

COUNCIL REPORT



REPORT DATE: September 1, 2019
MEETING DATE: September 9, 2019

TO: Mayor and Councillors
FROM: Michelle Mason, Chief Financial Officer/Deputy CAO
SUBJECT: Wastewater Treatment Upgrade Funding Options

RECOMMENDATION

- i. THAT Council receive the Wastewater Treatment Upgrade Funding Options report.
- ii. THAT Council give direction to staff on funding for the wastewater treatment upgrades.

SUMMARY

The Village of Cumberland has been awarded over \$7 million from the Environmental Quality stream of the Investing in Canada Infrastructure Program for a high performance upgrade to the Village's wastewater treatment lagoon. The 2019 approved budget of \$5.6 million is for phase one of the project. Now with the approval of over three quarters of the funding, the complete project can move forward at \$9.7 million.

Due to a recent increase in private land development, the Village has more Development Cost Charge (DCC) funds available than was originally estimated for the project. Staff have analyzed cash flow and funding requirements for the project and have determined that the Village can fund the entire \$9.7 million project with grants and internal funds which would remove the requirement for a tax levy but would use most of the Sewer DCC funds. DCC funds provide funding for capital projects required for growth. This does not affect any other projects approved in the 2019-2023 financial plan. However if the Village does not have sufficient Sewer DCC funds to fund other sewer capital projects listed in the Sewer DCC bylaw (these are currently being reviewed), the Village would need to find other funding sources for those projects until such time that the Sewer DCC fund balance has grown.

BACKGROUND

The Village has been working on a wastewater treatment solution for many years. A final solution was developed in 2016 and 2017 that broke the project into two phases so that the upgrades could be undertaken with grant funds (phase one and two) or without grant funds (phase one only).

The Village of Cumberland has been awarded \$7,113,010 from Investing in Canada Infrastructure Program (ICIP) for upgrades to the Village's wastewater treatment lagoon. The 2019 approved budget of \$5,600,000 is for phase one of the project. Now with the approval of over three quarters of the funding, the complete project can move forward at \$9,700,000. The entire \$9,700,000 project with the \$7,113,010 in grant funding leaves the Village's share of the project at \$2,586,990. In addition, the Village was successful in its application to the Green Municipal Fund (GMF) from the Federation of Municipalities (FCM) for up to \$5 million borrowing at 4.25% (this may increase slightly) plus 15% of the GMF debt funds back to the Village in grant funding. Therefore, if the total \$2,586,990 were to be borrowed from GMF, the Village would receive an additional \$330,000. Based on increased private land development and timing, the Village has more Development Cost Charge (DCC) funds available than originally estimated. The balance in Sewer DCC funds is \$1.9 million with at least another \$367,000 expected to be received within the next three years.

Staff have analyzed cash flow and funding requirements for the wastewater project and have determined that the Village can fund the entire \$9.7 million project with grants and internal funds, which would remove the requirement for a parcel tax levy. However this option would use most of the Sewer DCC funds, leaving a depleted balance in the fund for other growth related sewer projects until additional DCC funds are collected through development. Council could stay with the 2019 approved DCC funding at \$1,148,000, leaving an estimated balance of just over \$1.1 million in the Sewer DCC fund for other Sewer DCC projects or any other amount up to the \$1.9 million balance in the fund.

Funding Options:

1. If Council chooses to use the internal funding sources currently approved in the financial plan (DCCs and capital reserve funds) and use debt to fund the remaining balance of the capital costs, an estimated parcel tax of between \$50 (20 year term) and \$75 (10 year term) per year will be levied on property owners in the year after construction has been completed.
2. If Council chooses to fund all of the Village's share of \$2,586,990 with internal funds, the Village can either maximize the Green Municipal Fund (GMF) debt and corresponding 15% grant or pay the Village's share without debt (using DCC and capital reserve funds). This would use up most of the Sewer DCC funds with debt payments over 10 years or an up-front cash outlay. Staff have analyzed this option and have concluded the following:
 - a) If Council chooses to maximize the GMF debt and corresponding 15% grant, and uses Sewer DCC and capital reserve funds to repay the debt over the next 10 years, this would give the Village extra funds of approximately \$85,000 (depending on interest rates and less costs to administer GMF grant). Through this method, the Village would receive 15% in GMF grants funds, investment interest on unspent DCC funds over the next 10 years but would pay about 2.5% interest on interim construction debt plus approximately 4.25% interest over the next 10 years. Using debt for the wastewater project would use up \$280,000 of the Village's annual borrowing capacity over the next 10 years. Currently the Village has just over \$1 million borrowing capacity (does not include fire hall borrowing) leaving just over \$700,000 for annual payments for any other borrowing. The Village's borrowing capacity increases each year as Village revenues increase.

