

# HALIFAX

P.O. Box 1749  
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**Item No. 15.1.1**  
**Halifax Regional Council**  
**October 8, 2019**

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

Original Signed by 

**SUBMITTED BY:** \_\_\_\_\_  
Jacques Dubé, Chief Administrative Officer

**DATE:** September 9, 2019

**SUBJECT:** 2019 Fall Debenture

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## **ORIGIN**

Capital Funding Requirements.

## **LEGISLATIVE AUTHORITY**

*Halifax Regional Municipality Charter (HRM Charter)*

83 (1) The Municipality may borrow to carry out an authority to expend funds for capital purposes conferred by this Act or another Act of the Legislature

111 (2) No money may be borrowed by the Municipality or a committee created by an inter-municipal services agreement pursuant to the provisions of this Act or another Act of the Legislature until the proposed borrowing has been approved by the Minister.

112 (1) Where the Municipality is authorized to borrow money, subject to the approval of the Minister;

(a) the sum shall be borrowed by the issue and sale of debentures, in one sum or by instalments, as determined by the Council; and

(b) the Council shall determine

(i) the amount and term of, and the rate of interest on, each debenture,

(ii) when the interest on a debenture is to be paid, and

(iii) where the principal and interest on a debenture are to be paid.”

113 (1) Where the Municipality is authorized to borrow money, the Municipality may, with the approval of the Minister, postpone the issue of debentures and borrow the money on terms and conditions agreed upon with the lender.

## **RECOMMENDATION**

It is recommended that Halifax Regional Council:

Authorize the Mayor and Municipal Clerk to sign the Resolution for Pre-Approval of Debenture Issuance, subject to interest rate confirmation not to exceed 4.00%, to enable the Halifax Regional Municipality to issue a 10-year debenture of \$28,439,100.

**BACKGROUND**

The HRM Charter, Subsection 111(2), states “No money may be borrowed by the Municipality or a committee created by an inter-municipal services agreement pursuant to the provisions of this Act or another Act of the Legislature until the proposed borrowing has been approved by the Minister.” The process to fulfill the borrowing approval, is for Council to approve a Temporary Borrowing Resolution (TBR), which is then approved by the Minister. Once a TBR is approved by the Minister, then a debenture may be issued for those projects within the TBR that are substantially complete.

Subsection 83(1) of the HRM Charter allows the Municipality to borrow for capital purposes, providing the Municipality has the authority to expend funds for that capital purpose.

Debentures are the principle manner in which HRM borrows funds for its capital projects. Debentures are typically issued in the spring and fall. Clause 112(1)(b) of the HRM Charter provides the legislative authority for Council to pass a resolution that sets the parameters for a debenture issue. This is found in the “Resolution for Pre-Approval Form” (Attachment A). Staff have analyzed our current active capital projects requiring debt funding to determine the amount required and appropriate length of debenture. The result of the analysis is to request that \$28,439,100 be financed over 10 years through a fall debenture.

The largest project to be funded in this debenture is the LED Conversion of Streets Lights. This project totaled \$49,646,045. A reserve had been created to cover funding the principle and interest costs of the project. The reserve business case also allowed for a straight withdrawal from the reserve to fund this project, thus reducing the amount of interest incurred through the debenture process. A withdrawal from the reserve in the amount of \$26,983,164 to fund the project will occur, thus leaving \$22,662,881 to debenture for the project.

To calculate the costs of borrowing these funds, an estimated interest rate of 4.0% was used. The Municipality did not partake in the spring 2019 debenture; however, the 10-year term rate was 2.60%. For the fall 2018 debenture, the 10-year term rate was 3.31%. It is anticipated that the fall 2019 debenture will have a rate lower than the 4.0% estimated interest rate. The interest rate of 4.0% provides a substantial “cushion” to ensure that a debenture issue can be executed even if market conditions change. If the terms of the subsequently negotiated debenture issue are within the parameters, there is no longer a need for Council to reapprove the specifics of the issue and the debenture documents can be finalized without returning to Council.

