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**REPORT TO REGIONAL WATER SUPPLY COMMISSION
MEETING OF WEDNESDAY, JUNE 16, 2021**

SUBJECT **Options & Implications of Developing a Reserve Fund for Greater Victoria Water Supply Area Land Acquisition**

ISSUE SUMMARY

To report on the options and implications of developing a reserve fund to support future Greater Victoria Water Supply Area (GVWSA) land acquisitions.

BACKGROUND

The Regional Water Supply Commission (Commission) approved GVWSA land acquisition priorities in March 2020 as follows:

- Priority 1: Sooke Lake Reservoir catchment lands
- Priority 2: Sooke Lake Reservoir buffer lands
- Priority 3: Goldstream Water System catchment lands
- Priority 4: Buffer lands providing primary access to the Sooke WSA and the Kapoor Tunnel
- Priority 5: Goldstream Water System buffer lands
- Priority 6: Leech River catchment lands
- Priority 7: Buffer lands containing primary access to the Leech WSA

The Commission also directed staff to take a more active approach in pursuing land acquisition.

Along with approval of the priorities, the Commission passed a motion directing staff to: *“prepare a report on options and implications of developing a reserve fund for land acquisition priorities for the Greater Victoria Water Supply Area”*.

The approved land acquisition priorities total 2,753 hectares (ha), with disposition opportunity of 963 ha, yielding a net land acquisition goal of an additional 1,790 ha.

A recent acquisition of a small GVWSA land parcel settled at \$4,500 per acre (\$11,115 per ha). Using the same selling price as an estimate to achieve all of the land acquisition priorities would cost roughly \$20 million.

Some Commission members expressed a desire to set aside reserve funds in order to pursue land acquisition goals and for the Commission to be agile in acquiring priority land parcels when opportunities arise. A review of the priorities and rough estimates of possible timing and cost are shown in Table 1 below. The costs are based on the most recent selling price but should be considered at the low end of actual future costs.

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Area Land Acquisition 2

Table 1. 20 Year Plan to Achieve All GVWSA Land Acquisition Priorities

Land Acquisition Time Frame	Approx. Area to Acquire	Land Priorities Acquired	Cost (\$ million)	Number of land parcels involved
0 - 5 year goal	700 ha	Priorities 1-3 (Sooke and Goldstream watersheds)	7.8	11
5 - 10 year goal	700 ha	Priority 4 (Buffer lands to main infrastructure/access)	7.8	3
10 – 15 year goal	200 ha	Priority 5 and 6 (Goldstream buffer, Leech catchment)	2.1	12
15 - 20 year goal	200 ha	Priority 7 (Leech buffer)	2.1	6
20 years	1,800 ha	All Priorities	\$ 20 million	32

**Acquisition could only occur with a willing land seller, which may not be the case within the proposed acquisition time frames.*

Currently, any land acquisition outlined in the existing 5 year capital plan is planned to be funded by contributions through the wholesale water rate, which includes a mix of water capital fund contributions and debt financing. If an opportunity arises to acquire land that has not been budgeted for in the current capital plan, there may not be the capital funding in place to make the purchase. However, options for purchasing land parcels when opportunities arise can include:

- Amend the capital plan to defer other current year projects, to allow for the purchase of new parcels of land within the existing capital budget;
- Amend the existing capital plan to allow the purchase of new parcels of land, and borrow funds via the existing or new loan authorization (dependent on funding authorization specifications) to fund the acquisition; or,
- Establish a reserve for land acquisition, to enable future land purchases as and when they arise, without impacting funding for other capital priorities. A capital plan amendment would still be required.

Examples of Past GVWSA Land Acquisitions

The larger portion (8,791 hectares) of the purchase of the Leech WSA lands from a private forest land holder occurred in 2007. Sixty million dollars were financed in April 2008 for a 15 year term at 4.65% interest for the first 10 years with a rate of 2.60% for the final 5 year term which ends April 2023. In the first 10 years, payments of \$5.8 million were made annually and in the last 5 years \$4.6 million per annum. An approximation of the impact on the wholesale water rate when the financing ends in 2023 is \$0.0956 per cubic metre of water.

The recent acquisition of a 58.7 ha land parcel for \$652,500 included sufficient time to allow for the purchase to be added to the capital plan as part of the regular capital budget planning, approval and financing process, and no amendments or extra financing was required.

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Water Advisory Committee Input

A similar report on the options and implications of a reserve fund for GVWSA land acquisition was brought to the Water Advisory Committee on June 3, 2021. The Committee elected to receive the report for information and to provide the Commission with the Q&A and feedback on the report:

