

To: Chief Administrative Officer **Date:** April 6, 2021
From: Doug Stewart, Director of Finance
Subject: Fraser River Sewer Crossing Budget Amendment and Loan Authorization Bylaw

Recommendations

1. To amend the Sewer River Crossing project budget in the 2021 – 2025 Financial Plan bylaw to \$28,523,827.
2. To read Loan Authorization Bylaw No. 6031-2021 three times

Loan Authorization Bylaw No. 6031-2021 is listed in the “Bylaws for Consideration” section of the agenda for Council’s consideration of three readings.

Purpose

The purpose of this report is to recommend Council update the Fraser River Sewer Crossing capital project budget and initiate a loan authorization process to fund a portion of the project through long-term debt. It should be noted that the actual debt incurred will be based on the final cost of the project less any funds secured through grants or other contributions from senior levels of government, revenue or cost recovered from other individuals or corporations, development cost charge levies utilized and funds appropriated from reserves.

Background

In 2017 the District was awarded grant funding under the Clean Water Wastewater Fund (CWWF) in the amount of \$6,898,023 to construct a sewer line under the Fraser River. The original budget to complete this project was \$10,850,321 with the funding to come from the CWWF grant, the sale of sand (\$2,500,000) and a contribution from the Regional Sewer DCC and the Sewer Capital Reserve (\$1,452,298). In 2018 the District commenced work related to the design and construction of a secondary sanitary sewer main crossing below the Fraser River to the JAMES Wastewater treatment plant. The majority of CWWF grant funding (\$6,574,196) was claimed in 2019 with remaining funds (\$323,827) forecast to be claimed in the first quarter of 2022.

Prior to the construction below the Fraser River, authorization from the federal Department of Fisheries and Oceans Canada (DFO) was needed. In December 2020 the District and the Federal Government fulfilled their duty to consult with First Nations and in February 2021 the DFO authorization was received.

On August 6, 2019 the Chief Administrative Officer presented a report to Council to provide an update on the progress of the Sanitary Sewer Crossing Project (Attachment 1). In the report the CAO stated that:

As of August 2019, the estimate for the entire project was \$32 million. The land works are expected to cost roughly \$10 million and the river crossing costs are estimated to be \$22 million. These costs include both known costs and estimated costs plus twenty percent contingency.

Since that time the District contracted Onsite Engineering Ltd. to prepare a Class A construction cost estimate that includes all other anticipated costs such as engineering services, environmental services, DFO offsetting costs, etc. to complete the project. Onsite Engineering confirmed the amount provided by the CAO in August 2019. The Class A estimated cost, including a 20% contingency, is \$21,249,174. It should be noted that this is a high-risk job involving a large and deep dredge followed by dragging a large diameter steel pipe one kilometer across the Fraser River. This has never been done before at this scale. Past projects have involved smaller dredges and smaller pipes. As such, District staff recommend adding a risk factor to the budget of a further 10% in addition to the 20% contingency. This brings the current estimated cost to \$23,374,091 - rounded up to a proposed budget of \$23.5 million.

With \$9,940,129 spent through December 31, 2020, \$323,827 carried over from 2020 and the proposed budget of \$23,500,000 for construction and other associated costs still to be incurred, the total project budget is now \$33,763,959.

The Provincial government has identified this project as a priority and have offered to provide an additional \$11 million contribution toward the cost of the project. The Contribution Agreement provides a payment of \$8,250,000 (75%) upon execution of the agreement. The remaining \$2,750,000 (25%) would be paid upon completion of the project.

Although District staff will continue to pursue the sale of the sand, this has been removed as a revenue source in the budget due to its uncertainty. Any revenue received will reduce the amount to be funded through Regional Sewer DCC and the Sewer Capital Reserve and ultimately through long-term debt.

The Fraser River Sewer Crossing will benefit both existing residents of Mission as well as provide excess capacity to deal with future growth. The excess capacity has been estimated to be approximately 49% of the entire capacity of the new line, therefore; the Sewer DCC should be expected to fund 49% of the cost of the project after deducting grants and other external contributions received. The total contribution from the DCC is approximately \$7.7 million

The remaining cost of the project after deducting grants, external contributions and DCC funding is estimated to be approximately \$8.2 million.

The following chart provides a revised budget based on the discussion above.

Fraser River Sewer Crossing - Proposed budget as at April 6, 2021			
	Budget	Total Actual Costs	2021 and beyond budget
Federal Grant (*1)	4,155,436	4,155,436	-
Provincial Grant (*2)	13,742,587	2,418,760	11,323,827
Cost Recoveries (*3)	4,566	4,566	-
Sewer DCC's (*4)	7,694,349	1,685,802	6,008,547
Sewer Capital Reserve	8,167,018	1,675,565	6,491,453
	33,763,956	9,940,129	23,823,827

Any cost incurred prior to 2017 are not part of this calculation
 *1 - the Federal grant is the share of the CWWF grant only
 *2 - the Provincial grant is the share of CWWF grant plus \$11 million
 *3 - the cost recovery is what has been recovered to date
 *4 - the Sewer DCC is 49% of the costs after grants recoveries less the 1% assist factor
 *5 - the Sewer Capital Reserve is the remaining amount after all other funding sources are calculated

Discussion and Analysis

The most recent estimate for the entire Fraser River Sewer Crossing project is \$33,763,956. \$9,940,129 has been spent up to the end of 2020 and \$23,823,827 is proposed to be included in the 2021 – 2025 Financial Plan.

