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Item No. 12.1.2
Audit & Finance Standing Committee
March 11, 2016

TO: Chair and Members of Audit & Finance Standing Committee

Original Signed

SUBMITTED BY:

John Través, Q.C. Acting Chief Administrative Officer

Original Signed

Amanda Whitewood, Director of Finance and Information Technology/CFO

DATE: March 1, 2016

SUBJECT: Mount Hope Interchange Highway 111 – CCC Funding Shortfall

ORIGIN

At the Audit and Finance meeting November 18, 2015, Councillor McCluskey asked for further information with respect to the Capital Cost Contributions (“CCC”) collected for the Mount Hope Interchange.

LEGISLATIVE AUTHORITY

Halifax Charter, section 93(1) - The Council shall make estimates of the sums that are required by the Municipality for the fiscal year;

Halifax Charter, section 79(1) - Specifies areas that the Council may expend money required by the Municipality;

Halifax Charter, section 35(2)(d)(i) - The CAO can only authorize budgeted expenditures or within the amount determined by Council by policy;

Halifax Charter, section 83(4)(a) The Municipality may borrow money with the approval of the Minister of Transportation and Infrastructure Renewal, to improve a street that is the property of Her Majesty in right of the Province;

Halifax Charter, section 93(1) - The Council shall make estimates of the sums that are required by the Municipality for the fiscal year;

Halifax Charter, section 120(6) - The Municipality may maintain other reserve funds for such purposes as the Council may determine;

Halifax Regional Municipality policy on Changes to Cost Sharing for Capital Projects - Changes requiring Council approval; and,

Recommendation on next page

The Halifax Regional Municipality Administrative Order 2014-015 respecting reserve funding - No reserve funds will be expended without the CAO's recommendation and Council approval.

RECOMMENDATION

It is recommended that the Audit and Finance Standing Committee recommend to Regional Council to:

- 1) Change the funding source for the outstanding \$7,234,679 for Project Number CTU00530, Highway 111/Portland St. Interchange from Capital Cost Contribution funding to the following: \$3,000,000 from the Operating Surplus Reserve Q328 and the remainder of \$4,234,679 from debt; and,
- 2) Authorize Finance to seek approval from the Minister of Transportation and Infrastructure Renewal to fund this project from debt, as it is a provincially owned street.

BACKGROUND

In 2002, a portion of 12 Wing Shearwater was declared surplus and included in the Morris-Russell Lake detailed plan area. In 2005, the land was formally conveyed to Canada Lands Corporation with a mandate to develop the land.

In the 2005/06 Capital Budget, Council approved a budget of \$6,790,000 for the Highway 111 - Shearwater Interchange/Connector Project. The project objective is described as a project to build "a new interchange on Highway 111 south of Portland Street and an arterial roadway connection to Baker Drive" and in future phases, "the arterial roadway will be extended eastward to Caldwell Road". The Capital Project Supplementary Report also states, "the value of this project, as identified in the Morris/Russell Lake Master Plan, is servicing newly developing lands along Morris and Russell Lakes, as well as, attracting some existing traffic from Portland Street".

The funding sources identified at the time were \$2,850,000 from Capital Cost Contributions and a further \$2,500,000 to be funded from the Canada Nova Scotia Infrastructure Program ("CNSIP"). The remainder of the funding came from Capital from Operating.

At the August 2, 2005 Council meeting, Council approved an increase to the project budget by \$5,285,000 to be funded by "Capital Cost Contribution from adjacent land developments". There was to be no increase in the net budget.

The July 19, 2005 report states that, "there is some uncertainty as to the total amount that may be collected as it depends on future development activity and timing" but that "Planning and Development are confident" that at least 60% to 65% of the project costs would be recovered from CCC's.

The CCC's were expected from future development in the area, including approximately 600 acres that had been conveyed to Canada Lands Corporation ("CLC") from the Department of National Defense ("DND").

The interchange was completed in 2006 at a cost of \$11,511,000 approximately \$564,000 less than originally budgeted. However, subsequently, the DND re-acquired the 600 acres from Canada Lands Corporation. Staff continue to pursue options to develop a connector road across these DND lands but recognize that the feasibility of the connection is questionable.

In March, 2009 the Halifax Herald reported that Minister MacKay announced that he would be re-purchasing the land, which prompted a letter dated May 20, 2009 from Mayor Kelly to Marc Rochon, Chairman of CLC requesting clarification on status of the land.

On June 22, 2009 a formal reply was received from Marc Rochon to Mayor Kelly confirming that the lands had been re-acquired by DND, and stated that only DND could clarify their status for development.

The 2014 update to the Regional Plan acknowledges that the 600 acres of land within 12 Wing Shearwater will not be developed, and contemplates that other lands will be investigated for their development potential and for their ability to CCC's that could fund this project.

