It is recommended that:

- Council approve the Reserve Business Cases attached to this report for the following reserves;
 - Rural Fire Reserve, and
 - Ferry Replacement Reserve
- Council approve a withdrawal of \$168,338 from Q105 Environmental Protection Reserve to reflect actual costs in 2003/04,
- Council approve a withdrawal of \$933,778 from Q306 Self Insurance Reserve to reflect actual costs in 2003/04, and,
- Council approve a withdrawal of \$100,000 from Q309 Snow and Ice Reserve.

BACKGROUND

Reserves have long been used by HRM and its predecessor units to assist in planning, saving and smoothing of expenditures. In December 1998, Council approved the Reserves Policy as part of the Multi-Year Financial Strategy whereby “each Reserve will have a specific Business Case developed by the appropriate Director in conjunction with the Director of Financial Services” and that “reserve funding is incorporated into a financial plan as an integral part of the operating and capital budgets.”

DISCUSSION

New Reserve Business Cases:

The Rural Fire and Ferry Replacement reserves were established in the 2003/04 operating and reserve budgets and the amounts as budgeted have been incorporated into the financial results for the year-ended March 31, 2004. The purpose of this report is to obtain Council approval for the on-going operation of the reserves as outlined in the attached reserve business cases.

In addition, a third new reserve, Capital Replacement, was incorporated in the 2003/04 operating and reserve budgets and the reserve has been set up as budgeted with a \$1 million transfer from the Fiscal Services operating budget. As outlined in the budget documents, the reserve has been established as a means of funding the eventual replacement of capital systems. Staff are reviewing the on-going funding and application of this reserve and prior to any withdrawals from this reserve, a reserve business case will be brought forward to Council for approval.

Recommended Withdrawals:

Q105 Environmental Protection Reserve

In compliance with By-Law S-100 Respecting Sewer Charges, the Environmental Protection Reserve provides for the annual operating costs of the sewage treatment plants, a domestic water plant, a sludge transport unit, and a biosolids stabilization lagoon, as well as various interceptor sewers, pumping stations and associated forcemains. Operating costs for the year were budgeted at \$5,133,220, however, final costs for the year were \$5,301,558. Therefore, Council approval for the withdrawal of \$168,338 is recommended to cover the full operating costs of these operations. There are sufficient funds in the reserve to cover this withdrawal.

Q306 Self Insurance Reserve

The Self Insurance Reserve is used to provide funds for settlement of claims below HRM's insurance deductibles, for minimum deductibles on claims covered by outside provider insurance policy and for any expenses related to these claims. It is funded on an annual basis from the Fiscal Services operating budget. Over the past three years, this reserve has funded insurance expenditures in excess of the budget in the amount of \$432k for 2000/01, \$532k for 2001/02 and \$383k for 2002/03. At the end of 2002/03 an additional \$1.5 million was transferred to the Self Insurance Reserve from part of the one-time valuation allowance gain. In the current year, insurance claims and premiums exceeded the budget resulting in expenditures in excess of budget in the amount of \$934k. Therefore, in accordance with the reserve purpose, it is recommended that the \$934k be withdrawn from the reserve to cover these operating expenditures. Increases in premium cost, settlement of large outstanding claims and increased claim costs lead to this required withdrawal. There are sufficient funds in the reserve to cover this withdrawal and the approved budget for 2004/05 has been increased to reflect the increase in insurance costs.

Q309 Snow & Ice Control Reserve

This reserve is to provide funding for costs associated with snow and ice control which are beyond that provided in the annual operating budget. The balance should not exceed 25% of the average of the most recent five fiscal years of actual snow and ice costs and should not drop below 10% of the same average. Based on these parameters, the current reserve minimum and maximum are \$1.3 million and \$3.2 million respectively. Prior to the withdrawal recommended in this report, the reserve balance is \$2.6 million.

Primarily as a result of the February blizzard, snow and ice control costs were in excess of budget in the amount of \$4.6 million. Based on the reserve balance and the parameters set for the minimum, full withdrawal of this amount is not feasible. Plus, across the organization, surpluses in other areas did mitigate the full impact of the deficit in this area. However, without any reserve withdrawal, there would still be an overall general rate deficit. Therefore, in accordance with the reserve business case, a withdrawal of \$100k is recommended.

BUDGET IMPLICATIONS

There are no budget implications in relation to the new reserve business cases. These were incorporated in the 2003/04 operating and reserve budgets and transfers during the year were in accordance with the budgeted amounts. The withdrawals from the Environmental Protection, Self Insurance and Snow and Ice Control Reserves are in accordance with the reserve purposes and provides for the funding of actual operating expenditures incurred during 2003/04.