The parameters set out in the attached resolution for pre-approval of debenture issuance are as follows:

Borrow	\$28,439,100
Maximum “all-in” interest rate	4.00%
Term	10 year

The amortization schedule for the debenture with a 10-year term financed at the maximum rate of 4.0% and with an estimated issuance date of November 2019 is listed as follows:

2019 Fall Debenture Amortization Schedule  
10 Year Amortization Schedule  
with estimated 4.0% interest rate

Yr	Fiscal	Month	Opening Balance	Total Payment	Principal	Interest Payment	Total Interest by Fiscal Yr	Principal	Total P + I	Fiscal Year
1	2020	May	\$28,439,100	\$568,780		\$568,780		\$0		
1	2020	November		\$3,412,690	\$2,843,910	\$568,780	\$1,137,560	\$2,843,910	\$3,981,470	2020/21
2	2021	May	\$25,595,190	\$511,902		\$511,902		\$0		
2	2021	November		\$3,355,812	\$2,843,910	\$511,902	\$1,023,804	\$2,843,910	\$3,867,714	2021/22
3	2022	May	\$22,751,280	\$455,024		\$455,024		\$0		
3	2022	November		\$3,298,934	\$2,843,910	\$455,024	\$910,048	\$2,843,910	\$3,753,958	2022/23
4	2023	May	\$19,907,370	\$398,146		\$398,146		\$0		
4	2023	November		\$3,242,056	\$2,843,910	\$398,146	\$796,292	\$2,843,910	\$3,640,202	2023/24
5	2024	May	\$17,063,460	\$341,268		\$341,268		\$0		
5	2024	November		\$3,185,178	\$2,843,910	\$341,268	\$682,536	\$2,843,910	\$3,526,446	2024/25
6	2025	May	\$14,219,550	\$284,390		\$284,390		\$0		
6	2025	November		\$3,128,300	\$2,843,910	\$284,390	\$568,780	\$2,843,910	\$3,412,690	2025/26
7	2026	May	\$11,375,640	\$227,512		\$227,512		\$0		
7	2026	November		\$3,071,422	\$2,843,910	\$227,512	\$455,024	\$2,843,910	\$3,298,934	2026/27
8	2027	May	\$8,531,730	\$170,634		\$170,634		\$0		
8	2027	November		\$3,014,544	\$2,843,910	\$170,634	\$341,268	\$2,843,910	\$3,185,178	2027/28
9	2028	May	\$5,687,820	\$113,756		\$113,756		\$0		
9	2028	November		\$2,957,666	\$2,843,910	\$113,756	\$227,512	\$2,843,910	\$3,071,422	2028/29
10	2029	May	\$2,843,910	\$56,878		\$56,878		\$0		
10	2029	November		\$2,900,788	\$2,843,910	\$56,878	\$113,756	\$2,843,910	\$2,957,666	2029/30
				\$34,695,681	\$28,439,100	\$6,256,580	\$6,256,580	\$28,439,100	\$34,695,681	

For comparison purposes, if the interest rate is 3%, the cost of borrowing the \$28,439,100 would be reduced from \$6,256,580 to \$4,692,490.

HRM currently has one TBR (2018/19-1), originally approved at \$172,673,900. We have debentured against this TBR for the fall 2018 debenture and the available balance remaining is \$161,219,900. The fall debenture will be issued for \$28.4m against the \$161,219,900. The remaining \$132.8m will remain available on the TBR until utilized during another debenture issue, or will be closed out, once a new TBR is requested, in the future.

**FINANCIAL IMPLICATIONS**

The interest payment on the anticipated 2019 fall debenture will not commence until the 2020/21 fiscal year and will be included in that year's operating budget. This is also the first year that the Debt Principle and Interest Reserve, Q631, will be used to fund the majority of this debt repayment due to the LED project, included in the total figures above. The debt requested within this report for the LED project represents \$22,662,881 of the \$28,439,100 total. The future contributions from savings into the reserve will be sufficient to cover these repayments.

**RISK CONSIDERATION**

Without debt funding to fund these projects, it could impact operating funds, which could increase pressure on tax rates or reserve withdrawals.

**COMMUNITY ENGAGEMENT**

N/A

**ENVIRONMENTAL IMPLICATIONS**

N/A

**ALTERNATIVES**

Council could choose not to approve the current recommendation to finance these projects now in the hope of obtaining better interest rates at a future bond issue. Staff does not recommend this alternative as current interest rates are low and the future level of interest rates is unknown. Additionally, permanent funding sources are required to be in place within a year after an asset is put into use.

Another alternative is for Council to fund these projects through the General Tax rate in one year. The 2019-20 operating budget did not allocate funds for this purpose. Hence, this approach will place considerable pressure on the operating budget, possibly leading to offsetting reductions or tax increases in the 2020/21 fiscal year. This is not recommended as using debt distributes the costs over a 10 year period and the costs to borrow are low.

**ATTACHMENTS**

Attachment A - Resolution for Pre-Approval of Debenture Issuance Subject to Interest Rate \$28,439,100  
Attachment B - Breakdown of Proposed Debenture 2019B1 by Asset Category

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A copy of this report can be obtained online at [halifax.ca](http://halifax.ca) or by contacting the Office of the Municipal Clerk at 902.490.4210.