In 2016, it was confirmed that the likelihood of receiving CCC's to fund this project in the near term were low and a decision was made to seek an alternative form of funding for the interchange.

DISCUSSION

Without the connector road, the development in the area that was expected to generate the CCC's will not take place and the originally expected \$8,135,000 from CCC's will not be realized.

FINANCIAL IMPLICATIONS

In addition to the final project costs being less than the original budget, the amount received from the CNSIP was more than originally budgeted. The net impact is the final CCC's required to fund the project was \$7,234,679. As stated above, these funds will not be received.

We are now required to identify an alternative funding source in Fiscal 2015/16.

We have three funding options:

1. Debt Financing
2. Transfers from Reserves
3. Fund from Operating budget

Option 1 - Debt Financing: The interchange is a provincial asset and normally we can only debt finance assets that are owned by the Municipality. However, Section 83(4) of the Halifax Charter provides us with some additional powers. It specifically states:

"The Municipality may borrow money

- (a) with the approval of the Minister of Transportation and Infrastructure Renewal, to improve a street that is the property of Her Majesty in the right of the Province.

If the full amount is debt financed, this will increase our general rate funded debt by \$7,234,679. The principal and interest payment would be funded by the general tax rate over a period of 10 years at a principal and interest cost of \$940,000 in year one at an interest rate of 3%. (See Attachment 1).

Option 2 – Transfers from Reserves: The Operating Surplus Reserve would be the most likely reserves to be used to fund this shortfall. This Reserve is available as a result of prior years' surpluses and was not created for a specific purpose. As such, using the available balance to fund unanticipated one time issues, such as this, is appropriate.

Option 3 – Fund from Operating Budget: If another funding source is not identified, the funding shortfall would need to be funded by the Operating budget in 2015/16 and could push HRM into a deficit position.

It is possible to use these funding options in combination; i.e. fund some of the shortfall from debt, some from reserves and some from the Operating budget. The primary option would be to first use any operating surplus from the current year to cover as much of the shortfall as possible.

In December, we projected ending the year with a small surplus. If, as we finalize our year end position, the surplus increases, the surplus would be available to reduce this funding shortfall. Secondly, a portion of the shortfall would be covered by the Operating Surplus Reserve identified above. Thirdly, the remainder would be debt funded.

If the situation changes from December's projection and we incur a deficit, a recommendation will be prepared for Audit and Finance on how we propose to fund the deficit and a revised recommendation on how we will fund this funding shortfall. Under a worse case scenario, the entire shortfall of \$7,234,679 would be financed from debt.

If there is no operating surplus or deficit, we recommend using \$3,000,000 from the Operating Surplus Reserve and the remainder of \$4,234,679 from debt financing.

Our approach will be to use debt to fund this project as a last resort.

Budget Summary, Operating Surplus Reserve, Q328

Projected net available balance, March 31, 2016 as at Jan 31/16	\$ 4,593,487
Less recommendation #2	<u>\$(3,000,000)</u>
Adjusted net available balance, March 31, 2016	\$ 1,593,487
Proposed withdrawals for 16/17	<u>\$(1,200,000)</u>
Projected balance March 31, 2017	<u>\$ 393,487</u>

Operating Surplus Reserve, Q328 (March 2014) is a reserve created as required by the Provincial Municipal Financial Reporting Accounting Manual. The Financial Reporting Accounting Manual requires the Municipality to transfer its surplus funds at the end of the year to an Operating Reserve. If the Municipality ends the year in a surplus position, any portion of the surplus not allocated to other reserves would be transferred to this Reserve at year end. The business case for this reserve has not been developed and will be completed during the reserve review and brought to Council for their consideration. The approval of the recommendation does not have a negative impact on the anticipated reserve balances' ability to fund the proposed 2016/17 withdrawals.

COMMUNITY ENGAGEMENT

Not required

ENVIRONMENTAL IMPLICATIONS

None

ALTERNATIVES

Audit and Finance may recommend to Council that a different combination of debt, reserves, and operating surplus, than the one recommended by staff, be used to fund this project.

ATTACHMENTS

Attachment 1: Amortization schedule of \$7,234,679 over 10 years at 3% interest.
Attachment 2: Amortization schedule of \$4,234,679 over 10 years at 3% interest.

A copy of this report can be obtained online at <http://www.halifax.ca/boardscom/SCfinance/index.php> then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 902.490.4210, or Fax 902.490.4208.

