COMMITTEE-OF-THE-WHOLE
MINUTES
May 7, 1996

PRESENT: Mayor Walter Fitzgerald
Deputy Mayor Greenough
Councillors: Bill Dooks
Gordon R. Snow
David Hendsbee
Ron Cooper
Harry McInroy
Condo Sarto
Bruce Hetherington
Clint Schofield
John Cunningham
Jerry Blumenthal
Larry Uteck
Howard Epstein
Russell Walker
Bill Stone
Ron Hanson
Stephen Adams
Barry Barnet
Bob Harvey
Peter Kelly
Reg Rankin
Jack Mitchell

COUNCILLORS ABSENT: Graham L. Downey

STAFF MEMBERS: Mr. Ken Meech, Chief Administrative Officer
Mr. Larry Corrigan, Commissioner, Corporate Services
Mr. Al LeBlanc, HRM Budget Officer
Ms. Vi Carmichael, Municipal Clerk
Ms. Patti Halliday, Assistant Municipal Clerk

Mayor Fitzgerald stated that the purpose of this meeting of the Committee-of-the-Whole is to get an overview of the capital budget and to allow members to ask questions.

Further, Mr. Meech explained that specifics of the proposed capital budget will not be dealt with at this meeting. Instead, they are seeking input on a couple of key questions as well as looking to get some guidelines for the framework of the capital budget. They hope to be back in a couple of weeks with the specific capital budget. The other reason for doing this in advance is that there is a report on Council's agenda this evening from Regional Operations seeking some advance approval on a number of capital expenditures. It was felt that before they could ask Council to deal with these items, they should at least give an overview of what their thinking is in terms of a global capital budget.

Mr. Corrigan introduced Mr. Al LeBlanc, the current HRM Budget Officer, noting that Mr. LeBlanc was the successful candidate for the Manager of Finance for the Regional Library Board and will be leaving for that position in a few days. Mr. Corrigan also noted that Mr. Ron Singer, Director of Finance, and Ms. Marlene Morrison, Manager, Financial Planning, were also in attendance.

Mr. Corrigan stated that, as Mr. Meech mentioned, they do need some direction from Council in order to complete the capital budget, specifically, advice on two items. The first is what Council feels would be an appropriate amount to aim for as the total capital budget. The second is regarding the completion of projects approved by the previous municipal units and transferred to the Halifax Regional Municipality amounting to approximately $38,000,000.

Mr. Corrigan listed some other topics that will need to be discussed at a later time. These included: allocating the capital to categories, the issue of area rating, local improvement charges, district capital funds and allocation of capital grants and area rating of existing debt. However, this meeting will just focus on the two items mentioned previously.

Mr. Corrigan showed a three year history of the combined capital budgets of the four municipal units plus the Metropolitan Authority. The amount for 1993-94 was $59,054,000; 1994-95 was $75,808,000 and 1995-96 was $89,127,000. Mr. Corrigan noted that the total capital budget rose in 1995-96 due mainly to grants from the federal and provincial governments through the infrastructure program and the G7. The other big change was the amount put into the capital budget from the operating budget. In the past, the existing Councils normally took money from the operating budget and put it into reserves, but last year instead of putting money into reserves they used it to pay for capital.

Mr. Corrigan then gave a summary of the Province of Nova Scotia capital grant noting that the amount has decreased over the years. In 1993-94, it was approximately $7,000,000 and in 1996-97, it has dropped to $5,175,000. This year's amount has been confirmed by the Province.

The difference between debt charges and outstanding debt was explained by Mr. Corrigan. Debt charges are the expenditures charged to the operating fund in order to service debt and would include payments for principal, payments for interest and capital lease payments. It focuses on the income statement and the tax rate. Mr. Corrigan stated that Council and staff should be concentrating on debt charges as opposed to outstanding debt. Outstanding debt is the total amount of debt owed to creditors. For municipalities in Nova Scotia, the creditor is the Municipal Finance Corporation. Outstanding debt focuses on the balance sheet and gives a snapshot for a point in time. Net debt or net debt charges excludes any grants that were received to help pay for the debt.

