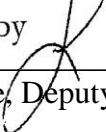


**Item No. 10.1.11**  
**Halifax Regional Council**  
**April 17, 2012**

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

**SUBMITTED BY:** Original signed by   
Richard Butts, Chief Administrative Officer

Original Signed by   
Mike Labrecque, Deputy Chief Administrative Officer

**DATE:** April 4, 2012

**SUBJECT:** Municipal Guarantee of HRWC Debt – Pre-Financing of Eastern Passage  
Wastewater Treatment Facility

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**ORIGIN**

- March 22, 2012 Motion of HRWC Board initiating request for pre-financing of the Eastern Passage Wastewater Treatment Facility

**RECOMMENDATION**

It is recommended that Halifax Regional Council approve the Municipality's guarantee of HRWC's future debt related to the Eastern Passage Wastewater Treatment Facility through the Municipal Finance Corporation in the amount of \$52,269,189.

## **BACKGROUND**

On March 22, 2012, the Halifax Regional Water Commission (HRWC) Board approved submission of a request to Halifax Regional Municipality (HRM) to guarantee debt associated with the Eastern Passage Wastewater Treatment Plant. The HRWC Board also approved submission of a request to the Municipal Finance Corporation (MFC) to pre-finance the Eastern Passage Wastewater Treatment Plant subject to a guarantee from HRM, and NSUARB approval.

## **DISCUSSION**

On May 12, 2011 the NSUARB in its decision 2011 NSUARB 66 (NSUARB-WW-HRWC-E-11(2)) approved a capital expenditure of \$58,269,189 for the expansion and upgrade of the Eastern Passage Wastewater Treatment Plant. In the decision, the NSUARB approved the contribution of \$6,000,000 from Capital Cost Contributions to the project. The balance remaining to be funded by debt is \$52,269,189. HRWC has reviewed its options to finance this debt, including the option of pre-financing. The construction contract has been executed, work is underway, and HRWC is now incurring substantial costs that will exceed the utility's cash flow.

The Municipal Finance Corporation (MFC) generally does not allow financing of infrastructure until the assets are actually in service. Some notable exceptions where pre-financing was permitted were the Lake Major Water Treatment Plant, and the Harbour Solutions Project.

The construction contract for the Eastern Passage Wastewater Treatment Plant has been awarded, and construction is under way. Due to the magnitude of the project, HRWC will have to make bridge financing arrangements if the request to pre-finance through the MFC is not approved.

HRWC believes there is a solid case to support pre-financing as:

- It may reduce financing costs for rate payers as the total cost of bridge financing and permanent financing may be higher than the total permanent financing costs. If permanent financing begins while the asset is still under construction, the asset gets paid for more quickly and there is less bridge financing.
- The project has already been approved by the HRWC Board, and the NSUARB
- The construction contract has been awarded and work is underway
- Locking in permanent financing in the Spring of 2012 would reduce some interest rate risk, as interest rates are currently very favorable and are not anticipated to change significantly in the near future. Waiting an additional two years however to establish permanent financing, exposes the utility to additional interest rate risk.

- Debt payments would be brought forward in revenue requirements once the assets are in-service. In the interim, any financing costs would be capitalized, consistent with GAAP and the NSUARB Accounting & Reporting Handbook.

HRWC believes it is appropriate to seek a municipal guarantee for this debt due to the significance of the amount involved, the fact that this is a project that supports HRM objectives regarding development growth, and the Eastern Passage Wastewater Treatment Plant is a project that was initiated by the Halifax Regional Municipality prior to the Wastewater/Stormwater merger in 2007. Effective August 1, 2007, the responsibility to deliver the project transferred to HRWC.

HRWC has a cap on unguaranteed debt of \$70 million dollars. Unguaranteed debt is used as a funding source for annual “state of good repair” capital expenditures for water, wastewater and stormwater. Based on its Five Year Business Plan and Five Year Capital Budget, HRWC would not be able to accommodate the Eastern Passage Wastewater Treatment Plant with unguaranteed debt, without impacting/displacing other planned capital projects. HRWC currently has approximately \$57.8 million dollars of “room” within the unguaranteed debt cap. Proceeding with Eastern Passage Wastewater Treatment Facility financing without the guarantee would result in only \$5.5 million dollars debt availability under the cap for unguaranteed debt. HRWC’s approved capital budget for 2012/13 is \$62 million dollars, and it is anticipated debt financing for other projects totaling \$22.5 million will be sought in 2012 through the normal spring and fall debenture process and this debt would be unguaranteed.

### **BUDGET IMPLICATIONS**

HRWC debt servicing is included within the utility rate structure when the assets are added to utility plant in service and are therefore providing a benefit to customers. There is little risk to HRM in providing a guarantee to the HRWC debt as the debt servicing is supported by the rate base. Additionally, regardless of whether a formal guarantee is issued or not, HRWC is wholly owned by the Halifax Regional Municipality and some risk exposure exists.

As it is not tax supported debt, HRWC’s debt is not considered under HRM’s debt policy. The amount of debt issued by HRWC, condition of HRWC’s infrastructure, and issuance of guarantees by HRM are issues considered by external credit rating agencies when preparing HRM’s credit rating.

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

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

**COMMUNITY ENGAGEMENT**

N/A

**ALTERNATIVES**

HRM Council could choose not to approve the guarantee. This is not recommended as it would result in other projects being submitted for guarantees (ie: smaller projects in greater frequency), or would result in HRWC's inability to use debt financing to deliver the planned capital program for 2012/13.

**ATTACHMENTS**

None

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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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