



THE CORPORATION OF THE CITY OF COURTENAY

STAFF REPORT

To: Council

File No.: 1760-02

From: Chief Administrative Officer

Date: January 25, 2023

Subject: Sewer Infrastructure Projects 2023 Loan Authorization Bylaw No. 3093, 2023.

PURPOSE:

To begin the borrowing process to secure funding for the construction of the 1st Street Lift station as identified in the 2022-2026 Financial Plan.

POLICY ANALYSIS:

Council adopted *The 2022-2026 Consolidated Financial Plan Bylaw No. 3060, 2022*, on April 25th 2022. The 2022-2026 Financial plan contains the 1st street lift station capital project within the Sewer Function which is partially funded through debt. Section 179 of the *Community Charter* provides Council with the authority to incur a liability (loan) by borrowing funds for any capital nature. Section 180 of the *Community Charter* requires elector approval of a loan authorization bylaw before it can be adopted and the City can access the funds.

EXECUTIVE SUMMARY:

The existing 1st Street Lift Station is at the end of its service life and is operating over capacity and scheduled to be replaced in 2023. This report seeks authorization to access long term debt to provide funding for the project. Elector approval is required to support loan authorization bylaw approval process.

CAO RECOMMENDATIONS:

THAT Council give first, second and third reading Sewer Infrastructure Projects 2023 Loan Authorization Bylaw No. 3093, 2023,

And

That Council direct staff to proceed with the alternative approval process (AAP) to gain electorate approval for Sewer Infrastructure Projects 2023 Loan Authorization Bylaw No. 3093, 2023.

Geoff Garbutt, M.P.I., MCIP, RPP
City Manager (CAO)

BACKGROUND:

The existing 1st Street Lift Station is at the end of its service life and is operating over capacity. This planned upgrade is vital to protect public health and the environment as well as promote resilience to climate change. Upgrading the 1st Street Lift Station is one of the ways the City of Courtenay proactively plans and invests in our natural and built environment.

Construction is planned for late 2023 or early 2024, and the statutory borrowing process is estimated to take upwards of eight months, so beginning this process now is prudent.

The City has submitted an application for grant funding for this project through the Investing in Canada Infrastructure Program – Environmental Quality. This grant would fund approximately 73% of the estimated construction costs. If successful, the grant would cover approximately \$1.9M leaving the City to fund the remaining costs and any potential overruns. Although the City's grant application is considered strong, the grant funding is not guaranteed and therefore the City is taking steps to ensure adequate funding is in place for the project to proceed with or without grant funding.

DISCUSSION:

Borrowing Process:

Section 179 of the *Community Charter* provides Council with the authority to incur a liability by borrowing funds for any purpose of a capital nature. The local government borrowing process is highly regulated and closely monitored by the Province. All loan authorization bylaws must be approved by the Inspector of Municipalities and approval of the electors is required before adoption of the bylaw. In addition, sections 623 and 760 of the *Local Government Act* require a one-month quashing period after approval of the electors has been received, where an application can be made to the Supreme Court to set aside the loan authorization bylaw before final approval will be provided by the Inspector of Municipalities.

Finally, Section 182 of the *Community Charter* restricts local governments to financing long term debt with their local regional district through the Municipal Finance Authority of British Columbia (MFA). Once a certificate of approval has been received by the Inspector of Municipalities, Council must then pass a Municipal Security Issuing Resolution and forward it to the Comox Valley Regional District to be included in the next Regional District Security Issuing Bylaw that will go through further adoption at the regional level.

The borrowing process can take several months to complete; therefore, it is recommended to begin the process early to ensure appropriate approvals are in place before significant project spending occurs. Appendix 1 is a flowchart provided by the Municipal Finance Authority outlines the steps involved for a loan authorization bylaw:

Elector Approval:

Section 180 of the *Community Charter* requires elector approval of a loan authorization bylaw before it can be adopted. There are two options available to gain elector approval.

