

SUNSHINE COAST REGIONAL DISTRICT STAFF REPORT

TO: Special Corporate and Administrative Services Committee – Round 2 Budget
February 10 and 11, 2020

AUTHOR: Remko Rosenboom, General Manager, Infrastructure Services
Tina Perreault, GM Corporate Services/ Chief Financial Officer.

SUBJECT: **GROUNDWATER INVESTIGATION PHASE 4 – CHURCH ROAD BUDGET PROPOSAL**

RECOMMENDATION(S)

THAT the report titled Groundwater Investigation Phase 4 – Church Road Budget Proposal be received;

AND THAT staff prepare an Alternate Approval Process (AAP) to authorize long term borrowing of up to \$9,000,000 over a 30 year term to fund the Groundwater Investigation Phase 4 – Church Rd well field project.

BACKGROUND

With respect to the project to initiative to seek additional water supply to the Chapman Creek Water system from the development of a well field in the Church Road area the Board adopted the following recommendations at its January 9, 2020 meeting:

005/20 **Recommendation No. 5** *Groundwater Investigation Phase 3 – Church Road Results*

THAT the report titled Groundwater Investigation Phase 3 – Church Road Results be received;

AND THAT a budget proposal for \$8,270,000 for a Groundwater Investigation Phase 4 with respect to the development of a well field at Church Road be brought forward to the 2020 Round 2 Budget.

004/20 **Recommendation No. 30** *Regional Water Service [370] – 2020 R1 Budget Proposals*

AND THAT the following budget proposal be referred to 2020 Round 2 Budget pending further information to be included in the Budget Proposals (such as adding to rationale / service impacts, scope of work, funding required, funding sources):

- Budget Proposal 22 – Groundwater Investigation Phase 4 – Church Road;

The purpose of this report is to provide additional information in support of the Round 2 Budget Proposal for the Groundwater Investigation Phase 4 – Church Rd well field project.

DISCUSSION

Local governments wishing to pursue long term debt financing may only do so with approval of the electors and subsequent adoption of a Loan Authorization Bylaw. Approval in this case can be in the form of an Alternate Approval Process (AAP) or a referendum.

Alternative funding options that do not require elector approval include short term financing for a 5 year term or a combination of short term financing and reserves.

Based on the public response to the technical results on Phase 3 of this project and subsequent Board direction, staff are hopeful that electoral approval for long term borrowing could be obtained through an AAP. An AAP is generally also considered to be a more cost effective option to seek such approval. Staff are therefore recommending to undertake an AAP to seek electoral approval for a long term loan for this project.

Options and analysis: loan funding

Based on the budgeted project costs of \$8,270,000, and a contribution from reserves of \$270,000. Although there are contingencies built into the project costs, these are still estimates, therefore, staff recommend that the borrowing and subsequent Loan Authorization Bylaw allow for up to \$9,000,000 to be available for this project. This would allow for the most flexibility to see the project to completion as once public consent is received, any changes requires additional approval.

Approval for long term borrowing up to a specified amount does not commit the SCR D to undertake all of the borrowing should alternative funding sources such as grants or reserves become available.

The actual amount to be borrowed for this project will be based on the actual project costs, less any alternative funding sources approved prior to project completion (including grants), and is subject to final approval through the adoption of a Security Issuing Bylaw.

The maximum term of a local government debt is the lesser of 30 years or the reasonable life expectancy of the capital asset. Of all the major infrastructure components included in this well field development project, the well field itself will have the shortest estimated useful life of about 40 years.

The December 12, 2019 staff report stated that assuming a maximum term 30 year loan, \$8,000,000 principal and a 2.5% interest rate, the estimated annual debt servicing costs would total \$382,221. The rates with the MFA are set twice per year, once for the spring and again in the fall.

