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Halifax Regional Council
September 23, 2003

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY:

Brad Anguish, Director, Environmental Management Services

DATE: September 17, 2003

SUBJECT: **Price of Sewage Collection System Portion of Harbour Solutions Project
With Inflation**

INFORMATION REPORT

ORIGIN

At the September 2, 2003, Council Meeting, Councillor Walker requested Halifax Harbour Solutions staff provide a report addressing the cost of the collection system with inflation.

BACKGROUND

On June 23, 2003, Council refused to accept what it considers to be “fundamental changes” to the agreements signed last fall with HREP and terminated negotiations with HREP. HRM remains committed to moving forward with the Harbour Solutions Project under different arrangements. Staff has recommended that the best approach is by “de-bundling”, i.e., by entering into separate agreements for the collections systems and the sewage treatment plants.

Staff began negotiation with Dexter Construction Company Limited (Dexter) after the negotiations with HREP ended. On August 15, 2003, HRM signed a contract with Dexter to design and build the Sewage Collection Systems, the Outfalls and Diffusers, the Roads, and the Mengoni Avenue Site Expansion.

DISCUSSION

The contract between HRM and Dexter Construction contains a provision for Inflation Adjustments. The Guaranteed Maximum Prices will be adjusted monthly for inflation after the Inflation Date at the applicable rate as set forth in the Inflation Index. The Inflation Date is defined as July 31, 2003, and the Inflation Index is defined as the Price Index of Non-Residential Building Construction (Industrial Buildings for Halifax - currently referenced as CANSIMII series V7717835). This is the same index used in the former HREP agreement.

In the event the specified indices reports changes in the index less frequently than on a monthly basis (e.g., quarterly), the monthly inflation rate will be calculated as follows:

- (a) The change in the index value between the date of the last report prior to the current report (e.g., index value of 100.6 currently reported at end of month six less index value of 100.0 reported at the end of month three, the previous quarterly report, equals 0.6);
- (b) Divided by the number of months (e.g., three (3) months in the quarter);
- (c) To arrive at an average monthly change (e.g., $0.6/3 = 0.2$); which
- (d) Will be added by month starting with the previous period ending index values (e.g., month three 100.00 plus month four 0.2 = 100.2; month four 100.2 plus month five - 100.4; and month five 100.4 plus month six 0.2 = 100.6) to arrive at the reported index value at the end of the current reporting period.

We anticipate this pro-rating calculation will be used as the Halifax specific index is currently released quarterly.

The following table shows the Guaranteed Maximum Price as of July 31, 2003, a calculated amount for inflation, and a grand total including net HST:

	<u>Price as of July 31, 2003</u>	<u>Inflation</u>	<u>Price with Inflation & Net HST</u>
<u>Halifax Payment Schedule</u>			
Sewage Collection System, Road, Outfall and Diffuser, and Mengoni Ave. Site Expansion			
	\$56,753,344	\$1,060,079	\$61,530,247
<u>Dartmouth Payment Schedule</u>			
Sewage Collection System, Road, Outfall and Diffuser			
	\$37,160,786	\$2,152,837	\$41,841,096
<u>Herring Cove Payment Schedule</u>			
Sewage Collection System, Road, Outfall and Diffuser			
	\$15,156,571	\$1,532,777	\$17,762,306
<u>Insurance</u>			
This is a capped flow through figure; final figures may be less		<i>(Insurance and Bonding are not subject to inflation indexing).</i>	
	<u>\$5,725,000</u>	<u>\$ 0</u>	<u>\$6,093,060</u>
<u>Total Indicated for Contract</u>			
	<u>\$114,795,701</u>	<u>\$4,745,693</u>	<u>\$127,226,710</u>

The latest available figure for the Halifax specific index has been used as a proxy for future expected inflation as this is the index specified in the contract. The 2.6%¹ figure used is the rate for the second quarter of 2003. Should this index increase from current levels, the total cost of the contract will increase. For example, should the relevant index average 3.6% over the life of the contract, the payment for inflation will increase from the \$4.75 million shown above to \$6.65 million. As we must pay net HST on inflation, the total cost of the contract will increase by \$2.03 million in this scenario. Currently, the Halifax specific index is equal to the Nova Scotia Consumer Price Index (CPI). For budgeting purposes, we will use the best available information to calculate a reasonable total contract cost.

¹This is the annualized rate of inflation for the second quarter of 2003.

Each of the three payment schedules listed above is backed by a list of guaranteed maximum payments for each month of scheduled construction. Should construction proceed exactly as scheduled - and inflation remain at 2.6% - the figures above are accurate. Should construction fall behind schedule but remain within the 54 month period, we will pay more for inflation but the payment will be made later. The increased inflation payment will be offset to some extent by lower financing costs. Should construction be accelerated, we will not pay any earlier than specified in the detailed payment schedule and inflation will be applied to those payments as indicated above.

Inflation indexing of the Guaranteed Maximum Price (GMP) is not open ended. Should the actual construction take longer than the scheduled 54 month period, inflation indexing of payments is explicitly capped at the end of the scheduled period. Should the schedule be extended due to changes requested by HRM, changes in law, or defined project risk events, inflation indexing will continue to apply for the period and to the extent construction is delayed due to any of these events. Unforeseen geological and geotechnical conditions (including hazardous substances) are specifically excluded from defined project risk events for purposes of inflation calculation. In other words, should the schedule be delayed due to unforeseen geological and geotechnical conditions (including hazardous substances), inflation will not have to be paid for any delays beyond the scheduled construction period.

BUDGET IMPLICATIONS

N/A

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

N/A

ATTACHMENTS

N/A

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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