Alternative Approval Process (AAP)

An AAP requires that ten percent or more of the eligible electors submit response forms in opposition to the proposed question (loan authorization bylaw) to the City to deny electoral approval of the question. The response period must be at least 30 days long. If ten percent of the electors submit responses in opposition to the AAP, the AAP fails and then there are two options; proceed to referendum within eighty days, or the loan authorization bylaw is be put on hold and alternatives are considered. If ten percent or fewer electors oppose within the period then the question is deemed to be accepted by the electorate. In the case of the loan authorization bylaw, the electorate agree with borrowing funds for the project.

The estimated cost of holding an AAP is about \$4,000 which mostly consists of advertising.

Referendum

A referendum involves asking electors to cast their vote in relation to a question (loan authorization bylaw). Assent of the electors is achieved if a majority of votes counted are in favour of proceeding with the bylaw. If elector assent is not granted the loan authorization bylaw cannot be adopted by Council and will not be approved by the Ministry of Municipal Affairs.

The estimated cost of holding a referendum mirrors the cost of holding an election and the 2022 election cost was about \$90,000. A referendum follows the same guidelines, rules and requirements as a municipal election.

A referendum is much costlier and time consuming than an AAP along with the relatively low value and public interest to date the AAP process for this loan authorization bylaw is recommended.

FINANCIAL IMPLICATIONS:

Per the 2022-2026 Financial Plan the expected total cost of the 1st Street Lift Station project is budgeted at \$3,008,500 for 2023. Funding for the project is set to come from the following:

1st St Lift Station Funding	
Funding Source	Amount
General Revenue	\$ 71,200
Reserves	300,000
Reserve for future exp	137,300
Debt	2,500,000
Total	\$ 3,008,500

*General revenue are funds from current year sewer fees

*Reserve draws come from the sewer capital reserve

*Reserve for future expenditures represent budgeted general revenue from the prior year not spent and carried forward for use in current or future years.

Although not included as a funding source the City has applied for grant funding for this project through the Investing in Canada Infrastructure Program – Environmental Quality. This grant would fund approximately 73% of the estimated project costs. If successful, the grant would cover approximately \$1.9M leaving the City to fund the remaining costs and any potential overruns. Although the application is

strong there is a risk of not being approved, therefore the City would need to proceed to borrowing to fund the project. If the grant is successful the City would simply use less of the authorized debt, reserves or combination of both to fund the project.

The annual debt servicing costs are expected to be \$191,155 made up of \$86,155 principal payment and \$105,000 interest, this is based on a 20 year loan amortization period at a rate of 4.20%.

Although projected debt servicing costs have already been incorporated into 2023 and beyond sewer fees the impact of debt represents a 2.9% increase or \$11.90 to sewer user fees.

The Province regulates how much debt a municipality can carry. The total annual debt servicing costs cannot exceed 25% of the previous year's revenue and is known as the Liability Servicing Limit. The City's current liability servicing limit is calculated at \$13,577,480 for 2021, since figures are not yet available for 2022 as yearend is just underway we can rely on 2021 figures for our debt servicing calculation. 2021 liability servicing limit utilization was 11.2%, current year utilization with new debt, less expiring debt will increase to 12.4% which is still a reasonable amount.

The City's debt utilization ranked against other BC municipalities would move us up from 74th position to 64th position out of 153 BC municipalities that have debt utilization statistics as gathered by BC Statistics.

The following table compares other local municipalities debt servicing capacity utilization

Debt Capacity Utilization 2021	
Comox	0.7%
Campbell River	6.9%
Parksville	7.0%
Nanaimo	11.6%
Qualicum	12.0%
Courtenay	12.4%
Powell River	27.2%
Cumberland	33.5%

Total expected debt outstanding as of December 31, 2023 is \$12,919,070.

Total debt	
December 31, 2021	13,423,364
Principal payments	(1,542,812)
December 31, 2022	11,880,552
1st St lift station	2,500,000
Principal payments	(1,461,482)
December 31, 2023	12,919,070 *
*projected	

Although the City is taking on more debt the debt capacity utilization is still at the reasonable level and the total projected debt is not unreasonable.

ADMINISTRATIVE IMPLICATIONS:

Once Council gives first three readings to the proposed borrowing bylaw the bylaw and liability servicing limit certificate are sent to the inspector of municipalities for approval. Once approval is received the AAP process can commence.

