

**REPORT TO SKANA WATER SERVICE COMMITTEE
MEETING OF FRIDAY, JUNE 13, 2025**

SUBJECT **Capital Projects Requiring Funding - Potential Funding Options and Cost Implications**

ISSUE SUMMARY

The Skana Water Service Committee has requested that staff prepare a staff report outlining the proposed path forward to carry out water system improvements in future years, the amount of borrowing required through a loan authorization bylaw and options for obtaining elector approval for the loan (petition or alternative approval process).

BACKGROUND

The Skana Water System is located on the north side of Mayne Island in the Southern Gulf Islands Electoral Area and provides drinking water to approximately 53 customers. There are 73 parcels within the Skana Water System. Capital Regional District (CRD) Infrastructure and Water Services is responsible for the system's overall operation, maintenance, design, and construction.

There are currently three major capital improvement projects on the Skana Water System Capital Plan that reserve funds are insufficient to carry out. The three projects are the Water Storage Tank Replacement, source water surveillance and Well #8 upgrades. The project budgets and scopes are noted in Table 1.

Table 1: Capital Projects requiring Debt Funding

Project #	Capital Project Title	Budget	Scope
18-01	Storage Tank Replacement	\$940,000	Replacement of existing water storage tanks.
17-04	Well #8 Upgrade	\$25,000	Addition of remote monitoring and control of the site.
24-01	Source Water Surveillance	\$35,000	Well surveillance and monitoring to record and predict water issues with primary focus on Well#13.
Subtotal =		\$1,000,000	
Project Management (+/-10%) =		\$100,000	
Total =		\$1.1M	

These capital improvement projects are required to support future years of water service. The total budget required to complete these projects is \$1,100,000. In the absence of grant funding, debt funding (borrowing) will be required in order to proceed with the capital improvements. It would be expected that authorization would be for total debt funding and specific budget allocation on a project specific basis would be adjustable through the annual capital planning process.

A loan authorization bylaw is required to borrow funds to complete the works. Under the *Local Government Act*, participating area approval is required prior to adopting a loan authorization.

Approval may be obtained for a service in an electoral area in one of three methods: by petition, by alternative approval process (AAP), or assent voting (referendum). A matrix outlining these three unique processes and the benefits and challenges of each is attached as Appendix A.

ALTERNATIVES

Alternative 1

1. That the petition process be initiated to borrow up to \$1,100,000 over 25 years debt term to complete the capital improvement projects.
2. If the petition process is successful, that a loan authorization bylaw be advanced to the Electoral Areas Committee and Capital Regional District Board for readings and adoption; and
3. That staff complete the remaining steps required to secure the funds and begin the projects.

Alternative 2

1. That the alternative approval process (AAP) be selected as the method for obtaining participating area approval to borrow up to \$1,100,000 over 25 years debt term to complete the capital improvement projects.
2. That a loan authorization bylaw be advanced to the Electoral Areas Committee and Capital Regional District Board for up to three readings and be referred to the Inspector of Municipalities for approval prior to conducting an AAP process.
3. If the AAP process is successful, that staff complete the remaining steps required to secure the funds and begin the projects.

Alternative 3

1. Defer the capital improvement projects and continue to operate the system as is; and
2. Keep the capital improvement projects within the 5-year capital plan and apply for eligible grants to fund the replacements.

Alternative 4

That this report be referred back to staff for additional information.

IMPLICATIONS

Elector Approval of Loan Authorization Bylaw

Elector approval may be secured through a petition if the owners representing at least 50% of the parcels in the service area, that in total must represent at least 50% of the assessed value of land and improvements, submit signed forms supporting the proposal to borrow funds. The petition process is the least costly and most efficient approval process and typically takes up to 4 months; however, if less than 50% support it, assent voting (referendum) will be required prior to borrowing the funds.

Elector approval is obtained from an alternative approval process (AAP) when less than 10% of estimated eligible electors in the participating area oppose the proposed borrowing unless an assent voting (referendum) is held. The estimate of eligible electors will include the count of non-resident property owners and tenants residing in the service area as provided from Elections BC voters list. If less than 10% respond in opposition, then no further assent is required.

If 10% or more oppose then an assent vote or referendum is required, which can cost upwards of

\$70,000 and must be held within 80 days of the AAP deadline date.

Staff recommend proceeding with a petition process to obtain elector approval for borrowing in local water service areas due to following reasons:

1. **Efficiency:** The petition process can be quicker and more straightforward, often taking up to 4 months, compared to the AAP, which can take up to 7 months.
2. **Cost-Effective:** The petition process generally involves fewer administrative costs. It doesn't require public notices or advertising, which can save money.
3. **Clear Support:** The petition process directly measures support from property owners, who are often the most affected by the proposed changes. This can provide a clearer indication of genuine support.
4. **Less Risk of Failure:** The petition process requires a majority of property owners to show support, which can be easier to achieve than avoiding a 10% opposition threshold in the AAP.
5. **Simplicity:** The petition process is simpler, with one vote per property, making it easier to manage and understand.
6. **Direct Engagement:** It allows for direct engagement with property owners, potentially leading to more informed and committed support. As part of this process, the CRD recommends a public open house to educate the property owners about the projects and garner support.