- b) If Council chooses to pay the Village's share with internal funds (no debt), the Village will not receive investment interest on internal funds and will not receive 15% grant funding from GMF; however, the borrowing capacity would be available.

FINANCIAL IMPLICATIONS

In addition to capital costs for the upgrades, utility ratepayers will be impacted by an increase in operating costs estimated at \$375,000 per year. The utility user rate increase for the treatment operating costs is approximately \$200 per unit per year. Utility fees have been increasing over the last few years in order to smooth this increase.

The current funding sources in the 2019 approved budget compared with available options for funding sources for the wastewater treatment upgrade project follows:

Project Funding Source	Approved 2019 budget	Funding Options for Increased \$9.7 Million Project		
	\$5.6 Million Project	Originally Approved Internal Funds	Maximize Debt with Repayment from DCCs & Reserves	Pay Up Front from DCCs & Reserves
Borrowing	\$4,061,500	\$911,730	\$2,249,560	\$0
Investing in Canada Infrastructure Program	\$0	\$7,113,010	\$7,113,010	\$7,113,010
Green Municipal Funds	\$0	\$136,760	\$337,430	\$0
Internal Reserve Funds	\$390,500*	\$390,500*	\$0	\$390,500*
Sewer Development Cost Charge Use	\$1,148,000**	\$1,148,000**	\$0	\$2,196,490
Total Funds for project	\$5,600,000	\$9,700,000	\$9,700,000	\$9,700,000
Estimated Parcel Tax over a 20 year debt term	\$220 per year per parcel	\$50 per year per parcel***	\$0 ****	\$0

**included in the approved financial plan as 2019 balance of \$315,500 plus \$75,000 contribution in 2020*

***remaining Sewer DCC balance would be \$1.1 million*

****estimated parcel tax per year per parcel for a 10-year debt term is \$75*

*****debt for this would be repaid over 10 years with DCC and reserve funds which would give the Village extra funds of approximately \$85,000 (depending on interest rates and less extra costs to administer GMF grant)*

OPERATIONAL IMPLICATIONS

The grant administration, borrowing and construction of the wastewater treatment upgrades for the Village will involve all departments of the municipality and will be a large undertaking. Depending on the timing of both Village capital projects, the wastewater treatment upgrades and the borrowing approval and construction of a new fire hall may take place at the same time. While both projects will be managed by external project managers, significant internal staff hours will be required to monitor the projects' operations and provide Village operational support, manage and track the finances, borrow funds and administer the grants. Depending on the timing of both projects, casual labour budget requests will come to the 2020 budget.

STRATEGIC OBJECTIVE

This project directly relates to Council's Strategic priority to develop an environmentally sustainable method of treating the liquid waste that is produced by the Village.

ATTACHMENTS

None.

CONCURRENCE

Rob Crisfield, Manager of Operations

OPTIONS

1. Council can choose to continue as expected and to levy taxes at an estimated \$50 (20-year debt term) to \$75 (10-year debt term) per year in which staff would align this Council direction in the 2020 budget.
2. Council can choose to internally fund the entire project and maximize the GMF borrowing and grant funding and direct staff to amend the adopted 2019-2023 Financial Plan as follows:
 - a. Increase the wastewater treatment capital expenditure from \$5,600,000 to \$9,700,000
 - b. Increase grant funding to \$7,450,440 for the Investing in Canada Infrastructure and Green Municipal Fund programs
 - c. Reduce the borrowing for the wastewater treatment capital project from \$4,061,500 to \$2,249,560
 - d. Remove the use of 2019 Development Cost Charge funds (\$1,148,000)
 - e. Remove the use of 2019 Reserve funds (\$390,500)
 - f. Add the use of Sewer DCCs and reserve funds to repay GMF borrowing in the 2020-2024 financial plan based on a 10-year term

3. Council can choose to internally fund the entire project without borrowing and direct staff to amend the adopted 2019-2023 Financial Plan as follows:
 - a. Increase the wastewater treatment capital expenditure from \$5,600,000 to \$9,700,000
 - b. Increase grant funding to \$7,113,010
 - c. Remove the borrowing for the wastewater treatment capital project of \$4,061,500
 - d. Increase the use of Development Cost Charge funds from \$1,148,000 to \$2,196,490
 - e. Continue to use the capital reserve balance of \$315,500 in 2019 budget and \$75,000 (total \$390,500) added in 2020 budget
4. Any other action deemed appropriate by Council.

Respectfully submitted,

Michelle Mason
Chief Financial Officer/Deputy CAO