FINANCIAL MANAGEMENT POLICIES/BUSINESS PLANS

This report complies with the Municipality's Multi-Year Financial Strategy as well as relevant legislation. There is no impact on the approved Capital budget, however, this report is recommending an additional reserve transfer over and above what was in the original Operating and Reserve budgets and is in accordance with policies and procedures regarding withdrawals from and utilization of Capital and Operating reserves.

ALTERNATIVES

There are no recommended alternatives

ATTACHMENTS

- Rural Fire Reserve Business Case
- Ferry Replacement Reserve Business Case

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: Pam Caswill, CA, Manager of Accounting 490-6324

Report Approved by:


S. Dale MacLennan, CA, Director, Financial Services

490-6308

Draft

Reserves Business Case

Halifax Regional Municipality . Corporate Services . Finance Division . 490-6470 . Fax: 490-6238

Date: June 10, 2004

Contact: Chief Director of Fire and Emergency Services

Rural Fire Reserve

Purpose

As a result of the 2002 Tax Structure implementation approved by Regional Council on December 17, 2002, it was recommended that a Reserve be created to provide financial assistance for Rural Fire Departments in the purchase of capital assets. It is intended that this reserve will ease the demand for long term debt funding of capital.

Source of Funds

The Reserve will be divided internally into Five (5) separate Reserves. One for each of the established 5 Rural Fire districts/zones with \$50,000 each. A total of \$250,000 will be funded through a transfer from the 2003/04 operating budget, cost centre F793-8008. The balance will be funded from the 2002/03 surplus in the rural departments, \$258,000, account 3428. Future funds will be an allocation from cost centre F793 in the amount approved in subsequent operating budgets. This reserve will also earn interest per the Reserve Policy.

Application of Funds

The Zone Reserve would be used to fund light vehicles (rescue, utility and tactical support), address health and safety issues (potable water, septic/washrooms, exhaust extraction and mould remediation) and to assist RPAM in ensuring rural fire buildings comply to code in order to meet operational requirements. Building and health and safety issues also include emergency power and accessibility in the event stations were needed as “emergency shelters.”

Time Line

The Reserve is intended to be permanent and ongoing with an annual review. Attachment 1 is a preliminary replacement schedule for rural areas. It is intended that this schedule be updated and

linked to a five year continuity schedule by May of 2005.

Approval Process

All requests for funds from each Zone Reserve must be initiated through the agreement of all Chiefs in their respective Zones and ultimately approved by the Chief Director of Fire and Emergency Services. In accordance with the Reserves Policy, the Director of Financial Services is responsible for administering all reserves and confirmation will be made by the Director of Financial Services as to whether the charges conform to policy and the availability of funds.

Approval

CAO

Attachment: 1

Attachment 1

Rural Fire Issues

This list highlights outstanding issues that have been documented to date. It is not intended to be all inclusive or indicate the priority in which items would be addressed.

Estimated Costs

Zone 1			New	Replacement	
Light Vehicles:					
Station 23	Chezzetcook	Rescue Unit/Replacement		X	50,000
Station 20	Upper Lawrencetown	Utility (air support unit) and compressor		X	150,000
Station 25	Ostrea Lake	Rescue Unit / NEW	X		50,000
Station 22	North Preston	Utility Unit/Replacement		X	50,000
				Subtotal:	300,000
Buildings:					
* RPAM will be conducting evaluations of facilities in Zones 1, 2 and 4 in 2004/05.					
Health & Safety:					
Station 23	Chezzetcook	Exhaust Extraction			<u>20,000</u>
				Subtotal:	20,000
Zone 2					
Light Vehicles:					
Station 29	Moser River	Rescue Unit/Replacement		X	50,000
Station 33	Three Harbours	Rescue Unit/Replacement		X	70,000
Station 30	Tangier	Rescue Unit/Replacement		X	50,000
				Subtotal:	170,000
Buildings:					
Station 33	Three Harbours	Site being assessed for septic and well, may require more property			*
Station 30	Tangier	Basement floods regularly			*
Station 29	Moser River	Funding to partially supplement the shortfall in the capital project. See attachment 2.			<u>158,000</u>
				Subtotal:	158,000
* RPAM will be conducting evaluations of facilities in Zones 1, 2 and 4 in 2004/05.					
Health & Safety:					
Station 30	Tangier	Mould			*
Station 28	Sheet Harbour	Exhaust Extraction			36,000
Station 28	Sheet Harbour	Fuel Tank Removal (minimum cost)			<u>12,000</u>
				Subtotal:	48,000
Zone 3					
Light Vehicles:					
Station 40	Dutch Settlement	Rescue Unit/Replacement		X	50,000
Station 35	Cooks Brook	Rescue Unit/Replacement		X	50,000
Station 38	Middle Musquodoboit	Utility (air support unit) and compressor		X	150,000
Station 39	Upper Musquodoboit	Rescue Unit/Replacement		X	50,000
				Subtotal:	300,000
Buildings/Health & Safety Issues:					
Station 40	Dutch Settlement	Not enough property for septic and well.			30,000 ^
Station 35	Cooks Brook	Structural repairs required, septic/well and mould issues.			<u>75,000</u>
				Subtotal:	105,000
^ Minimum required to be operational - new building needed.					

