

SUNSHINE COAST REGIONAL DISTRICT STAFF REPORT

TO: Infrastructure Services Committee – April 19, 2018

AUTHOR: Tina Perreault, GM Corporate Services/Chief Financial Officer
Brad Wing, Financial Analyst

SUBJECT: UNIVERSAL WATER METER INSTALLATIONS PHASE 3 FUNDING

RECOMMENDATION(S)

THAT the report titled **Universal Water Meter Installations Phase 3 Funding** be received;

AND THAT staff prepare an **Alternate Approval Process (AAP)** to authorize long term borrowing of up to **\$5,956,111** over a 20 year term to fund Phase 3 of the **Universal Water Meter Installations** project.

BACKGROUND

The following resolution (excerpt) was adopted at the regular Board meeting on March 22, 2018 following notification of an unsuccessful application for grant funding from the Strategic Priorities Fund for the Phase 3 of the Universal Water Meter Installations project:

Recommendation No. 8 *Regional Water Service [370] – 2018 R2 Budget Proposals*

THAT the following budget proposals be incorporated into the 2018 Budget:

- *Budget Proposal 5 – Universal Water Meter Installations – Phase 3 – District of Sechelt, \$5,896,550 funded through Long Term Debt;*

The funding recommendation above was based on the Comprehensive Regional Water Plan (CRWP) financial model which proposes a borrowing term of 20 years, equivalent to the estimated useful life of the assets.

Grant funding is only included in the model when an application is approved and a funding agreement is in place. Current parcel tax rates have been set based on the project being funded through long term debt over a 20 year term.

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.

Options and Analysis

Based on the budgeted project costs of \$5,896,550 and allowing for a required 1% contribution to the Municipal Finance Authority debt reserve fund, the maximum amount of borrowing to be authorized for this project has been calculated at \$5,956,111. Debt reserve fund contributions earn interest and are returned at the end of the borrowing term.

Approval for long term borrowing up to a specified amount does not commit the SCRD to undertake all of the borrowing should alternative funding sources such as grants or reserves become available. For instance, Phase 2 of the project is nearing final completion and staff are estimating a potential project funding surplus of \$500,000 that could be used towards Phase 3. Staff will report on final values and any recommended financial plan amendments on final completion of Phase 2.

The actual amount to be borrowed for Phase 3 will be based on the actual project costs, less any alternative funding sources approved prior to project completion, 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. Water meters have an estimated useful life of 20 years.

The SCRD is committed to proceeding with the final phase of meter installations in 2018. Therefore, in the spirit of transparency, it is important to understand that should approval of the electors for long term borrowing not be achieved, alternative funding options will be presented to the Board for consideration.

Option 1 – Long term borrowing over a 20 year term

A 20 year term would more equitably spread the funding requirements over the asset lifespan as future system growth will contribute towards servicing the debt thereby reducing the overall burden on the existing property base. This option is consistent with the CRWP financial model and results in a projected debt servicing ratio of 10.56% inclusive of both current and authorized unissued debt. Staff recommend a 20 year term.

Option 2 – 50/50 combination of short term financing over a 5 year term and reserves

Funding the project through a combination short term financing and reserves is feasible but also increases the short term risk to the organization both through higher annual debt servicing costs, reduced reserve balances and reduced contributions to reserves as capital funding is shifted to service the debt.

The Regional Water Service currently has uncommitted operating and capital reserves totaling \$5.8 million inclusive of budgeted transfers in 2018.

Funding the project through 50% reserves and 50% short term financing would reduce available reserves to \$2.85 million in the short term and result in a projected debt servicing ratio of 11.05%.

Given the current status of initiatives aimed at increasing the water supply capacity in the Regional Water System, this is not the preferred option in order to maintain maximum flexibility when determining funding of future projects currently in the feasibility stage.

Should the public approval process fail and this was the alternative source of funding, staff will provide a future report on funding implications and options.

Option 3 – Short term financing over a 5 year term

Short term financing over a 5 year term also increases the short term financial risk to the organization and would necessitate a rate increase as current parcel tax revenues would not be sufficient to fund the increased debt servicing costs and planned rehabilitation projects identified in the CRWP.

Section 3.5 of the Debt Management Policy states that 'revenues must be sufficient to accommodate debt servicing'. All other factors being equal, a parcel tax rate increase of approximately 20% would be required to maintain adequate cash flow over the borrowing term without drawing on reserves.

In addition, the organizations projected debt servicing ratio would increase to 12.88%. The Debt Management Policy specifies a maximum debt servicing ratio of 15% in order to maintain flexibility to issue debt in response to emerging financial needs.

Staff do not recommend this option.

Financial Implications

Funding the project from long term debt over a 20 year term is consistent with the CRWP financial model. Current parcel tax rates which are used for capital funding and debt servicing have been set based on the assumptions made in the model. As such, Option 1 will not have an impact future projected rate increases.

Alternative funding options utilizing short-term financing or a combination of short term financing and reserves are a deviation from the CRWP financial model that increase the short term financial risk and decrease financial flexibility in determining funding for future projects.

Estimated annual debt servicing costs for each of the three options, based on current interest rates, are detailed in the table below:

Option	Estimated Annual Debt Servicing
Option 1 – 100% Long term debt, 20 year term	\$400,344
Option 2 – 50% short term financing / 50% reserves	\$622,134
Option 3 – 100% Short term financing	\$1,244,268

Communications Strategy

In addition to statutory advertising, an information package will be produced as part of the Alternative Approval Process.

The information package will include a copy of the Loan Authorization Bylaw, the Notice of AAP, information on the metering 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 April 26th Board meeting. 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 prior to the public notice period

STRATEGIC PLAN AND RELATED POLICIES

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

Following notification of an unsuccessful application for grant funding from the Strategic Priorities Fund for Phase 3 of the Universal Water Meter Installations project, the Board resolved to fund the project through long term debt as per the Comprehensive Regional Water Plan (CRWP) financial model.

Local governments wishing to pursue long term debt financing may only do so with approval of the electors. This can be achieved through an Alternate Approval Process (AAP) or referendum. An AAP is generally considered to be the more cost effective option.

Including the required 1% contribution to the MFA debt reserve fund, the maximum borrowing to be authorized for this project is \$5,956,111 over a term of 20 years based on the estimated useful life of the assets.

Alternative funding options that do not require elector approval include short term financing or a combination of reserves and short term financing. These options are a deviation from the CRWP financial model and increase the organizations financial risk in the short term as it relates to debt servicing costs and flexibility in determining funding for future initiatives.

Reviewed by:			
Manager		Finance	X-T.Perreault
GM	X-R. Rosenboom	Legislative	X-A.Legault
CAO	X-J. Loveys	Other	