

Municipality of Lakeshore – Report to Council

Finance & Technology

Financial Planning & Analysis



To: Mayor & Members of Council
From: Jessica Gaspard, Interim Corporate Leader – Finance & Technology
Date: October 6, 2021
Subject: Funding for Denis St. Pierre Water Pollution Control Plant Expansion

Recommendation

Approve external debt to be taken in the principal amount of \$ 45,281,427.72 for the Plant Expansion;

Update the Development Charge Study related to wastewater to reflect the costs according to the tender results; and,

Update the 2018 Wastewater User Rates Study as the capital and operating expenditures have considerably changed since the previous study, all as further described in the report presented at the October 12, 2021 Council meeting.

Background

At the September 14, 2021 Council meeting, Council approved the following resolution:

282-09-2021

Award the tender for the Denis St. Pierre Water Pollution Control Plant Expansion Project to North America Construction (1993) Ltd. in the amount of \$43,911,679.00 (plus applicable HST); and

Approve additional funds in the amount of \$2,368,697.60 for the Rourke Line Road Reconstruction to be funded in the 2022 budget from the roads reserve, all as described in the September 14, 2021 Council report.

The total project cost of the expansion is \$55,181,427.72. The combined approved funding from the 2019 and 2021 budgeted totaled \$9,900,000. This resulted in a shortfall of \$45,281,427.72

At the September 16, 2021 special Council Meeting the discussion relating to the source of funding was postponed.

Others Consulted

Watson and Associates

Financial Impacts

At the September 14th Council meeting Administration recommended financing the project using external debt only.

Municipalities in Ontario have an Annual Repayment Limit (ARL) which indicates the maximum amount of debt payment (principal and interest) a municipality can incur. Most municipalities set a limit of 25% of their own annual revenue (property taxes, user fees investment income) that will be allocated to service the debt payments.

Currently, the Municipality is utilizing 6.4% of net revenues to service debt payments. The additional \$45.28M loan for 20 years at 2.49% interest, the Municipality would be at 11.62% of net revenues which would remain below the 25% threshold.

As this project is 90% growth-related, 90% of the principal and interest charges may be funded from the Wastewater Development Charges. The ability to externally finance the project would allow for the non-wastewater reserves and reserve funds to be used for their original intended purposes and continue the capital projects program as intended.

Debt financing can be arranged through Infrastructure Ontario and private banks. A cost benefit analysis will be done to determine which source of external financing would be most cost efficient when the terms and conditions are received.

Currently, Infrastructure Ontario provides short-term financing which is available during the construction period. Interest only payments are calculated and payable monthly. Our current rate is 0.67%. Open repayment of the principal and interest is available any time during construction phase. The construction phase for this project is from January 1st 2022 to March 31, 2023. Once the construction is completed and the amount is debentured the payments are locked in for the entire term of the loan (20 years). The current borrowing rate on long term loans is 2.49%.

The annual principal and interest charges are expected is \$2.9 million over the next 20 years (\$58 million). The repayment of the principal and interest charges would be funded from the Development Charges Wastewater Reserve Fund and supplemented by Wastewater Reserves, Federal Gas Tax and OCIF (up to \$5.8M or the non-growth related portion of the project).

A cash flow analysis (see attachments) was completed to determine the shortfall from the Development Charges Revenue that would require to be supplemented from the other sources noted above. The number of building permits estimated to be issued for

the next 20 years were provided by the Development Charge Study (Dated October 2020)

In Version A, using the current 2021 rates the annual development charges revenue will be approximately \$2 million. This leaves a funding gap of approximately \$900,000 that will be anticipated to close upon the end of the loan.

In Version B, if the development charges for wastewater were to increase from \$10,391 to \$14,265 for a single and semi-detached home the annual revenues will increase to approximately \$2.5 million dollars. The funding gap will be approximately \$300,000. As a result of the indexing of fees at an estimated 2% a year we anticipate the gap to close in approximately 8 years.

As noted above, Administration recommends an update on both the Development Charge Study and the User Rates for the portion related to Wastewater, as the capital and operating expenditures have increased. The rates charged should support the increase in operating and capital program costs that will be required to complete in the future.

Attachments

Funding Strategy – Denis St. Pierre Version A - Current Rates

Funding Strategy – Denis St. Pierre Version B – Increased Rates

Report Approval Details

Document Title:	Funding for Denis St Pierre Expansion.docx
Attachments:	- Funding Strategy Denis St Pierre Version A - Current Rates.pdf - Funding Strategy Denis St Pierre Version B - Increased Rates.pdf
Final Approval Date:	Oct 7, 2021

This report and all of its attachments were approved and signed as outlined below:

Kristen Newman

Truper McBride