



REPORT

To: Rural Budgets Administration Committee

Report Number: ENV-RBAC-001

From: Paulo Eichelberger, GM of Environmental Services

Date: October 15, 2020

Subject: Potable Water Stations Capital Update and Loan Repayment

RECOMMENDATION:

That the Rural Budgets Administration Committee authorize that the \$2.9 million loan from the Municipal Finance Authority for the Area B Potable Water Capital Project be paid out using \$1.9 million dollars from Area B Peace River Agreement - Spending Item #1 - Potable Water and Water Security/Studies, and \$1 million from the Community Works Gas Tax fund.

BACKGROUND/RATIONALE:

The intent of this report is to provide options for paying down debenture that is being utilized for the capital works for the Area B Water capital project.

Costs to Date

The budget for operation of the Area B Water Function (not including the remaining capital works), is approximately \$1.21 Million per year moving forward. This includes:

- Operations – Maintenance of 5 stations and administration (contractor, transaction systems)
- Annual loan payments – The PRRD has borrowed \$2.9 million for the capital project and at present, only interest payments on temporary borrowing (approximately \$30,000-\$35,000/year). Once the capital project is closed, the loan will convert from temporary borrowing to long-term borrowing. When that happens, principal payments are estimated to increase.¹

As noted in Financial Considerations, there are several key takeaways with long term operation of the water function:

- Once the capital project is closed out, annual repayment of the loan will be approximately \$340,025 (for \$2.9 million borrowed), including interest.
- Revenue from the stations (excluding Rose Prairie) is forecasted at \$60,000-\$65,000 per year.
- There are currently no monies in capital reserve – this needs to be built up in order to cover future replacement costs and/or expansion of additional stations.

In order to offset these costs and build reserves for the function, paying down the entire amount borrowed to date and avoiding long term loan repayments is the best option. Reserve funds which can be used for this include PRA, Fair Share, Gas Tax. These reserves are applicable for capital projects which improve services to the community and are not yet complete.

¹ For \$2.9 million, annual payments of \$253,025 (principal) with an additional interest payment of \$87,000 are expected. For the full loan of \$4 million, annual payments of \$349,000 (principal) with an additional interest payment of \$120,000 are expected.

It is recommended that \$2.9 million from the PRA Reserve and the Gas Tax Fund be utilized to pay the loan out and avoid future debenture costs of approximately \$340,025 annually. If this is not done, current forecasting for budgeting with the debenture indicates that requisition will not be enough to cover operational expenditures. This will prevent the ability to build any operational or capital reserves and will also require supplemental grant monies to be allocated annually in order to avoid a deficit budget.

This change will result in an annual operating cost of approximately \$825,000 with the ability to annually budget approximately \$100,000 in operational reserves and \$100,000 in capital reserves for a complete budget of \$1,025,000.

ALTERNATIVE OPTIONS:

1. That the Rural Budgets Administration Committee provide further direction.

STRATEGIC PLAN RELEVANCE:

- ☒ Organizational Effectiveness
- ☒ Responsive Service Delivery

FINANCIAL CONSIDERATION(S):

As noted above, annual requisition of \$1,025,000 needs to be maintained to operate the function. As well, without paying debenture in full, additional funds will be needed to supplement operations which has been estimated to be \$100,000. This level of requisition will need to remain in place to allow the function to build capital and operational reserves.

Funds available to pay down loan against capital:

Reserve Summary:

- PRA Reserve Area B:
 - (Uncommitted) - \$1,979,615
 - (Previously spent and/or committed) - \$637,240
 - Total - **\$2,616,855**
- Other Available Reserves:
 - Gas Tax (Uncommitted) - \$6,852,861
 - Fair Share Area C (Uncommitted) - \$997,856

Note: the Rose Prairie GAC system is operating in pilot mode. In 2021, the system is expected to go to fullscale, which will be an estimated \$400,000. It is recommended that costs to bring the system fullscale are also covered off via Gas Tax or Fair Share (assuming the PRA Reserve for Area C is tapped) but more detailed costs will be forthcoming for the 2021 budget.

COMMUNICATIONS CONSIDERATION(S):

Updates on station operations will continue to be posted.

OTHER CONSIDERATION(S):

None identified