ASSET MANAGEMENT IMPLICATIONS:

Courtenay practices asset management principles. Within this context, the upgraded 1st Street Lift Station would be one of the City's assets. On-going maintenance would be periodically required to maintain the asset at its intended level of service.

STRATEGIC PRIORITIES REFERENCE:

We focus on organizational and governance excellence

- Communicate appropriately with our community in all decisions we make
- Responsibly provide services at levels which the people we serve are willing to pay

We proactively plan and invest in our natural and built environment

- Focus on asset management for sustainable service delivery

● **AREA OF CONTROL:** The policy, works and programming matters that fall within Council's jurisdictional authority to act

▲ **AREA OF INFLUENCE:** Matters that fall within shared or agreed jurisdiction between Council and another government or party

■ **AREA OF CONCERN:** Matters of interest that are outside Council's jurisdictional authority to act

OFFICIAL COMMUNITY PLAN REFERENCE:

Municipal Infrastructure

OBJECTIVES:

1. Infrastructure and services are resilient to risks and impacts of climate change
2. Infrastructure investments are guided by a multiple bottom line decision-making approach: this means energy efficient, fiscally responsible, equitably distributed, sustainable levels of service that protect public health, safety, and the environment
3. Natural and engineered forms of green infrastructure are integrated to manage rainwater resources, protect water and air quality, maintain ecosystem function, provide flood control, and address and adapt to climate impacts

4. Solid waste, potable water, sanitary sewer and rain and storm water infrastructure life-cycle costs are minimized by increasing conservation actions and reducing the need to develop new infrastructure capacity

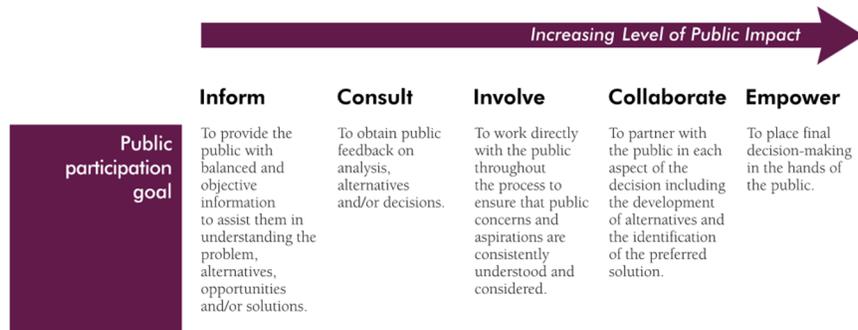
5. Third party utility providers such as energy and communications utilities are low carbon and reliable

REGIONAL GROWTH STRATEGY REFERENCE:

These sewer projects provide the public with infrastructure that addresses public health needs and concerns and provides equal service to all residents within the municipality and region (per Comox Valley Regional Growth Strategy Bylaw No. 120, 2010, Part 3.2.5, Objective 5-D Page 56).

CITIZEN/PUBLIC ENGAGEMENT:

Section 180 of the *Community Charter* requires that a council gain approval of the electors before a loan authorization bylaw can be adopted. The City will **empower** the public based on the IAP2 Spectrum of Public Participation:



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OPTIONS:

1. THAT Council give first, second and third reading to Sewer Infrastructure Projects 2023 Loan Authorization Bylaw No. 3093, 2023,

And

That Council direct staff to proceed with the alternative approval process (AAP) to gain electorate approval for Sewer Infrastructure Projects 2023 Loan Authorization Bylaw No. 3093, 2023.

2. Provide alternate direction to staff

Prepared by,

Adam Langenmaier

Adam Langenmaier, BBA, CPA, CA
Director of Financial Services

Reviewed by:

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Chris Davidson, P.Eng, PMP
Director of Engineering Services

Concurrence by,

A handwritten signature in black ink, appearing to read 'G. Garbutt', written in a cursive style.

Geoff Garbutt, M.Pl., MCIP, RPP
City Manager (CAO)

Appendixes

1 – Municipal Finance Authority Borrowing Flowchart

Loan Authorization Bylaw Procedures

