



THE CORPORATION OF THE CITY OF COURTENAY

STAFF REPORT

To: Council

File No.: 1760-02

From: City Manager (CAO)

Date: April 26, 2023

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

PURPOSE:

To continue the borrowing process to secure funding for the construction of the 1st Street Lift station.

EXECUTIVE SUMMARY:

Staff is seeking approval to proceed with the loan authorization bylaw without preceding with the alternative approval process (AAP) as the proposed annual debt servicing costs fall within the approval-free zone and does not require electorate approval.

BACKGROUND:

The existing 1st Street Lift Station is at the end of its service life, is operating over capacity and is scheduled to be replaced in 2023. This report seeks authorization to access long term debt to provide funding for the project. Council gave direction at the January 25, 2023 Council meeting to seek elector approval as required by the *Community Charter 180(2)* to seek support for the loan authorization bylaw. However; the Provincial Inspector of Municipalities indicated that the City of Courtenay is within the assent free zone and does not require elector approval to adopt this loan authorization bylaw.

DISCUSSION:

The Inspector of Municipalities informed the City that the City's liability servicing limit is within the approval-free zone and therefore the City has the option to adopt the loan authorization bylaw without seeking electorate approval. The approval free zone is equivalent to 5% of City's prior year own source revenue (property taxes and fees) which has been calculated at \$2,715,495. The estimated annual debt servicing cost including the proposed loan is \$1,681,166 which is well within the approval free zone.

Staff is seeking direction to proceed with the loan authorization bylaw without proceeding with the AAP as the proposed annual debt servicing costs fall within the approval-free zone and do not require electorate approval.

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. The 1st Street lift station project is also found in the 2023-2027 financial plan.

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 with 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 consisting 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 year-end is 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%

The 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 a reasonable level.

ADMINISTRATIVE IMPLICATIONS:

Once the City receives approval of the Inspector of Municipalities the loan authorization bylaw can be adopted. Staff will then work through the completion of the borrowing process. Once the process is complete staff will return with a temporary borrowing bylaw to allow access to funds during construction. Once the project is complete staff will recommend an amount of borrowing to be locked in and transferred to long term debt through the MFA’s spring or fall debt issue. This method will ensure the City carries the required amount of debt to complete the project.

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

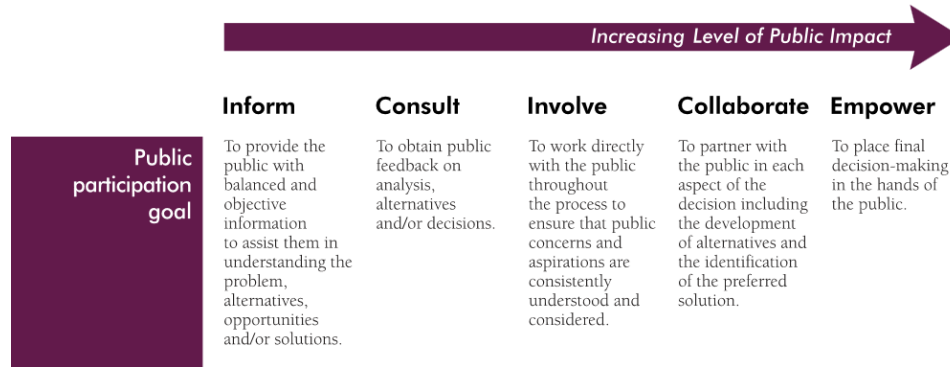
- Focus on asset management for sustainable service delivery

● **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

PUBLIC ENGAGEMENT:

Staff would inform the public based on the IAP2 Spectrum of Public Participation:



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OPTIONS:

1. THAT Council proceed with adoption of Sewer Infrastructure Projects 2023 Loan Authorization Bylaw No. 3093 2023 through the Assent Free Zone Community Charter section 180(2) rather than an Alternative Approval Process.
2. THAT Council provide alternative direction to staff.

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