Updated Options Based on \$9,000,000 Loan Authorization

The table below summarizes the financial implications of borrowing \$9,000,000 over three different terms; 30 years, 25 years and 20 years. The following assumptions were used in this analysis:

- 2.5% interest rate for entire borrowing term (MFA rates are reset after the first 10 years and every 5 years thereafter, the current indicative rate is listed at 2.18%);

- Total cost of borrowing is calculated as estimated interest payments less estimated actuarial earnings based on 2.5% actuarial rate;
- Required parcel tax rate increase is based on 2020 budgeted revenue and approved rates.
- Annual cost per parcel is based on the rate for a parcel up to 1 acre in size and does not account for future growth

	Term	Annual Debt Servicing Cost	Total Cost of Borrowing	Required Parcel Tax Rate Increase	Annual Cost (parcel up to 1 acre)
Option 1	30 Years	\$429,999	\$3,899,963	13.5%	\$37.25
Option 2	25 Years	\$488,483	\$3,212,082	15.3%	\$42.32
Option 3	20 Years	\$577,324	\$2,546,483	18.1%	\$50.01

Longer term loans result in higher total costs of borrowing but a lower parcel tax increase and annual cost per parcel. Additional system growth will reduce the annual cost per parcel over time.

Staff recommend proceeding with an AAP based on Option 1 to authorize long term borrowing of up to \$9,000,000 over a 30 year term.

Option and analyses: grant funding

As indicated in the December 12, 2019 staff report, staff did identify an opportunity to apply for a grant for this project through the Canada Infrastructure Program Green Infrastructure Environmental Quality funding stream. Staff since confirmed that this project indeed meet the eligibility criteria.

The application deadline for this grant is February 26, 2020 and it will take until spring 2021 before the SCR D would be notified that they have been awarded a grant for this project. Under this program any expenditures made prior to a potential grant award are not eligible for grant funding. Consequently, the SCR D would have to delay the start of the construction of the well field from early fall 2020 to early fall 2021. Based on this timeline the SCR D could apply for a grant of up to \$5,307,100.

Option 1: Refrain from applying for grant (recommended)

Regardless if the SCR D applies for this grant or not, it would need to seek electoral approval for a long term loan for the entire project budget. Doing so would allow the SCR D to proceed with the construction of the well field as soon as the long term loan is secured, all required permits and the final design is completed. This is anticipated to be late summer 2020, allowing for the start of the construction early fall and the commissioning of the well field early summer 2021.

Staff are fully aware of the desire amongst many community members and organizations to address the current Water Supply Deficit in an expedited manner. Funding the development of the

Church Road well field entirely by a long term loan would be the most expedited method the SCRD could use to address this desire.

The SCRD could explore other options, outside of a grant application, to receive provincial or federal financial support for this project.

As this is a multi-year grant program it's expected that early 2021 the SCRD would be able to submit grant applications for other projects such as the development of wells on the sites that are proposed for testing in 2020, a Raw Water Reservoir or upgrades to several wastewater treatment plants. There are currently no other projects in such stage of development that they would meet the eligibility criteria for this grant program.

Staff recommend this option.

Option 2: Applying for grant

If a grant application would be submitted, only expenditures committed to from the date of grant award would be eligible under this grant. Given that a grant award is not expected until the spring of 2021, this would delay the start of the construction of the well field and ancillary infrastructure until the fall of 2021 and commissioning of the well field to early summer 2022. Due to inflation and construction cost increases this delay could result in an overall cost increase of about 5-10%.

Besides technical and financial information the grant application requires the following to be submitted:

- A board resolution directing staff to submit the grant application;
- A Loan Authorization Bylaw that received third reading by the Board if our own funding contribution is anticipated to be funded through a loan;
- A detailed overview of all our water conservation initiatives, including a water metering program.

Any grant received would reduce the actual amount to be funded through a loan.

The SCRD could still provide a limited number of supporting documents after the application deadline of February 26, 2020, including the above mentioned Loan Authorization Bylaw, in early March 2020.

