

TO: Mayor Kelly and Members of Halifax Regional Council

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SUBMITTED BY:

Carl Yates, M.A.Sc., P.Eng., General Manager
Halifax Regional Water Commission

DATE: September 30, 2011

SUBJECT: Unguaranteed Debt – Municipal Finance Corporation

ORIGIN

September 29, 2011, Halifax Regional Water Commission (HRWC) Board Meeting.

BACKGROUND

On September 29, 2011, the HRWC Board directed staff to request approval from the Municipal Finance Corporation to increase the limit for unguaranteed debt from \$35 million to \$70 million dollars. The purpose of this report is to inform HRM Council of the request and explain how it relates to some of the strategic initiatives underway at the Halifax Regional Water Commission, such as development of a Debt Policy and Integrated Resource Plan.

DISCUSSION

In its Decision of Dec. 17 2010 the Nova Scotia Utility and Review Board (NSUARB) ordered that HRWC conduct a study to determine the most efficient approach to capital financing. In response, HRWC prepared terms of reference for a Debt Study, which were approved by the NSUARB and engaged Mark Gilbert, PhD Professor, Dalhousie School of Management to carry out the work. Timing of the study is critical, as the Debt Study will support future rate applications, there are significant capital requirements in future, and the results will support HRWC's Integrated Resource Plan. An Integrated Resource Plan is IRP is a long-term plan that will outline the capital investments and associated revenue requirements to support Halifax Water's water, wastewater and stormwater infrastructure over a minimum 30 year planning horizon.

HRWC does not currently have an approved debt policy, but some guidance is established through the Municipal Finance Corporation (MFC), Halifax Regional Municipality (HRM) and NSUARB. All HRWC debt must be approved by the NSUARB. All borrowing is done through the MFC, and the MFC currently has a cap for unguaranteed debt for HRWC set at \$35 M. Any debt in excess of the \$35 M debt must be guaranteed by HRM.

All debt issued by the MFC is backed by Provincial guarantees. Requiring the municipality to guarantee a certain amount of the utility's debt reduces the Provincial guarantee risk. A cap for HRWC's unguaranteed debt was first established in 1999, and meant that up to a certain limit, HRWC can borrow without a guarantee from HRM. As the utility grew, the cap for unguaranteed debt was increased as follows:

- 1999 – Cap set at \$15 Million
- 2002 – Cap increased to \$25 Million
- 2006 – Cap increased to current level of \$35 Million

The current cap does not provide sufficient operating flexibility for the utility, is administratively inefficient, and does not reflect the fact that HRWC's assets and revenues have increased significantly since October 3, 2006, as noted in the table below.

March 2007	March 2011	Increase
Total Assets \$342 M	Total Assets \$961 M	\$619 M or 181%
Total Revenues \$38.9 M	Total Revenues \$92.5 M	\$53.6 M or 138%

Capital Borrowing Guidelines for Municipal Units in NS establish a guideline restricting gross debt servicing to a ratio of 30% of property tax and own-source revenues, however self-supporting utilities are exempted. HRM has a debt policy, but it applies to tax supported debt.

On August 23, 2011 HRWC staff and Dr. Mark Gilbert met with the Deputy Minister of Service Nova Scotia Municipal Relations, Chief Executive Officer of the Municipal Finance Corporation, and HRM Finance staff to discuss the debt study, the MFC imposed limit for

unguaranteed debt, and to discuss what an appropriate debt service ratio for a self-supporting utility would be. The stakeholders consulted agreed that the recommendation to increase the cap for unguaranteed debt is reasonable; and that a debt service ratio of 30% is a reasonable level for a self-supporting utility in most circumstances. HRWC's debt service ratio has traditionally been in the 20 – 25% range.

A letter dated September 12, 2011 from the Deputy Minister of Service Nova Scotia Municipal Relations confirms his willingness to bring the request to increase HRWC's cap for unguaranteed debt forward to the Municipal Finance Corporation's Board of Directors for consideration.

This request to increase the unguaranteed borrowing limit with the Municipal Finance Corporation is consistent with the emerging Debt Study, and is being advanced at the current time so that the decision can be reflected within the final Debt Policy.

BUDGET IMPLICATIONS

There are no budget implications as a result of this report. The amount of debt required by HRWC or the extent to which debt are utilized will not be affected. All of the debt will still be through the Municipal Finance Corporation and the cost of borrowing to HRWC is the same regardless of whether debt is guaranteed by HRM or not.

The HRWC Board and NSUARB would continue to approve all HRWC borrowing, and HRM Council would be required to authorize any debt in excess of the unguaranteed cap amount, so appropriate governance and controls will continue to be in place with respect to authorization of debt. It is envisioned that guarantees from HRM would only be sought for significant material capability projects that are too large to accommodate within the unguaranteed debt limit.

FINANCIAL MANAGEMENT POLICIES/BUSINESS PLAN

This report does not conflict with the Municipality's Multi-Year Financial Strategy, and it is important to note that the Halifax Regional Water Commission is a self-supporting regulated utility and oversight on governance and financial policy matters comes from the NSUARB Accounting and Reporting Handbook for Water Utilities, the HRWC Act, and the Public Utilities Act.

COMMUNITY ENGAGEMENT

N/A

ATTACHMENTS

N/A

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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Report Approved by:

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