Zone 4**Light Vehicles:**

			New	Replacement	
Station 48	Beaverbank	Rescue Unit - to consolidate brush and utility units/Replacement		X	70,000
Station 43	Grand Lake	Rescue Unit/Replacement		X	50,000
Station 41	Waverly	Utility Unit/Replacement		X	40,000
		Upgrade 1 vehicle to add breathing air support unit.		X	12,000

Subtotal: 172,000

Buildings:

* RPAM will be conducting evaluations of facilities in Zones 1, 2 and 4 in 2004/05.

Western (Zone 5/6)**Light Vehicles:**

			New	Replacement	
Station 50	Hammonds Plains	Brush Truck/ Replacement (The previous vehicle is no longer in service)		X	50,000
Station 51	Upper Hammonds Plains	Rescue Unit/Replacement		X	50,000
Station 56	Black Point	Tactical Unit (Air Support)/Replacement		X	120,000
Station 50	Hammonds Plains	Medical Response Unit/Replacement		X	50,000

Subtotal: 270,000

Health & Safety:

Station 60	Herring Cove	Exhaust Extraction			<u>27,000</u>
					Subtotal: 27,000

Summary:

Light Vehicles	1,212,000
Health & Safety Issues	95,000
Building Issues	263,000
Emergency power and accessibility issues	680,000 **
Potable Water	<u>259,000 **</u>
Preliminary Estimate:	2,509,000

** Detail is available on a station by station basis.

Draft

Reserves Business Case

Halifax Regional Municipality . Corporate Services . Finance Division . 490-4446 . Fax: 490-6238

Date: June 17, 2004

Contact: Mike Labrecque, Director of Real Property and Asset Management

Ferry Replacement Capital Reserve

Purpose

HRM currently operates 3 harbour ferries as part of the public transportation system, operated by the Metro Transit division of the Public Works and Transportation business unit. The expected life of this style of vessel is 20 years. With a major mid life refit its lifespan can be extended to 40 years. In order to offset this cost and spread it over several years it is necessary to set up the Ferry Replacement Reserve so that funds will be available at the time of replacement to pay for the designing and construction of the new vessels or to fund the major midlife refits to the vessels.

Currently the full replacement of one of these vessels is between 8 and 12 million dollars.

Source of Funds

- Reserve will be funded on an annual basis from the Annual Budget allocations.
- Interest paid to the reserve in accordance with the Reserve Policy

Application of Funds

It is recommended that this reserve be used as follows:

Recapitalization

- To supply the funding for the Mid Life repair of the vessels.

Replacement

- To fund the purchase and/or design and construction of new vessels.

Time Line

The reserve is intended to be permanent. The adequacy of the balance in the reserve will be assessed on an annual basis, and corrective funding actions taken if necessary. As part of the development of HRM's long term capital plan, the required contributions to the reserve will be reviewed and specific recommendations incorporated into the reserve in the future.

Approval Process

All requests for the application of funds from this reserve will be initiated by Real Property and Asset Managements, Fleet Services section. In accordance with the Reserves Policy, the Director of Financial Services is responsible for administering all reserves and confirmation will be made by the Director of Financial Services as to whether the charges conform to policy and the availability of funds. These approvals would be primarily granted through the annual budget process or on an individual basis prior to being approved by Council.

Approval

CAO

Ferry Replacement Reserve Business Case
as at June 24, 2004

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
Annual Contributions	1,000,000	1,000,000	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	
Withdrawals																					
Halifax 3 - replacement (2021)													300,000								
Dartmouth 3 - replacement (2022)															300,000						
Woodside 1 - refit						2,000,000															10,000,000
total expenditures	0	0	0	0	0	2,000,000	0	0	0	0	0	0	300,000	0	300,000	0	0	0	0	0	10,000,000
Balance	1,000,000	2,000,000	3,250,000	4,500,000	5,750,000	5,000,000	6,250,000	7,500,000	8,750,000	10,000,000	11,250,000	12,500,000	13,450,000	14,700,000	15,650,000	16,900,000	18,150,000	9,400,000	650,000	1,900,000	1,900,000

Note
 1) Mid-life refit's for steel hulled vessels is scheduled at 20 years
 2) Expected life per vessel is 20 years and after refit is 20 additional years to a total extended life of 40 years
 3) This projection does not include proposed "Fast Ferry" Vessels or Equipment
 4) Halifax 3 had a mid life refit in 2001
 5) Dartmouth 3 had a mid life refit in 2002
 6) Woodside 2008 - mid life refit
 7) Halifax 3 - for work to attain full life
 8) Dartmouth 3 - for work to attain full life