Mr. Corrigan then showed a couple of slides referring to debt and debt charges. The first was a history of net debt charges. In 1993-94, the net debt charges were $34,000,000; 1994-95 it was $36,000,000; and, 1995-96 it was $38,000,000. The trend is heading in the wrong direction as the debt is increasing. Mr. Corrigan calculated the net debt charges to be 9.2 percent. He then reviewed three "rules of thumb" that he calculated regarding net debt charges. The Government Finance Officers Association recommends that net debt charges not exceed 15 percent. The Ontario Municipal Board requires that net debt charges not exceed 20 percent. The present net debt rate for the Province of Nova Scotia is 21 percent. By any of these measures, the net debt rate of 9.2 percent looks quite good notwithstanding the trend that debt charges are rising. Mr. Corrigan noted that there is a problem with these rules of thumb, however. If your expenses go up in total, it makes the ratio look good. Over the next few months, the financial planning group will try to put together a strategy and proper rules of thumb to assess how the Halifax Regional Municipality is doing in terms of debt.

Mr. Corrigan then reviewed the net debt charges that are being transferred into the new municipality from the existing units. Halifax and Dartmouth are each bringing approximately one-third of the debt charges. The other third is the other groups combined. These will have to be absorbed in the operating budget. In terms of the balance sheet, the previous units long-term debt transferred to HRM is as follows: Total combined debt = $215,000,000 as of March 31, 1996 (unaudited). The breakdown of this is as follows:
Halifax = $67,000,000; Dartmouth = $65,000,000; County = $42,000,000; Metropolitan Authority = $34,000,000; Bedford = $7,000,000.

The existing reserve funds (unaudited figures) are as follows: Halifax = $41,200,000 and Dartmouth = $18,300,000. Mr. Corrigan noted that most of these reserve funds are earmarked as pollution control funds.

Mr. Corrigan then reviewed the criteria that they are proposing to use to justify recommendations they will be making regarding the capital budget.

- To limit the overall budget - no debt increases
- To repair or replace existing infrastructure (avoid future costs)
- To promote safety and reduce liability
- To enhance staff productivity
- To improve quality of life in the Halifax Region
- To budget only for items with reasonable chance of completion

Mr. Corrigan stated that they want to come up with a general capital transition year budget formula. The concept is that the capital budget should not increase HRM's debt. Items included in this formula are as follows:

- About $21,000,000 of debt will be retired this year. This $21,000,000 could be replaced without increasing the overall debt.
- The adjustment for the transition costs for work in progress and unfunded projects is $9,000,000.
- Cost sharing on specific projects is $10,665,000 (subject to change).
- The provincial capital grant is $5,000,000.
- The use of reserves (average of past three years) $11,000,000.
- Capital paid out of operating is $5,000,000.

Taking all of these factors into consideration, the total gross capital budget could be $61,840,000.

Mr. Corrigan then reviewed the summary of outstanding projects that the previous municipalities have approved and are being carried over to HRM which amount to over $38,000,000 in total.

In response to a question from Deputy Mayor Greenough, Mr. Corrigan highlighted the outstanding projects costing more than $1,000,000.

Mayor Fitzgerald asked a question regarding capital paid out of operating budget as he felt that this amount was low. Mr. Corrigan agreed that it was lower than what was combined in the previous years. However, he noted that last year may have been a bit unusual due to the infrastructure and the G7.

In response to a question from Mayor Fitzgerald, Mr. Corrigan stated that the principal amount of $21,000,000 is part of the debt charges that would come out of the operating budget and does not include interest.

Mayor Fitzgerald asked for clarification of the amount owing at the end of the capital budget. Mr. Corrigan replied that the amount owed will not increase as a result of this capital budget. However, there are some items that need to be paid for that the five municipal units had on the go. The debt will rise but it will not rise as a result of this capital budget. On a point of clarification, Deputy Mayor Greenough asked if Mr. Corrigan was saying that the $62,000,000 is one level of funding and the $38,000,000 on top of that will give a capital program of $100,000,000. Mr. Corrigan replied that this was correct.