Implementation of Petition Process

The steps required to obtain elector approval via the petition are outlined below:

- Confirm Committee approval for a petition process to obtain elector approval.
- Complete and send petition letter addressed to each owner(s) of the parcel/folio within the participating area (draft petition attached as Appendix B)
- Advertise the petition within the Skana Water System (direct mail, local newspapers, notice boards and website).
- Host a public open house to share information and gather signatures (not required but recommended).
- Determine results of the petition following the deadline of August 29, 2025 (the petition is at least a 30-day period from date petition letters are sent to each owner).
- If a 50% approval threshold is exceeded, present the loan authorization bylaw to the Electoral Areas Committee and CRD Board with a recommendation to introduce and provide up to three readings.
- Send the loan authorization bylaw to the BC Inspector of Municipalities.
- Following approval by the Inspector, return the loan authorization bylaw to the CRD Board for final approval.
- Following the one-month bylaw challenging period, complete process to draw upon loan and begin projects.

Financial Implications

Long-term debt must be arranged through the Municipal Finance Authority (MFA) which offers a maximum lending term of 30 years. MFA will set a fixed interest rate for an initial term, generally 10 years, and subsequently refinance the loan, typically in five-year increments.

The loan amortization bylaw will define the maximum debt term; however, the length of the initial fixed term and the subsequent refinancing terms are at the sole discretion of the MFA.

For analytical purposes only, four different amortization term scenarios are simulated in Table 2. The cost of borrowing is the total of the estimated principal and interest payments over the borrowing term. The information in Table 2 is a high-level estimation only based on the indicative interest rates published by MFA at the time of this staff report. The actual cost of borrowing will be dependent on the loan amount, actual interest rates at the time of borrowing and refinancing, and the amortization term selected.

Table 2: Skana Water System Debt Servicing Costs - Simulation

Borrowing Amount	\$ 1,100,000			
Borrowing term (years)	15	20	25	30
Indicative Interest Rate*	4.48%	4.74%	4.74%	4.74%
Cost of Borrowing \$	\$1,600,644	\$1,816,755	\$2,004,853	\$2,198,212
Annual Debt Payment \$	\$106,710	\$90,838	\$80,194	\$73,274
Annual Parcel Tax per taxable folio \$ **	\$1,462	\$1,244	\$1,099	\$1,004

*MFA Indicative Market Rates used for analysis, taken from MFA Website, May 28, 2025.

** Calculated parcel tax assuming no change in total folios, set at 2025 level of 73 folios.

CRD staff consider multiple guidelines with respect to amortization term, including estimated useful life of the infrastructure, the impact of the annual debt payment requirement, the total cost of borrowing over debt term, and the interest rate risk. A longer amortization term will minimize the annual debt payments, but it results in higher total cost of borrowing and higher interest rate risk exposure. Although a debt term of 15 years has the lowest total borrowing costs, a 25-year term is recommended in balancing the annual debt payments requirement for ratepayers, the interest rate risk and the useful life of the capital assets.

Staff will continue pursuing grant opportunities if any become available. Approved Loan Authorization Bylaw will increase the grant success as often the grant programs require cost sharing by demonstrating the local share is committed and secured. The required actual borrowing amount will be reduced if future grant is awarded.

Service Delivery Implications

Completing the approval process and borrowing funds sooner will minimize service disruptions caused by water quality issues, continued tank leakage and other issues related to aging infrastructure. The likelihood of disruptions will continue to increase until a solution is implemented.

The sooner the projects are complete, the lower the risk of emergency repairs and system disruptions. Higher operational costs to maintain the existing infrastructure requiring upgrades will be incurred until funding is attained to complete the projects or failure occurs. If the infrastructure is left to fail, emergency replacement costs will likely be significantly higher than any planned replacement costs.

CONCLUSION

Multiple capital improvements are needed to upgrade the Skana Water System. With insufficient reserve funds, debt funding and a loan authorization bylaw are required to borrow the necessary estimated \$1,100,000. Under the *Local Government Act*, participating area approval is required for the loan authorization. A petition process is recommended over an AAP to seek approval, as it is more efficient, cost-effective, and better represents parcel owners' feedback.

RECOMMENDATION

1. That the petition process be initiated to borrow up to \$1,100,000 over 25 years debt term to complete the capital improvement projects.
2. If the petition process is successful, that a loan authorization bylaw be advanced to the Electoral Areas Committee and Capital Regional District Board for readings and adoption; and
3. That staff complete the remaining steps required to secure the funds and begin the projects.

Submitted by:	Joseph Marr, P.Eng., Senior Manager, Infrastructure Planning and Engineering
Concurrence:	Alicia Fraser, P.Eng., General Manager, Infrastructure and Water Services
Concurrence:	Kristen Morley, JD, General Manager, Corporate Services
Concurrence:	Varinia Somosan, CPA, CGA, Deputy CFO and Senior Manager of Financial Services

ATTACHMENT(S)

Appendix A: Matrix of Elector Approval Processes

Appendix B: Draft Letter & Petition for the Skana Water System Borrowing