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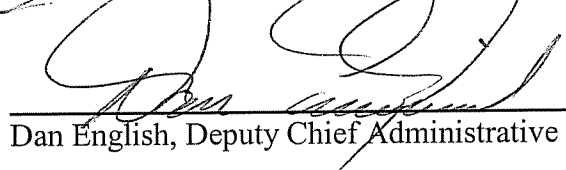
PO Box 1749
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Halifax Regional Council
September 23 2003

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY:


George McLellan, Chief Administrative Officer


Dan English, Deputy Chief Administrative Officer

DATE: September 10, 2003

SUBJECT: Harbour Solutions Project Permanent Financing

ORIGIN

The necessity to put in place permanent financing of approximately \$180,000,000 for the Harbour Solutions Project.

RECOMMENDATION

It is recommended that:

- 1) Staff be authorized to commence negotiations with the following firms for the permanent financing of between \$160,000,000 to \$180,000,000 for the Harbour Solutions Project:
 - a) Nova Scotia Municipal Finance Corporation
 - b) Bank of Montreal / Nesbitt Burns
 - c) Business Finance Associates
 - d) Dufferin Mortgage Incorporated
 - e) Halifax Investment Corporation
 - f) Scotia Capital Inc.
 - g) Stonebridge Financial Corporation

BACKGROUND

The budget for the Harbour Solutions Project anticipates long term financing of approximately \$180,000,000 in excess of the funds currently available in the Environmental Protection Reserve Fund and contributions from the Federal and Provincial Governments.

Based on Legislative approval of the Halifax Regional Municipality Harbour Solutions Financing Act, which permits HRM to borrow money by the issue and sale of debentures to persons other than the Municipal Finance Corporation (MFC), the Federal, Provincial and Municipal Governments, etc., staff issued an Expression of Interest (EOI) for the Permanent Financing of the Halifax Harbour Solutions Project. The purpose of the EOI was to assess whether there may be financing approaches for the HRM that would be superior to borrowing through the MFC.

Staff have also made application to the Federation of Canadian Municipalities Green Municipal Investment Fund. The maximum amount that may be available through this application is \$20,000,000.

DISCUSSION

Twelve firms responded to the EOI offering a variety of financing approaches and services. After an initial review of the responses, staff specifically requested the respondents to address how their recommended approach would be demonstrably superior to securing the funds required through the MFC.

The following 6 firms continue to maintain that they offer approaches that are demonstrably superior to financing through MFC and staff would therefore request authority to commence negotiations with:

- 1) Bank of Montreal / Nesbitt Burns
- 2) Business Finance Associates
- 3) Dufferin Mortgage Incorporated
- 4) Halifax Investment Corporation
- 5) Scotia Capital Inc.
- 6) Stonebridge Financial Corporation

In addition to the above firms the MFC would also be included for negotiations.

At the conclusion of these negotiations the resulting staff recommendation may involve a partnership between the MFC, one or more of the proponents who have opted out of the direct provision of the financing (i.e. hedging products), the firms recommended for additional negotiations and/or the Province of Nova Scotia.

Long term interest rates are presently at attractive levels relative to recent history (see Schedule A). This provides an opportunity to lock in the cost of funds budgeted to be borrowed for the Project. This would establish the cost of borrowing as well as the amount and timing of the repayment of these funds.

Staff wish to emphasize that the rationale for locking in the cost of funds is not to speculate on the future course of interest rates but rather to ensure that the financing costs for the Project do not negatively impact the Environmental Protection Levy component of the Pollution Control Charge (EPL) rates in the future.

The argument for borrowing now is that interest rates could go up in the future thereby making financing costs less affordable or prohibitive. On the other hand interest rates could go down in the future and more could be done with the Environmental Protection Charge collected.

There is also a cost to borrowing now. Construction payments will be made over time at various dates and amounts. Borrowing funds in advance of these requirements will impose a cost as in all likelihood these funds will be invested at lower rates than will be required to be paid on the long term borrowing. To mitigate this, staff are investigating an alternative approach of using interest rate hedging products that may achieve the objective of locking in the cost of funds in a more cost effective manner.

BUDGET IMPLICATIONS

There are no Budget Implications at this time.

FINANCIAL MANAGEMENT POLICIES / BUSINESS PLAN

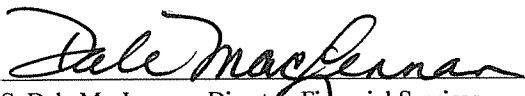
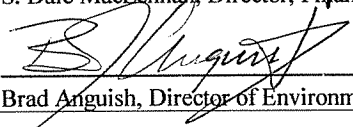
This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, Capital and Reserve budgets, policies and procedures regarding withdrawals from the utilization of Capital and Operating reserves, as well as any relevant legislation.

ALTERNATIVES

Council could instruct staff to disregard the results of the EOI and borrow only when funds are required for project payments in the future at the then prevailing interest rates. Staff do not recommend this alternative as it would expose the Project Financing and the resulting EPL rates to future borrowing cost risks that would not now be quantifiable.

ATTACHMENTS

Schedule A - Graph of Long Term Interest Rates

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.		
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Schedule A