Report Prepared by: Nancy Harper, Accounting Controls & Reporting Manager, 902.490.3696

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**HALIFAX REGIONAL MUNICIPALITY**  
**Resolution for Pre-Approval of Debenture Issuance Subject to Interest Rate.**

**WHEREAS** Section 112 of the *Halifax Regional Municipality Charter* provides that a municipality is authorized to borrow money, subject to the approval of the Minister of Municipal Affairs.

**AND WHEREAS** the resolution of council to borrow was approved by the Minister Municipal Affairs:

Resolution number	Purpose	Ministerial Approval Date
19/20-1	Various purposes	Pending

**AND WHEREAS** clause 112(1)(b) of the *Halifax Regional Municipality Charter* requires the Council to determine the amount and term of, and the rate of interest, on each debenture, when the interest on a debenture is to be paid, and where the principal and interest on a debenture are to be paid;

**AND WHEREAS** subsection 112(2) of the *Halifax Regional Municipality Charter* requires, that in accordance with the *Municipal Finance Corporation Act*, the Mayor and Clerk or the person designated by the Council, by policy, shall sell and deliver the debentures on behalf of the Municipality at the price, in the sums and in the manner deemed proper;

**BE IT THEREFORE RESOLVED**

**THAT** under the authority of Section 112 of the *Halifax Regional Municipality Charter*, the Halifax Regional Municipality borrow by the issue and sale of debentures a sum or sums not exceeding Twenty Eight Million Four Hundred Thirty Nine Thousand One Hundred Dollars (\$28,439,100) for a period not to exceed 10 years subject to the approval of the Minister of Municipal Affairs;

**THAT** the sum be borrowed by the issue and sale of debentures of the Halifax Regional Municipality in the amount that the Mayor and Clerk or the person designated by the Council deems proper, provided the average interest rate of the debenture does not exceed the rate of 4.0%;

**THAT** the debenture be arranged with the Nova Scotia Municipal Finance Corporation with interest to be paid semi-annually and principal payments made annually; and,

**THAT** this resolution remains in force for a period not exceeding twelve months from the passing of this resolution.

**THIS IS TO CERTIFY** that the foregoing is a true copy of a resolution duly passed at a meeting of the Municipal Council of the Halifax Regional Municipality held on the 8th day of October, 2019.

**GIVEN** under the hands of the Mayor and Municipal Clerk of the Halifax Regional Municipality, this \_\_\_\_\_ day of \_\_\_\_\_, 2019.

\_\_\_\_\_  
Mayor

\_\_\_\_\_  
Municipal Clerk

**HRM Proposed 2019 Fall Debenture  
Breakdown of Proposed 2019 Fall Debenture by Asset Class  
HALIFAX REGIONAL MUNICIPALITY**

Asset / Functional Area/ Project No.	Project Description	Proposed Amount
<b>LAND &amp; BUILDINGS</b>		
Recreation & Cultural Services		
CB000060	Sackville Sports Stadium	1,000,000.00
CB000086	Central Library Replacement - Spring Garden Rd	480,808.48
		<b>1,480,808.48</b>
Transportation Services		
CB000039	Halifax Ferry Terminal	138,099.14
		<b>138,099.14</b>
<b>TOTAL LAND &amp; BUILDINGS</b>		<b>\$1,618,907.62</b>
<b>EQUIPMENT &amp; FLEET</b>		
Protective Services		
CE010004	Fire Apparatus Fleet Expansion	1,200,000.00
		<b>1,200,000.00</b>
Transportation Services		
CM180006	Transit Security	1,457,461.92
		<b>1,457,461.92</b>
<b>TOTAL EQUIPMENT &amp; FLEET</b>		<b>\$2,657,461.92</b>
<b>PARKS &amp; PLAYGROUNDS</b>		
Recreation and Cultural Services		
CP000006	Point Pleasant Park Upgrades	545,775.11
CP110002	Cole Harbour Artificial Turf	43,415.48
<b>TOTAL PARKS &amp; PLAYGROUNDS</b>		<b>\$589,190.59</b>
<b>ROADS AND ACTIVE TRANSPORTATION</b>		
Transportation Services		
CR990001	New Paving Subdivision St. Outside Core	567,126.94
<b>TOTAL ROADS AND ACTIVE TRANSPORTATION</b>		<b>\$567,126.94</b>
<b>TRAFFIC IMPROVEMENTS</b>		
Transportation Services		
CT000005	LED Streetlight Conversion	22,662,881.18
CT180005	Road Safety Improvement Program	343,531.75
		<b>\$23,006,412.93</b>
<b>TOTAL TRAFFIC IMPROVEMENTS</b>		<b>\$23,006,412.93</b>
<b>TOTAL 2019 FALL DEBENTURE AMOUNT: 10-YEAR TERM</b>		<b>\$28,439,100.00</b>