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Item No.12.2.2
Audit & Finance Standing Committee
September 18, 2019

TO: Chair and Members of the Audit & Finance Standing Committee

SUBMITTED BY: Original signed by
Kelly Denty, Director, Planning and Development

Original signed by
Jacques Dubé, Chief Administrative Officer

DATE: July 15, 2019

SUBJECT: Herring Cove Servicing

ORIGIN

December 6, 2016 motion of Regional Council regarding Item 14.4.1 Herring Cove Servicing that Halifax Regional Council:

1. Waive the Rules of Order to suspend the rules that the Audit and Finance Standing Committee approve the staff report dated November 16, 2016, and make a recommendation to Regional Council; and
2. Increase the 2016/17 gross capital budget in the amount of \$75,000 for a preliminary design for the Herring Cove Road Water Servicing Project Phase 2B and Phase 4, with funding a withdrawal from General Contingency Reserve, Q421; and
3. Authorize a sole source award to the Halifax Regional Water Commission in the amount of \$75,000 for the preliminary design of a revised scope of work for the Herring Cove Water Servicing Project Phase 2B and Phase 4.

LEGISLATIVE AUTHORITY

Halifax Regional Municipality Charter, R.S.N.S. 2008, c.39:

Part IV, FINANCE, Municipal expenditures, 79A

- (1) Subject to subsections (2) to (4), the Municipality may only spend money for municipal purposes if
 - (a) the expenditure is included in the Municipality's operating budget or capital budget or is otherwise authorized by the Municipality;

- (2) The Municipality may expend money provided for in an operating budget or capital budget for a purpose other than set out in the operating budget for that fiscal year if the expenditure does not affect the total of the amounts estimated from the operating budget and the capital budget.
- (3) The Municipality may authorize expenditures from its operating budget or transfer money from its operating budget to its capital budget if the total amount of such expenditures and transfers for the fiscal year does not exceed the total amount of estimated revenue from all sources in excess of the amount estimated from those sources in the operating budget for that fiscal year.
- (4) The Municipality may authorize capital expenditures that are not provided for in its capital budget if the total of such expenditures does not exceed the greater of
 - (a) the amount authorized to be transferred from the operating budget to the capital budget under subsection (3);
 - (b) the borrowing limits established for the Municipality under Section 109; or
 - (c) the amount withdrawn from a capital reserve fund under subsection 120 (4).

RECOMMENDATION

It is recommended that the Audit & Finance Standing Committee recommend that Regional Council approve an increase of \$20,162 to Capital Account CS000001, Herring Cove Road Servicing Phase 2B. with funding to come from the Q421, The General Contingency Reserve.

BACKGROUND

Herring Cove Servicing Phases 2B and 4 are the final phases of a construction project to provide central water and sewer service to the community of Herring Cove. In 1999, Halifax Regional Council agreed to extend water services in Herring Cove due to the co-location of a Harbour Solutions Wastewater Treatment Facility. By 2008, the first three phases were completed. The remaining phases, 2B and 4, were not initiated due to escalating construction prices that exceeded the original budget.

In June 2014, Halifax Regional Council approved the addition of the Herring Cove Servicing Phase 2B project to HRM's Building Canada Fund submissions. When the project was not approved under the Building Canada Fund program, the project was resubmitted in June 2016 for inclusion among HRM's application to the Clean Water and Wastewater Fund (CWWF). Under this program, cost sharing is 50% Federal, 25% Provincial, and 25% Municipal. Based on an estimated cost of \$12.75 million, HRM requested \$9.56 million in senior government funding.

On August 16, 2016, the federal and provincial governments announced Bilateral Agreements for the CWWF. The allocation for senior government funding was \$3.42 million. This represented a \$9.3 million shortfall. In response to this, Council approved a reduced scope of work in February 2017 that fit within the available funds.

On January 16, 2018, Council withdrew the CWWF funding application and directed staff to resubmit the full scope of the project for phase 2 of the federal infrastructure funding program as HRM's top priority request.

Since 2018 Council and staff have continued to advocate for federal and provincial funding that would allow the original scope to proceed. In July 2019, the federal and provincial governments announced \$5.7 million in funding for the project through the Investing in Canada Infrastructure program. The next steps will be to complete the detailed design, confirm the project budget, and undertake community consultation.