Provincial staff indicated that the detailed overview of all water conservation initiatives should include those already initiated and those scheduled for the foreseeable future. For the SCRD this would include the development of a full metering program including the installation of Phase 3 of the water meters. Provincial staff indicated that having water meters installed or scheduled in the entire water system and an associated program in place or under development is considered a best practice for all community water supply systems. They also indicated that not having these in place could negatively impact the SCRD's application review score. Staff will therefore provide a report with funding and implementation options and timelines for the Board's consideration at a Q1 or early Q2 2020 Committee meeting. This would allow for any resolutions associated with the Water Metering Program made at this meeting to be forwarded to the Province in support of the grant application.

Since grant programs are usually oversubscribed, there is no certainty that the SCRD would be awarded a grant for the Church Road well field project. As addressing the current water supply deficit in an expedited manner is a high priority for the community and the Board, and applying for this grant would delay the commissioning of the well field by one year, staff do not recommend this option.

Financial implications

The estimated cost to conduct an AAP is estimated to be \$5,000-\$10,000 consisting mainly of staff time with ancillary expenses for advertising and materials. Financial implications associated with the proposed borrowing as articulated in the report are required as part of the AAP information package.

Communications Strategy

A separate Communication Plan will be developed and implemented in support of an AAP, which will include, in addition to the required statutory advertising and general information package, dedicated communication through social media, webpage and newspapers and several public information sessions.

The information package will include a copy of the Loan Authorization Bylaw, the Notice of AAP, information on the project and a comparison of cost implications for both long term borrowing and alternative combination of short term borrowing and reserves.

Timeline for next steps or estimated completion date

The Loan Authorization Bylaw would be presented for three readings at the March 12 Board meeting as this document is required in support of the grant application.

As indicated earlier, any funding through a loan would need to be confirmed early summer 2020. Staff are therefore proposing to hold the AAP late Q2 2020. Related AAP materials (calculation of eligible electors, elector response form, schedule, etc.) would be prepared while awaiting the Inspector of Municipalities' approval of the bylaw, and would be forwarded to the Board early Q2 2020.

Staff will bring forward a report with options and timelines to seek electoral approval for the metering program at a Q1 or early Q2 2020 Committee meeting.

STRATEGIC PLAN AND RELATED POLICIES

The Groundwater Investigation Project is identified as a supply project in the Comprehensive Regional Water Plan.

The project also supports many aspects of the 2019-2023 Strategic Plan. It supports strategy 2.1 to plan for and ensure year round water availability now and in the future and specifically the tactic to "investigate and/or develop water supply plans/sources for North and South Pender, Langdale, Soames, Grantham's, Eastbourne, Cove Cay, Egmont and Chapman Creek water systems". Since climate change is straining the water system, the Church Road well field will contribute to the development and implementation of adaptation strategies and measure for priority risk areas.

Ensuring fiscal sustainability is a key priority of the SCRD Strategic Plan. The Comprehensive Regional Water Plan financial model meets the objectives associated with this priority by aligning service levels and long term capital planning with a sustainable funding model guided by the Financial Sustainability Policy and Debt Management Policy.

CONCLUSION

Local governments wishing to pursue long term debt financing may only do so with approval of the electors. This can be achieved through an AAP or referendum. An AAP is generally considered to be a more cost effective option. Staff are recommending an AAP to seek electoral approval for a long term loan to fund the Groundwater Investigation Phase 4 – Church Road.

Including the required 1% contribution to the MFA debt reserve fund, the maximum borrowing to be authorized for this project is \$8,080,000 over a term of 30 years based on the estimated useful life of the assets.

Approval for long term borrowing up to a specified amount does not commit the SCRD to undertake all of the borrowing if alternative funding sources such as grants or reserves become available.

Reviewed by:			
Manager		Finance	X-T. Perreault
GM		Legislative	X - S. Reid
CAO	X – D. McKinley	Other	