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## REPORT TO CORE AREA LIQUID WASTE MANAGEMENT COMMITTEE MEETING OF WEDNESDAY, OCTOBER 12, 2022

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**SUBJECT**     **Wastewater Treatment Project (WTP) Final Funding and Financing Strategy Performance**

### **ISSUE SUMMARY**

The Capital Regional District (CRD) is in the closure phase of the Core Area Wastewater Treatment Project (WTP, or the Project). This report provides the final project funding update with evaluation of the financing strategy performance.

### **BACKGROUND**

On January 9, 2019, the CRD Board approved the WTP Financing Strategy, as referenced in Appendix A (Report to the Capital Regional District Board (Jan 9, 2019) Wastewater Treatment Project (WTP) Financing Strategy), which projected cashflow needs to the end of the project, inclusive of grant funding. A strategy was designed to lower overall costs of financing using a combination of funding, including debt during construction. A “staggered incremental long-term debt” strategy was recommended to leverage market conditions, mitigate risk of interest rate fluctuation and minimize short-term financing expenses, while meeting cash flow requirements. This recommendation included advancing \$60M long-term debt in the spring of 2019 to leverage low borrowing rates.

On May 19, 2021, the Project Board/Staff reported that the project had reached substantial completion and that the project was delivered on budget and that all funding partner reporting requirements and claim eligibility were optimized and on plan as referenced in Appendix B (Project Completion Report).

In July 2021, the Committee received a report that provided an update on the wastewater system commissioning, operation, and construction completion status. The construction across all the Project components was declared substantially complete. Staff continued to work with the various contractors and consultants to address final construction deficiencies and deliverables.

In October of 2021, the Committee received a report stating that cumulatively, the CRD had received \$358.8 million of the estimated total of \$462.3 million in eligible grant revenue. The remaining (up to) \$103.5 million was expected to be received by the end of the year.

This report provides a final update on project funding and performance of the project financing strategy.

### **IMPLICATIONS**

#### *Financial Implications*

The forecast of total cost at project close out is \$775.0M. This includes \$705.7M in costs expended, \$63.0M in future obligation under the Residuals Treatment Facility (RTF) contract and the remaining \$6.3M in program reserve. Upon close of the project fund, the program reserve will

be transferred to capital reserve and restricted for future capital investment within the Core Area Wastewater Service.

As planned in the 2016 Business Case, the Wastewater Treatment Project has been funded from a combination of requisition dollars, grant funding and long-term debt. The financing strategy approved in 2019 further planned the optimal timing and use of each source of funding throughout the life of the project. Table 1 below summarizes total funding by partner and compares the total funding at closeout to original business case (2016) and the financing strategy (2019).

**Table 1: Plan vs. Actual Wastewater Treatment Project Funding by Partner (\$ Millions)**

<b>Funding Sources</b>	<b>Business Case (2016)</b>	<b>Financing Strategy (2019)</b>	<b>Total (Close Out)</b>	<b>Difference (2019 vs Close Out)</b>	<b>% Share</b>
Federal Grants	\$206	\$211	\$206	(\$5)	27%
Provincial Grants	248	248	248	-	32%
CRD Portion	311	306	321	15	41%
<b>Total</b>	<b>\$765</b>	<b>\$765</b>	<b>\$775</b>	<b>\$10M</b>	<b>100%</b>

Funding from provincial and federal governments totaling \$454 million have been received and were used to repay short term construction financing utilized during the project.

Federal grants were received throughout the Project as planned and aided in project cashflow. The amounts received are lower than plan by \$5M in relation to the Public Private Partnership (P3) Canada funding agreement. Upon final claim submission, a portion of project costs were deemed ineligible.

Provincial grants were anticipated to be received in two payments with a significant portion retained until substantial completion. The first disbursement of \$62M was received on December 11, 2019. In 2020, staff worked with the Province of BC to amend the funding agreement to receive additional funds sooner than initially agreed upon. As a result, an amendment was approved, and the project received \$124M on March 30, 2020. This was a year earlier than forecast, resulting in an estimated short-term interest expense savings of \$3M dollars. The final \$62M of provincial funding was received on October 26, 2021.

The CRD share of \$321M has been funded from a variety of sources as planned in the approved project financing strategy. Table 2 below lists total funding by funding source forecast to closeout, and compares the total funding at closeout to original business case (2016) and the financing strategy (2019).