Report Prepared by: Louis de Montbrun, Manager, Financial Reporting, 902.476.0585

Original Signed

Financial/Report Approval by:

Amanda Whitewood, Director of Finance and Information Technology/CFO,
902.490.6308

Attachment 1: Calculation of Cost to Debt Finance Mount Hope Interchange
 10 Year Amortization Schedule
 with estimated 3% interest rate

Yr	Fiscal	Mon	Opening Balance	Total Payment	Principal	Interest Payment	Total Interest by Fiscal Yr	Principal	Total P + I	Fiscal Year
1	2017	May	\$7,234,679	\$108,520		\$108,520	\$217,040	\$0		
1	2017	November		\$831,988	\$723,468	\$108,520		\$723,468	\$940,508	2017/18
2	2018	May	\$6,511,211	\$97,668		\$97,668	\$195,336	\$0		
2	2018	November		\$821,136	\$723,468	\$97,668		\$723,468	\$918,804	2018/19
3	2019	May	\$5,787,743	\$86,816		\$86,816		\$0		
3	2019	November		\$810,284	\$723,468	\$86,816	\$173,632	\$723,468	\$897,100	2019/20
4	2020	May	\$5,064,275	\$75,964		\$75,964		\$0		
4	2020	November		\$799,432	\$723,468	\$75,964	\$151,928	\$723,468	\$875,396	2020/21
5	2021	May	\$4,340,807	\$65,112		\$65,112		\$0		
5	2021	November		\$788,590	\$723,468	\$65,112	\$130,224	\$723,468	\$853,692	2021/22
6	2022	May	\$3,617,340	\$54,260		\$54,260		\$0		
6	2022	November		\$777,728	\$723,468	\$54,260	\$108,520	\$723,468	\$831,988	2022/23
7	2023	May	\$2,893,872	\$43,408		\$43,408		\$0		
7	2023	November		\$766,876	\$723,468	\$43,408	\$86,816	\$723,468	\$810,284	2023/24
8	2024	May	\$2,170,404	\$32,556		\$32,556		\$0		
8	2024	November		\$756,024	\$723,468	\$32,556	\$65,112	\$723,468	\$788,580	2024/25
9	2025	May	\$1,446,936	\$21,704		\$21,704		\$0		
9	2025	November		\$745,172	\$723,468	\$21,704	\$43,408	\$723,468	\$766,876	2025/26
10	2026	May	\$723,468	\$10,852		\$10,852		\$0		
10	2026	November		\$734,320	\$723,468	\$10,852	\$21,704	\$723,468	\$745,172	2026/27
				\$8,428,400	\$7,234,679	\$1,193,720	\$1,193,720	\$7,234,679	\$8,428,400	

**Attachment 2: Calculation of Cost to Debt Finance Mount Hope Interchange
10 Year Amortization Schedule
with estimated 3% Interest rate**

Yr	Fiscal	Mon	Opening Balance	Total Payment	Principal	Interest Payment	Total Interest by Fiscal Yr	Principal	Total P + I	Fiscal Year
1	2017	May	\$4,234,679	\$63,520		\$63,520		\$0		
1	2017	November		\$486,988	\$423,468	\$63,520	\$127,040	\$423,468	\$550,508	2017/18
2	2018	May	\$3,811,211	\$57,168		\$57,168		\$0		
2	2018	November		\$480,636	\$423,468	\$57,168	\$114,336	\$423,468	\$537,804	2018/19
3	2019	May	\$3,387,743	\$50,816		\$50,816		\$0		
3	2019	November		\$474,284	\$423,468	\$50,816	\$101,632	\$423,468	\$525,100	2019/20
4	2020	May	\$2,964,275	\$44,464		\$44,464		\$0		
4	2020	November		\$467,932	\$423,468	\$44,464	\$88,928	\$423,468	\$512,396	2020/21
5	2021	May	\$2,540,807	\$38,112		\$38,112		\$0		
5	2021	November		\$461,580	\$423,468	\$38,112	\$76,224	\$423,468	\$499,692	2021/22
6	2022	May	\$2,117,340	\$31,760		\$31,760		\$0		
6	2022	November		\$455,228	\$423,468	\$31,760	\$63,520	\$423,468	\$486,988	2022/23
7	2023	May	\$1,693,872	\$25,408		\$25,408		\$0		
7	2023	November		\$448,876	\$423,468	\$25,408	\$50,816	\$423,468	\$474,284	2023/24
8	2024	May	\$1,270,404	\$19,056		\$19,056		\$0		
8	2024	November		\$442,524	\$423,468	\$19,056	\$38,112	\$423,468	\$461,580	2024/25
9	2025	May	\$846,936	\$12,704		\$12,704		\$0		
9	2025	November		\$436,172	\$423,468	\$12,704	\$25,408	\$423,468	\$448,876	2025/26
10	2026	May	\$423,468	\$6,352		\$6,352		\$0		
10	2026	November		\$429,820	\$423,468	\$6,352	\$12,704	\$423,468	\$436,172	2026/27
				\$4,933,400	\$4,234,679	\$698,720	\$698,720	\$4,234,679	\$4,933,400	