



THE CORPORATION OF THE CITY OF COURTENAY

## STAFF REPORT

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**To:** Council

**File No.:** 1760-02

**From:** City Manager (CAO)

**Date:** November 22, 2023

**Subject:** Puntledge Sanitary Catchment Replacement budget amendment and Loan Authorization Bylaw

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### **PURPOSE:**

To seek Puntledge Sanitary Catchment Replacement project capital budget increase and to begin the borrowing process to secure funding for the construction of the Puntledge Sanitary Catchment Replacement project.

### **EXECUTIVE SUMMARY:**

The Puntledge Sanitary Catchment Replacement project costs have risen substantially and require a budget amendment to proceed. In conjunction with the increased project cost, the borrowing to fund the project must also be increased. Finally, due to the funding and timing of the project, the borrowing process must be commenced promptly to ensure adequate funds are on hand to pay for the project.

### **BACKGROUND:**

The existing Puntledge Sanitary river crossing is at the end of its service life and presents a potential environmental and public health risk. This planned upgrade is vital to protect public health and the environment as well as promote resilience to climate change. Upgrading the Puntledge Sanitary catchment is one of the ways the City of Courtenay proactively plans and invests in our natural and built environment.

The cost estimate for 2024 construction that was submitted as part of the 2023 financial planning process was estimated to be approximately \$2.53M. Unfortunately, the construction cost estimate has increased to approximately \$3.41M. There are two main drivers for this. The first is the recent change in environmental regulations around contaminated soils, and how this impacts the handling of naturally occurring Arsenic, which is prolific in this area. The second major budget driver is contingency to switch the 5th St road works (in front of Lewis Center) to, night work, should we end up in conflict with the CVRD's Conveyance project. The project team is cognizant of the impacts this may have on traffic in the valley. Although staff continue to work hard to minimize costs associated with these two budget drivers, given the importance and impacts of this project it is critical to ensure adequate budget is in place to deliver the project.

Due to limitations in the sewer reserves, the City is recommending to borrow at a higher level than the construction cost estimate, to allow flexibility should the actual costs come in higher. As such the City is proposing to increase total project budget approval by approximately 17% to \$4.0M, with \$3.5M coming from debt, and \$500K coming from sewer reserve. It is anticipated that this extra borrowing will not be needed, however considering the challenging construction market in recent years, it would be prudent to have available. Should this higher level of available debt not be needed to fund the project, there is no requirement for the City to take on the debt that will not be used.

### **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 that 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. The two options available to gain elector approval are through referendum or the alternative approval process. However, the City has the option to use the approval-free zone that does not require electoral approval per section Part 2 Section 7 of the Municipal Liabilities Regulation. The approval-free zone is for municipalities with annual debt servicing costs below 5% of the annual calculation revenue.

The City currently has consumed 59% of its approval-free limit and the proposed new debt servicing costs would increase this to 67% of its approval-free limit. There is approximately \$970,000 of annual debt servicing within the approval-free limit and therefore the City is safely within the approval-free limit.

### **POLICY ANALYSIS:**

Council adopted the 2023-2027 Consolidated Financial Plan Bylaw No. 3096, 2023, on April 26th 2023. The 2023-2027 Financial plan contains the Puntledge Sanitary Catchment Replacement 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.

### **FINANCIAL IMPLICATIONS:**

Per the 2023-2027 Financial Plan the expected total cost of the Puntledge Sanitary Catchment Replacement project is budgeted at \$2.53M for 2024 however this has now increased to \$4M. The original debt contributed \$2M to the project while the new projection requires \$3.5M in debt. Funding for the project is set to come from the following:

**Table 1**

<b>Puntledge Sanitary Catchment Replacement</b>	
<b>Funding Source</b>	<b>Amount</b>
Reserves	\$ 500,000
Debt	3,500,000
<b>Total</b>	<b>\$ 4,000,000</b>

The annual debt servicing costs are expected to be \$229,748 made up of \$65,598 principal payment and \$164,150 interest, this is based on a 30-year loan amortization period at a rate of 4.69%. A thirty-year amortization period is identified in the report and liability servicing limit calculation to reduce the annual debt servicing cost. The City is not tied to the 30-year amortization period and Council will have the opportunity to change the amortization period when authorizing the borrowing request to the MFA. If the project ends up coming in under budget, staff will analyse the impact of reducing the amortization period to reduce the total interest paid over the life time of the loan. Further consideration will be given to available reserve balances that could be drawn on to further reduce the overall borrowing required once the project has completed and the final cost is known.

The debt servicing cost for the original \$2M in debt was \$131,285, the debt servicing cost for \$3.5M is expected to be \$229,748 which represents a \$98,463 increase. The increase in debt servicing will be paid through 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 \$14,718,465 for 2023. Assuming a 4.49% interest rate and 30 year amortization period this means the City has the capacity to borrow an additional \$200,560,218 on top of the existing \$10,872,288 of existing debt at the end of 2023. It is not recommended that the City take on this amount of debt, this figure illustrates the total borrowing capacity. Table 2 outlines the liability servicing limit and change from new debt in 2023.