As the project falls outside the Halifax Water serviced area, HRM is responsible for the coordination of the water and wastewater sewer extensions. A Local Improvement Charge will be required to fund the costs not covered by federal and provincial government funding.

DISCUSSION

On November 22, 2016, Halifax Regional Council approved the following motion:

That Halifax Regional Council:

1. Waive the Rules of Order to suspend the rules that the Audit and Finance Standing Committee approve the staff report dated November 16, 2016, and make a recommendation to Regional Council; and
2. Increase the 2016/17 gross capital budget in the amount of \$75,000 for the preliminary design for the Herring Cove Road Water Servicing Project Phase 2B, with funding a withdrawal from General Contingency Reserve, Q421; and
3. Authorize a sole source award to the Halifax Regional Water Commission in the amount of \$75,000 for the preliminary design of a revised scope of work for the Herring Cove Water Servicing Project Phase 2B.

On December 5, 2016, Halifax Water awarded an engineering design contract that included the preliminary design of Phase 2B. On December 6, 2016, Halifax Regional Council approved a motion of rescission for the November 22, 2016 motion, and approved a new motion to include the preliminary design of Phase 2B and Phase 4.

Based on the December 6th motion, Halifax Water issued a change order to include the preliminary design of Phase 4. The consultant submitted an additional fee of \$20,162 which was reviewed and approved by Halifax Water. The consultant completed the preliminary design and Halifax Water has submitted an invoice to HRM in the amount of \$95,162. Staff have reviewed the invoice and are recommending payment.

FINANCIAL IMPLICATIONS

This project falls outside of the Halifax water service boundary and HRM is responsible for the construction costs of the water system. On December 6, 2016, Halifax Regional Council approved a withdrawal of \$75,000 from the General Contingency Reserve - Q421, with the expectation that a re-scoped project would be able to proceed with CWWF funding and a Council approved LIC, allowing the \$75,000 to be paid back to the reserve when the LIC was put in place. At this time, an additional \$20,162 is needed to pay the preliminary design costs for Phase 4. This qualifies to be funded from the General Contingency Reserve, Q421.

Since the design work is not part of a CWWF project – the project was withdrawn from the CWWF program in 2018 – and no LIC has been put in place, none of the \$95,162 can be paid back to the reserve at this time. Although, there has been a new funding announcement for the Herring Cove project, it is not recommended that the \$95,162 be carried forward as a payable under a future Herring Cove LIC. The amount would not be cost shared by other levels of government and it is anticipated that a future LIC could be significant for the approximate 70 private property owners within the Phase 2B area.

<u>Budget Summary:</u>	<u>Project No. CS000001 – Herring Cove Servicing Phase 2</u>	
	Cumulative Unspent Budget	\$75,000
	Add: Q421 Reserve Funding	\$20,162
	Balance	\$95,162

Budget Summary, Risk Reserve – General Contingency Reserve, Q421

Balance in the Reserve June 30, 2019	\$ 27,592,074
Pending Revenue to March 31, 2020	\$ 195,556
Commitments to March 31, 2020	\$(24,572,514)
Withdrawal per recommendation	\$ (20,162)
Projected net available balance March 31, 2020	\$ 3,194,954

Risk Reserve – General Contingency Reserve, Q421 is to receive the annual operating surplus of the Municipality as prescribed by the Provincial Financial Accounting and Reporting Manual, and can be used to fund operating costs, offset deficits, or fund new operating and or capital expenditures. This would be an unbudgeted withdrawal from the reserve but will not affect the approved 19/20 reserve budgeted withdrawals.

RISK CONSIDERATION

The November 2016 Council report identified that if Council decided not to proceed with an LIC for the Herring Cove Servicing project, there was a risk that the reserve would not be paid back. There are no significant risks associated with the recommendations in this Report.

COMMUNITY ENGAGEMENT

No community engagement was undertaken for this report.

ENVIRONMENTAL IMPLICATIONS

N/A

ALTERNATIVES

There are no recommended alternatives.

ATTACHMENTS

None

A copy of this report can be obtained online at halifax.ca or by contacting the Office of the Municipal Clerk at 902.490.4210.

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