To ensure the financial resources are available when needed, District staff recommend Council change the financial plan to indicate that all funding not currently guaranteed and secured (\$23.5 million) be acquired through a long-term debenture debt issued by the Municipal Finance Authority (MFA) and that Council adopt a loan authorization bylaw in accordance with the requirements of the Community Charter.

District staff will continue to pursue other sources of revenue. Further amendments to the financial plan can be made at any time should the District be successful in its attempts to secure alternative sources of funds.

Having a loan authorization bylaw in place allows the District to obtain temporary borrowing through the MFA which may be required as 25% of the \$11 million contribution from the Provincial Government will not be paid to the District until after the project is substantially complete.

As noted above, the total contribution from the DCC is approximately \$7.7 million. \$1.7 million has been allocated to date, leaving approximately \$6 million still to be funded. As the balance in the DCC reserve is approximately \$250,000, it is recommended that long-term debt be used to pay the costs and future DCC revenue be used to repay debt and interest costs. \$6.0 million financed over 30 years with a 2.9% interest rate will cost \$316,196 per year.

Of the remaining \$8.2 million of project costs, after deducting grants, external contributions and DCC funding, \$1.7 million has already been appropriated from the reserve to date. Therefore, an additional \$6.5 million will still be required. The reserve balance at the end of 2020 was approximately \$12.6 million and there is about \$1.6 million committed in the current capital plan, leaving approximately \$11.1 million available. It is recommended that this reserve not be depleted as it is required to deal with unanticipated emergency repairs as well as scheduled maintenance. District staff recommend acquiring long-term debt to fund this portion of the project. The debt servicing costs for \$6.5 million at 2.9% interest, amortized over 30 years would be approximately \$343,000. This represents a 6.48% increase in the sewer levy (note: this is equivalent to a 0.93% property tax increase).

The purpose of a loan authorization bylaw is to get the approval of Council, the Inspector of Municipalities and the general public through the electoral approval process, when necessary, to borrow a maximum amount of money for a specific purpose.

The District will not lock in the long-term debt until the project is complete and all other potential funding sources have been considered. All temporary borrowing will be repaid with grants received. Ultimately the District will only owe the amount required to complete the project in excess of the funds received from external sources and utilized from reserves.

District Council will still need to pass a “Municipal Security Issuing Resolution” to actually borrow the funds when the District is ready to do so with the caveat that the funds can only be used for the purpose detailed in the loan authorization bylaw and that the total cannot exceed the amount stated in the bylaw. Attachment B is a chart provided by the MFA that details the loan authorization bylaw procedures and the security issuing procedures.

To ensure this project can start at the end of 2021 and that the funds are available as required, District staff recommend a loan authorization bylaw be adopted for the full amount of the remaining project costs less the approved amount carried over from 2020. The loan authorization bylaw recommended by District staff is for a total debt not to exceed \$23.5 million. As stated

earlier in this report, the District will ultimately only secure long-term debt funding for the amount required after deducting grants received and reserves utilized. This amount will likely be less than the amount provided in the loan authorization bylaw. The maximum amount borrowed can never exceed the amount in the bylaw.

The total annual debt servicing costs for the District is currently 0.77% of the annual revenue of the District. Adding the debt serving costs for this debenture, assuming the entire \$23.5 million amount is borrowed, would increase the amount to 2.44% of the total annual revenue. As this percentage is below 25% of the total revenue the District can incur the liability and, further, as the amount is less than 5% of the total revenue, approval of the electors is not required.

Council Goals/Objectives

The Fraser River Sewer Crossing project supports Council's objective to Secure Finances, Assets and Infrastructure as described in the 2018 – 2022 Strategic Plan.

Financial Implications

As of March 26, 2021, the MFA's forecasted interest rate is 2.9%. The actual rate will be established when the debenture is issued. Based on a debenture for \$23.5 million amortized over 30 years with an interest rate of 2.9% the annual debt servicing cost will be \$1,238,435. The 2021 total sewer revenue budget from flat rate fees and metered fees combined is \$5,288,845. A sewer rate increase of 23.42% would be required to fund the additional annual cost to service the debt if no further grant funding is received.

After considering the \$11 million committed by the Provincial government only \$12.5 million would need to be borrowed and, if the Sewer DCC's funds its share of the debt servicing costs, the remaining annual cost of \$342,546 would require a sewer levy increase of 6.48%. This is equivalent to a 0.93% property tax increase.

Communication

No communication action is required.

Summary and Conclusion

To complete the Fraser River Sewer Crossing project an additional \$23.8 million must be budgeted. As the District does not have sufficient reserves to fund this entire project long-term debt will be required. \$300,000 is yet to be claimed from the CWWF grant approved in 2017 and the Provincial government has committed to contributing an additional \$11 million toward the cost of this project.

It is recommended that the remaining \$12.5 million be secured through a long-term debt. Future Sewer DCC levies will fund approximately 48% of the debt servicing cost and a 6.48% increase in the sewer levies will be required to fund the remaining cost.

The Loan Authorization bylaw being proposed allows for a total debt of \$23.5 million which will allow for temporary borrowing to cover costs of the project regardless of when other sources of revenue are secured.

Report Prepared by: Doug Stewart, Director of Finance
Reviewed by: Jay Jackman, Manager of Development Engineering, Projects & Design
Approved for Inclusion: Mike Younie, Chief Administrative Officer

Attachments

Attachment A: August 6, 2019 report to Council from Mike Younie, CAO (Update on Sanitary Sewer Crossing Project)
Attachment B: Loan Authorization Bylaw Procedures