Councillor Kelly asked what percentage of the projects in the $38,000,000 carried over have been started. Mr. Kulvinder Dhillon replied that approximately 80 percent are underway in some form or another. Mr. Corrigan noted that some projects that have started may be stopped, and this Council has the opportunity to look at that and make a decision. There has been some design money spent, but a lot of the projects are in the very early stages and some have not been touched at all.

Councillor Blumenthal stated that he would like to have a list of the projects that incorporate the $38,000,000. Councillor Kelly added that he would like the list to indicate how far the projects have been advanced.

Deputy Mayor Greenough stated that the individual Councils authorized these projects in the best interests of those municipal units at the time and this Council should, wherever possible, ensure that the confirmation of these projects is carried out. However, he agreed that reviewing the list was important.

Councillor Schofield asked if the funds to cover the projects in the $38,000,000 were brought forward to the new municipality. Mr. Corrigan replied that there was no funding for these projects and that they would be debt.

Councillor Hendsbee stated that he would like to have the benefit of Mr. Corrigan's presentation on paper. Mr. Corrigan replied that in two weeks Council will be given the entire budget package. Councillor Hendsbee asked if this would include a debenture debt retirement schedule. Mr. Corrigan replied that there will be some high level debt retirement charts to illustrate what is happening with the debt. In response to Councillor Hendsbee's request, Councillor Hetherington also stated that he would like to have the information on paper. He stated that there are benefits to keeping the debt low, and there is also a big price to pay as the infrastructure goes to pieces. He felt there needs to be a balance between the two. Mayor Fitzgerald noted that one of the criteria pointed out earlier by Mr. Corrigan was to repair or replace existing infrastructure.

Councillor Cunningham asked at what point does the debt ratio reach the 15 percent point. Mr. LeBlanc replied that they could do another $24,000,000 in debt charges and still be at 15 percent. However, Mayor Fitzgerald pointed out that they do not want to do this.

Councillor Blumenthal asked if this was a one year budget or part of a three to five year budget. Mr. Corrigan replied that the departments have been prioritizing the budget on a three year basis.

In response to a question regarding area rates, Mr. Meech replied that at the moment they have not allocated the cost recovery on the basis of area rates. He noted that Mr. Corrigan had listed area rates as a topic that should be discussed at a special Council meeting.

Councillor Stone stated that he felt the criteria outlined by Mr. Corrigan for the capital budget was good. However, he made the following points:

- The problem will be with the distribution of the projects among the districts.
- If they had the list of the outstanding projects, he feels it would become very parochial.
- He felt that Council needed to work on the principle of whether they agreed with the decisions made by the previous Councils in approving these projects or not.
- Part of the on-going process should be that the projects are spread out equally and not dealt with by the Council.
- Although Council should have a list of the projects, staff should be given the initial opportunity to pick out what projects are the most important.
- The possibility of area rates for some projects needs to be discussed and not necessarily in a public forum.

Mayor Fitzgerald reminded Council that they are going to deal with the whole area equally and that this is the criteria that staff is going to use and with which he was in agreement. If Council agrees with the criteria, it will be up to staff to bring in projects, no matter where they are, based on this criteria. Then, it will be up to Council to give the final approval.

Councillor Hanson stated that time is a very important factor and they need to get on with these projects as the tendering process should have been in place by now. Mayor

Fitzgerald added, however, that by putting a lot of construction out at one time can drive the cost up and that it must be balanced. Councillor Hanson asked if there is any new infrastructure money available. Mr. Singer replied that he has not heard of any additional infrastructure programs.

Councillor Epstein made the following points:

- The question is not the total dollars for the capital budget, but rather what the ratio of debt charges to operating budget will be.
- The ratio could be the same as last year. but the actual dollars could be a lot more.
- He can not agree with no debt increase meaning no dollar increase. He felt that no ratio increase makes more sense.
- He has no problem with debt for capital budgets as long as it stays around the 10 percent area.
- He also clarified that a large amount of the reserve funding has been set aside for harbour projects and cannot be moved to other projects.