**Table 2: Actual Vs. Plan Wastewater Treatment Project Funding – CRD Portion (\$ Millions)**

<b>Funding Sources</b>	<b>Business Case (2016)</b>	<b>Financing Strategy (2019)</b>	<b>Total (Close Out)</b>	<b>Difference (2019 vs Close)</b>
Requisition	\$311	\$136	\$153	\$17
Future Requisition RTF (Present Value)		63	63	-
FCM Loan		20	20	-
FCM Grant		3	3	-
Debt		84	81	(3)
Interest Income			2	2
<b>Total</b>	<b>\$311</b>	<b>\$306</b>	<b>\$321</b>	<b>\$15</b>

The difference from the 2019 financing strategy is due to the increase in the total Project cost and the shortfall of \$5M from federal grants; however, as previously noted, \$6.3M remains in the program reserve.

**Performance**

The financing strategy framework was established for the Project to optimize partner grants and participant funding. This was to be accomplished by minimizing interest expense during construction and to deliver the most cost-effective financing structure.

As a result of timing of early grant payments, early issuances of long-term debt along with active investment and short term debt management, the financing strategy succeeded in optimizing cashflow while also locking in at low interest rates. As a result, the CRD was able to contribute higher cash on hand and interest earned to fund construction. This resulted in less debt required than planned and cash funding available to cover the \$10M increase in project budget.

With respect to each of the above, below are the analysis of the performance of the strategy by funding source:

Requisition Capacity

The annual requisition/invoicing amounts were received as expected, as outlined in the original financing strategy, with \$155M received over the course of 2013 to 2020. The cumulative transfer to capital was \$153M. The method of gradually increasing requisition throughout the course of the Project was successful and resulted in a significant cash contribution to capital and seamless transition into funding of the operating service upon commencement in 2021.

Residuals Treatment Facility – Future Capital Contributions

The RTF cost accounts for approximately \$127M of the \$775M total project cost. At service commencement, 50% of the \$127M RTF cost was paid (\$63M), while the remaining 50% (\$63M

present value) will be paid over 20 years through requisition. The payment schedule was set by the P3 proponents, through negotiation with the project team. This is in line with the strategy to fund through requisition as opposed to using debt servicing for this component.

#### FCM loan and grant

Through the Federation of Canadian Municipalities (FCM) Green Municipal Fund (GMF), on June 30, 2021, the CRD entered a \$20M loan agreement and received a \$3M grant (15% of the loan value) for construction of the first-ever tertiary wastewater treatment plant for Vancouver Island, the final holdback of \$0.25M was received March 31, 2022. The grant funding provided with this loan effectively reduced the borrowing costs over the 10-year term to a lower overall effective rate when compared to loans issued at the same time by the Municipal Finance Authority.

#### Debt

Throughout the Project term, issuances of long-term debt were: \$6M in 2013; \$15M in 2018; \$60M in 2019. The total amount of long-term debt in relation to the project is \$81M. The timing of these debt issuances allowed for the CRD to effectively capitalize on low interest rates by locking into long-term debt early, by issuing a large amount of debt—\$60M—a lower long-term rate was locked in than if the short-term borrowings had not been paid off until final completion. All debt issued is to be paid as planned by 2032.

#### Interest

Interest rates generally have significant impacts on financing capital projects. Short-term rates impact the capital project budget via interim financing, while long-term rates impact the operating budget with debt servicing costs and repayment terms. Concurrently, throughout the construction of the Project, the early receipt of funding resulted in interest earnings of \$4M, which were used to offset short-term financing costs as they were incurred. As a result of active investment of capital fund balances and early issuances of long-term debt, the capital fund interest earned surplus of approximately \$2M, net of short-term interest expense. The surplus interest income offset the funding the shortfall in federal grant revenue.

### **CONCLUSION**

The Capital Regional District is in the closure phase of the Core Area Wastewater Treatment Project. In 2019, a strategy was designed to lower overall costs of financing throughout the Project using a combination of funding, including debt during construction. An evaluation of the financing strategy performance shows the CRD was able to leverage market conditions, mitigate risk of interest rate fluctuation, minimize short-term financing expenses, meet cash flow requirements, and optimize the lowest cost financing structure to its participants. The total forecast cost to final completion is \$775 million. Remaining funding will be used to pay out final commitments and transferred to the capital reserve.

### **RECOMMENDATION**

There is no recommendation. This report is for information only.

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**ATTACHMENT(S)**

Appendix A: Report to the Capital Regional District Board (Jan 9, 2019) Wastewater Treatment Project (WTP) Financing Strategy

Appendix B: Project Completion Report May 2016 – May 2021