**Table 2**

<b>Liability Servicing Impact</b>	<b>Dollar Value</b>	<b>Percent</b>	<b>Notes</b>
Liability servicing limit	\$ 14,718,465	100.0%	1
Existing debt payments	1,589,356	10.8%	2
Expiring debt payments	(36,116)	-0.2%	3
Existing liability servicing limit	\$ 13,165,224	89.4%	4
<b>New debt payments</b>			
1st St. lift station	\$ 191,155	1.3%	5
Puntledge catchment	229,748	1.6%	6
Total new debt payments	\$ 420,903	2.9%	
New total debt servicing cost	\$ 1,974,143	13.4%	7
Available liability servicing limit	\$ 12,744,321	86.6%	8

Notes:

- 1) Total liability servicing limit for 2023
- 2) Existing debt payments from prior years
- 3) Expiring debt payments in 2023
- 4) Total available liability servicing capacity prior to new debt in 2023

- 5) 1st street lift station project authorized loan – no borrowing taken out to date but must still include maximum debt servicing costs for the liability servicing limit calculation
- 6) New debt servicing costs for Puntledge catchment replacement project
- 7) New total debt servicing costs including prior year debt, expired debt and new debt.
- 8) Remaining available liability servicing limit

The 2023 liability servicing limit utilization was 10.8%, current year utilization with new debt, less expiring debt will increase the liability servicing limit utilization to 13.4% which is a reasonable amount.

The City’s debt utilization ranked against other BC municipalities would move us to 78th position from 87th position out of 153 BC municipalities that have debt utilization statistics as gathered by BC Statistics. This means there are 77 municipalities in BC that utilized more of their liability servicing limit and therefor have more proportional debt on the books.

Table 3 compares other local municipalities debt servicing capacity utilization

**Table 3**

<b>Debt Servicing Utilization</b>	
Squamish	55.9%
Cumberland	55.7%
Powell River	30.4%
Salmon Arm	29.9%
Port Alberni	13.7%
Naniamo	13.5%
Courtenay	13.4%
Campbell River	6.4%
Parksville	5.8%
Comox	0.7%

The total expected outstanding debt at the end of 2023 is \$10,872,288 however we must take into consideration debt that has been authorized but not yet taken out. The 1st street lift station and the Puntledge catchment projects will have been authorized but the projects have not yet proceeded so no borrowing has been completed to date. Table 4 outlines the over existing and authorized debt for the City including the Puntledge catchment project debt.

**Table 4**

<b>Total Existing and Authorized</b>	
Existing debt at Dec 31, 2022	\$ 11,880,552
Principal payments 2023	(1,008,264)
Existing debt at Dec 31, 2023	\$ 10,872,288
Authorized but not taken	
1st St Lift Station	\$ 2,500,000
Puntledge Catchment	3,500,000
	<b>\$ 6,000,000</b>
 Total existing and authorized debt	 \$ 16,872,288

The total existing and authorized debt the City would be carrying, if both the 1st street lift station and Puntledge catchment project utilize 100% of the authorized debt, would be \$16,872,288. Although the City

is taking on more debt for capital projects the debt capacity utilization is still at a reasonable level and the total projected debt is reasonable.

**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 the approval is given then Council can adopt the loan authorization bylaw and move to adopt a temporary borrowing bylaw to allow the City to access funds.

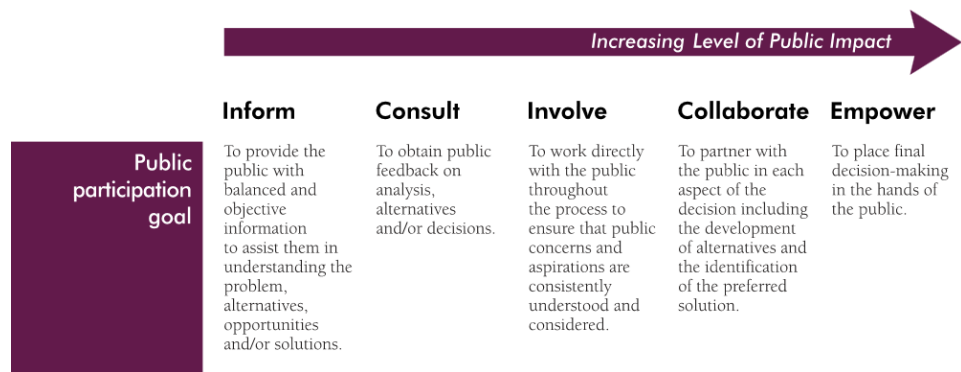
**STRATEGIC PRIORITIES REFERENCE:**

This initiative addresses the following cardinal direction:

COURTENAY WILL BE RESPONSIBLE FOR THE FUTURE by being more thoughtful, strategic, and efficient in all resources that we use whether it be land, energy, or public infrastructure, to ensure that actions deliver on multiple goals of fiscal responsibility, economic resilience, social equity, and ecological health.

**PUBLIC ENGAGEMENT:**

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



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**OPTIONS:**

1. THAT Council increase the Puntledge Sanitary Catchment Replacement project budget to \$4,000,000 funded from \$3,500,000 in debt and \$500,000 from Sewer Asset Management Reserves.  
AND  
THAT Council give first, second and third readings to "Puntledge Sanitary Catchment Replacement Loan Authorization Bylaw No. 3067, 2024".  
AND  
THAT Council proceed with adoption of "Puntledge Sanitary Catchment Replacement Loan Authorization Bylaw No. 3067, 2024" through the Approval-Free Liability Zone granted by the *Municipal Liabilities Regulation section 7*.
2. THAT Council provide alternative direction to staff.

**ATTACHMENTS:**

1. Municipal Finance Authority Borrowing Flowchart
2. Puntledge Sanitary Catchment Replacement Loan Authorization Bylaw No. 3067, 2024

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