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**REPORT TO CORE AREA LIQUID WASTE MANAGEMENT COMMITTEE  
MEETING OF WEDNESDAY, FEBRUARY 13, 2013**

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**SUBJECT      FUNDING FOR NEW CORE AREA WASTEWATER TREATMENT PROGRAM**

**ISSUE**

The Capital Regional District (CRD) is proceeding with the new Core Area Wastewater Treatment Program (CAWTP). When completed, the increase in requisition will be in the order of \$35 million. Orderly phasing in of the funding is an approach that can both reduce long term costs and avoid adding a large infrastructure tax or fee increase on completion of the program in 2018.

**BACKGROUND**

The CRD Board is moving forward with the CAWTP. The Program is projected to be operational in 2018, with combined operating and debt servicing costs of approximately \$35 million over today's costs. The operating costs, estimated at \$14.5 million, will be a new cost in 2018, whereas the debt financed funds will be raised throughout the next 5 years. Additionally, there could be up to an estimated \$11.7 million in temporary borrowing costs incurred due to timing of receipt of funds from the federal and provincial governments.

Between 2009 and 2012 cost sharing discussions took place with staff from all the participating municipalities. In addition, sessions have been held with council members representing every participating municipality and, recently presentations to three of the participating municipalities. Updated cost sharing percentages are expected to be in place for the 2013 requisition.

Cash flow projections have been prepared and debt servicing options calculated. The interest rates used in these projections were 1.75% for temporary borrowing and 5% long term borrowing with a 25 year term. These options are based on the existing representative program, and assume all borrowing is with the Municipal Finance Authority (MFA). The portion of debt that will be required to be financed under a Public Private Partnership (PPP) will be at a higher rate which is unknown at this time. The cost of the PPP financing will be part of the annual concession payments.

The CRD has two basic methods of raising funds to pay for these facilities:

**Method A** - Borrow as the funds are spent and raise the requisition funds to match the actual debt servicing costs and increase the requisition to pay for the operating costs in 2018.

**Method B** - Raise the requisition in a planned, consistent way over the construction period, using the requisition funds to pay any debt servicing costs and where possible, paying cash for some of the construction costs borrowing the balance of construction costs as required.

The Method A is projected to result in total annual project capital requisition increases of \$308,000 (2013), \$1.5 million (2014), \$4.05 million (2015), \$4.24 million (2016), and \$2.85 million (2017). In 2018, when plant operations commence, the annual increase is estimated to be approximately \$23.6 million.

The Method B is suggested to have annual project capital increases of \$5 million commencing in 2013, with a final increase of approximately \$6.6 million in 2018 (includes 2018 operating). This option reduces the total amount of new borrowings by approximately \$43 million (paid in cash), with a total annual ongoing debt servicing reduction of approximately \$3 million compared to Method A. The attached Schedule A illustrates, by participating municipality, the estimated household impact of Method B.

In either option, since the same assumptions of costs and timing of expenditures have been used, the relative differences in ongoing borrowing costs (interest rates, timing of borrowings) will remain similar.

**ALTERNATIVES**

1. That the Core Area Liquid Waste Management Committee recommend to the Board that, Method B, to fund the CAWTP and, commencing in 2013, budget for an annual increase of \$5 million to fund debt servicing costs, and where funding permits to pay cash for capital, and in 2018 to budget an increase of approximately \$6.6 million, be adopted.
2. That the Core Area Liquid Waste Management Committee recommend to the Board that Method A, to fund the CAWTP and budget in each year for the projected annual debt servicing and operating costs for the CAWTP, be adopted.

**FINANCIAL IMPLICATIONS**

1. Alternative one provides for a predictable annual increase in taxes/fees for the new CAWTP. Over the course of construction, taxes/fees would increase \$5 million in each year, with the final increase projected to be \$6.6 million (including 2018 operating costs). This option results in a reduction of approximately \$3 million in ongoing debt servicing costs compared to alternative 2.
2. Alternative two provides for fluctuations in annual increases in taxes/fees for the CAWTP. Over the course of construction, annual taxes/fees are projected to increase from a low of \$308,000 in 2013 to a high of \$23.6 million in 2018.

**CONCLUSION**

The new CAWTP is proceeding in 2013 and expected to be operational in 2018. Total annual debt and operating costs are projected to be \$35 million in 2018. An orderly annual predictable increase will reduce the shock of this increased expenditure. A consistent levy increase of \$5 million will reduce overall interest expense, reduce the ongoing annual debt servicing costs by approximately \$3 million, and with a 2018 levy increase of approximately \$6.6 million, will provide sufficient ongoing taxes/fees to fund the capital and operating costs expected in 2018.

**RECOMMENDATION**

That the Core Area Liquid Waste Management Committee recommend to the Board that:

Method B to fund the CAWTP and, commencing in 2013, budget for an annual increase of \$5 million to fund debt servicing costs, and where funding permits to pay cash for capital, and in 2018 to budget an increase of approximately \$6.6 million, be adopted.

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Core Area Wastewater Treatment Program

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Kelly Daniels  
CAO  
Concurrence

Attachment: Schedule A

## SCHEDULE A

Estimated Costs Per Household in Core Area Sewer Municipalities  
Schedule showing gradual increase in annual cost implimented over 6 years

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Colwood	52	103	155	207	258	310
Esquimalt	52	104	156	207	259	311
Langford	55	111	166	221	277	332
Oak Bay	65	130	196	261	326	391
Saanich	39	77	116	155	193	232
Victoria	59	118	177	235	294	353
View Royal	40	80	120	160	200	240

- Estimated Annual Household Cost in 2018 based on 2017 sewage flows, assumes 3 person households and costs allocated on 2017 population equivalent flows

- Annual estimated costs increase by an equal amount in each year but will vary based on actual billing/taxation method used by individual municipalities