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**REPORT TO BEDDIS WATER SERVICE COMMISSION
MEETING OF WEDNESDAY FEBRUARY 29, 2012**

SUBJECT BEDDIS WATER SYSTEM CAPITAL UPGRADES – PHASING AND FUNDING

ISSUE

Upgrades to the Beddis water service infrastructure must be completed to provide reliable drinking water service and meet legislated requirements. In order to meet recommended project funding levels, a two phase approach is being considered to complete the infrastructure upgrades.

BACKGROUND

At its December 13, 2011 meeting, the Beddis Water Service Commission considered the staff report, *Beddis Water System Capital Upgrades and Referendum Process*, and the following recommendation:

"That the Beddis Water Service Commission authorize staff to conduct a referendum process to seek approval of the electors to borrow up to \$1,057,000 to complete water treatment, storage and distribution upgrades".

The recommendation was not supported and staff were directed to develop a phased approach to complete the upgrades that met immediate operational needs and legislated requirements while considering annual revenue impacts to fund the work. The most urgent operating issue that must be addressed is that the existing Lautman reservoir is leaking and must be taken out of service as soon as practical. The outstanding legislated requirement is that, as a condition of the Vancouver Island Health Authority (VIHA) permit to operate the Beddis water system, the Capital Regional District (CRD) was to complete treatment upgrades to the water treatment plant by 2009. However, to this date, funding has not been available to complete the treatment plant and associated works. As a result, the Beddis water service is out of compliance, which may result with an issuance of an order from a drinking water officer. Based on operational needs and legislated requirements, the only option to phase the work is as follows:

Phase 1

Major work includes:

1. Construct and commission water treatment works.
2. Construct and commission distribution system works to bring the new Lautman reservoir on-line including piping from the existing Lautman booster pumpstation to the new reservoir, reservoir connections, reservoir level controls, decommission existing Lautman reservoir.
3. Construct and commission a new pressure reducing valve (PRV) station at Cusheon Lake Road.

The estimated cost to complete Phase 1, including engineering design and contract administration, CRD staff time, legal costs, bare construction costs, design and construction contingencies and construction cost inflation, is \$460,000. This estimate does not include interest costs on borrowed funds and the provincial levy for parcel tax collection. The CRD is committed to ensuring that the most cost effective design solutions, that also meet operational and water quality criteria, will be considered on a component by component basis.

Phase 2

Major work includes:

1. Construct and commission a new Sky Valley reservoir.
2. Construct and commission a new Sky Valley booster pumpstation.
3. Decommission and remove abandoned reservoirs, pumping equipment and above grade appurtenances from Phases 1 and 2.

Upon receipt of an order, under the *Drinking Water Protection Act*, the Beddis water service can incur a liability (or loan) to fund the works for the purpose of complying with an order of a drinking water officer that expressly requires the Beddis water service to install treatment works, subject to the approval of the inspector of municipalities. Under the *Regional District Liabilities Regulation of the Local Government Act*, elector approval is not required for this purpose, eliminating the requirement to undertake a referendum process for the Phase 1 works only.

ALTERNATIVES

1. That the Beddis Water Service Commission recommend that upon receipt of the order from the drinking water officer, the CRD seek the approval of the inspector of municipalities for the Beddis Water Service to incur a liability (loan) up to \$460,000 to fund the Phase 1 works as described above. Once the funding is secured, staff are directed to proceed with design and construction of the Phase 1 works.
2. That the Beddis Water Service Commission receive this report.

IMPLICATIONS

Alternative 1

With the order from the drinking water officer, under the *Drinking Water Protection Act*, the Beddis Water Service must complete the works necessary to meet legislated requirements. The proposed Phase 1 works would include the completion of water treatment plant and the distribution and storage works to allow the treatment plant to be operate as designed. With the approval of the inspector of municipalities, the Beddis Water Service would undertake a loan up to \$460,000 to fund the Phase 1 work. Elector approval for the service area to undertake the loan would not be required. Based on this amount being borrowed through the Municipal Finance Authority for a ten year term at 6% annual interest, the annual cost of principal and interest would be approximately \$65,913. The 6% interest rate has been used for the purposes of making a conservative estimate of interest costs. The actual MFA interest rate at the time of borrowing would be the rate used to determine annual interest costs. The resulting impact on the parcel tax for this debt would be approximately \$503, which includes a 5.25% fee collected by the Province. It is anticipated that this increase would be required in 2013. Without an order from the drinking water officer, a referendum process would be required to seek electoral assent to borrow the funds to complete the work.

The tentative schedule for the Phase 1 work would see the design, approvals and tendering completed by the summer of 2012, and a construction start thereafter. For the Phase 2 work, provided the existing infrastructure that would be replaced under this phase continues to perform operationally, the Phase 2 works could be funded and constructed beginning in 2019/2020, once debt for Phase 1 is retired. The development and approval of a funding plan would have to take place at that time.

Further to the work required under Phases 1 and 2, there will inevitably be additional improvements required on the distribution system over the short and long terms to maintain a reliable drinking water service.

Alternative 2

The Beddis Water Service must act on the order once it is received, and complete the necessary works to meet the legislated requirements.

CONCLUSION

The remaining work required to complete the capital upgrade program initiated in 2005 has been identified. A two phased approach has been developed to complete the upgrades that meet the immediate operational needs and legislated requirements while considering annual revenue impacts to fund the work. Upon receipt of the order from the drinking water officer to complete water treatment plant works and with the approval of the inspector of municipalities, the Beddis water service would undertake a loan up to \$460,000 to fund the Phase 1 work. Elector approval for the service area to undertake the loan would not be required. The financial impact of the borrowing is estimated to be an increase of \$503 per taxable folio.

RECOMMENDATION

That the Beddis Water Service Commission recommend that upon receipt of the order from the drinking water officer, the CRD seek the approval of the inspector of municipalities for the Beddis Water Service to incur a liability (loan) up to \$460,000 to fund the Phase 1 works as described above. Once the funding is secured, staff are to proceed with design and construction of the Phase 1 works.

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Concurrence