Mr. Corrigan noted that the reserve money earmarked for the harbour projects is done so by legislation.

Regarding Councillor Epstein's remarks with respect to the debt ratio, Mr. Corrigan agreed with his comments noting that they have to consider all of these issues including the "pay as we go" policy, how much debt should the municipality have, etc. However, this requires a fair amount of work and discussion with elected officials and, therefore, he did not think they can do an adequate job in the next two weeks. That is why he is saying for this transition year there will be no debt increases by virtue of this budget. However, debt will increase by virtue of other things such as the inherited capital projects. In terms of the ratio, the rules of thumb that were talked about earlier need to be revisited and challenged much like they have done in Ontario.

Deputy Mayor Greenough agreed with Councillor Epstein that 10 percent debt ratio was a reasonable place to be. He stressed the importance of having the capital program equitably distributed across the region. Deputy Mayor Greenough asked about the transition costs and if they are being written off over a longer period of time than was allowed in the legislation. Mr. Corrigan replied that the transition costs of $20,000,000, the work in progress of $38,000,000 and the unfunded projects of $30,000,000 for a total of $900,000,000 has been spread out over ten years resulting in the figure of $9,000,000 for this year. Deputy Mayor Greenough also stated that he would like to have the list of the projects inherited by the Halifax Regional Municipality by the other municipalities.

Councillor Hendsbee asked if the provincial grant will be distributed across the districts or put in one pool. He also asked if there has been any indication from the Province if they will be maintaining their commitment with regards to the provincial grant. Mr. LeBlanc replied that the provincial grant is $750,000 less than last year and this figure has been confirmed. With regards to the distribution of the grant, Mr. Corrigan replied that this was one of the issues that needs to be discussed by Council in the future.

With regards to the repair or replacement of infrastructure, Councillor Hendsbee asked about the service exchange when the municipality takes over more roads and what contingencies they have to cover that. Mr. Dhillon replied that they will have a priority list for the core area based on their criteria.

Councillor Kelly asked what the five or ten year time period would look like if the total debt was paid off without adding any more debt load. Mr. Corrigan replied they can produce this information. Councillor Kelly inquired about the various amortization periods for different categories of fixed assets. Mr. LeBlanc replied that most are ten years, however, there are restrictions for things such as equipment that may not last ten years. Mr. Corrigan added that for large projects, such as a water treatment plant, a special issue just for that one project can be obtained for a longer period of time.

Councillor Uteck also inquired about the expected revenue and the impact the operating budget will have on the tax rate. Mr. Corrigan replied that at the present time they are working on the capital budget and they do not expect to have the operating budget before early June. In response to a question from Councillor Uteck regarding the transferred projects, Mr. Corrigan replied that $4,000,000 of these projects are cost shared. He noted that the debt for these projects would not necessarily appear this year as there is usually a delay factor and it could be a while before they actually issue the debt.

Councillor Cooper stated that he did not feel they have all the necessary information and until they know the whole picture he did not feel they could make any decisions. He asked if they have taken area rates into consideration for some of the projects. Mr. Corrigan replied that they have not looked at area rates yet. Mr. Meech noted that if any of the projects are covered by area rates, it can only improve the situation. Councillor Cooper asked what is the end effect of each of the districts that are running with area rates. With respect to the carried over projects, Mr. Meech replied that he is assuming area rates would have been factored in when the projects were approved.

In closing, it was agreed that staff should proceed with the total capital budget, which includes the completion of projects approved by the previous municipal units, based on the criteria illustrated in Mr. Corrigan's presentation, providing they come back with specific details regarding the list of projects inherited by the Halifax Regional Municipality from the individual municipalities. At that time, Council will have the opportunity to decide if they want to continue with these projects or not.

MOVED by Councillor Hetherington and Deputy Mayor Greenough that the meeting adjourn at 5:40 p.m. The motion was put and passed unanimously.

Vi Carmichael

Vi Carmichael
Municipal Clerk