- Q: Was the Leech WSA purchase financed? Are there barriers to obtaining financing for \$20 million going forward?
 A: Yes, the \$64 million Leech land acquisition was financed. No, financing of \$20 million is not expected to be a barrier now or in future.
- Q: Does Capital Regional District (CRD) have right of first refusal on any of the priority lands? A reserve fund could be established for any right of first refusal lands.
 A: Only on one parcel owned by Kapoor Lumber Company. [*The parcel is 155 ha and the right of first refusal was negotiated as part of the 1998 land exchange between the CRD/Province/Kapoor Lumber.*]
- Q: Does the CRD invest reserve funds, or do the funds sit without earning any interest? Funds invested now would be subject to inflation.
 A: Yes. [*Collectively across the CRD, all positive balances receive a small amount of internal interest based on investments (typically GICs).*]
- Q: Do the current low interest rates influence the decisions on whether to finance or not?
 A: Yes, staff consider the interest rate in making recommendations and decision making.
- Q: There is a discrepancy if Regional Parks has a land acquisition reserve fund but the GVWSA does not. Shouldn't the need/strategy be the same?
 A: Some differences include: Parks raises funds through requisitions; the GVWSA lands of interest are specific and fixed.
- Members of the public would support a reserve fund given the value and management of undeveloped private forest land in the region.
- The CRD could undertake multi criteria analysis or intangibles analysis, to try to bring together direct/tangible and indirect/intangible aspects to valuing land parcels to the CRD.
- The purchase of the Leech WSA should be included as a reference or example in the report to the Commission.

ALTERNATIVES

Alternative 1

That the Regional Water Supply Commission:

Not pursue the establishment of a reserve fund for Greater Victoria Water Supply Area Land Acquisition at this time, and address any land purchase opportunities through adjustments to the existing capital program and utilize existing capital funding and/or debt financing to fund the acquisition.

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Alternative 2

That the Regional Water Supply Commission:

Direct staff to pursue the establishment of a reserve fund for Greater Victoria Water Supply Area Land Acquisition, starting in the 2022 budget year, and contribute annually to the reserve through the wholesale water rate. The Commission will be able to review and approve the contribution amount each year.

Alternative 3

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

IMPLICATIONS

Financial Implications

The establishment and annual contribution of funds from the Regional Water Supply Service to a reserve fund for GVWSA land acquisition would impact the wholesale water rate (which distributes the annual cost of the contribution amongst participants based on water consumption, like all other costs of the service) as shown in Table 2. The annual contribution is not required to stay the same but could change from year to year depending on the pressures on the water rate and current land acquisition opportunities. Where land acquisition purchases cannot be fully funded from the reserve, the remainder could be funded from existing capital and/or debt financing.

Table 2. Wholesale Water Rate Impacts from Annual Contributions to a Reserve Fund

Annual Contribution	Number of Years Required to Achieve a \$ 20 million Reserve	Wholesale Water Rate Increase (\$/m³)	Wholesale Water Rate Increase (%)
\$0.5 million	40 years	\$0.0104	1.5%
\$1.0 million	20 years	\$0.0208	3 %
\$1.4 million	14 years	\$0.0292	4%
\$1.6 million	12.5 years	\$0.0333	5%

To achieve all land acquisition priorities over 20 years to the schedule suggested in Table 1, a contribution schedule of \$1.6 million annually for the first ten years followed by annual contributions of \$0.5 million for the second decade would be needed. The timing and funds necessary should be considered conceptual given uncertainty regarding purchase opportunities, prices and feasibility of parcel subdivisions to limit acquisition of excess land.

To begin contributions in 2022, a reserve bylaw would first need to be enacted for the Regional Water Supply Service, for the specific purpose of establishing a reserve fund for (GVWSA) land acquisition.

Advantages of a Reserve Fund

The advantages of the establishment of a reserve fund for GVWSA land acquisition are:

- the slow accumulation of funds on hand so that larger land purchases do not have a sudden impact on the water rate, capital funding or debt servicing;
- the ability to respond quickly to land sale opportunities as they arise; and,
- demonstration of a commitment and ability to pursue and acquire priority lands as per the GVWSA Land Acquisition Priorities for the protection of the GVWSA and regional water supply.

Disadvantages of a Reserve Fund

The disadvantage of establishment of a GVWSA land acquisition reserve fund are:

- there would be an increase in the water rate specific to establishing an annual contribution to a land acquisition reserve fund;
- funds may be tied up for years without spending;
- funds are restricted from being used for any other capital spending priorities (other than land acquisition) that the Regional Water Supply Service may have or develop; and,
- today's water consumers pay into a fund that may not benefit them for many years.

Purchasing Land without a Reserve Fund

Under the existing water rate model the Regional Water Supply Service is funded by a mixture of water rate income and debt to fund capital projects. There is already the ability and flexibility to fund large capital projects under this model with opportunities to borrow funds under the existing loan authorization for long term debt with the Municipal Finance Authority (MFA).

In order to make an unanticipated land purchase, the capital plan would need to be amended. The decision would need to be made whether to reprioritize the existing capital plan (approximately \$25 million each year) to accommodate the land acquisition within the existing budget (defer or cancel projects), or add the land acquisition to the capital plan and increase the capital budget to accommodate it, or a combination of both. If the capital budget is increased, the debt financing that supports the capital plan would be reviewed and further borrowing would be initiated as necessary. As an example, if debt financing were to be considered for a new land acquisition of \$8 million, the current annual principal and interest payment would be approximately \$580,000 per year for 15 years. The existing loan authorization with the MFA allows for borrowing twice annually.

Alignment with Existing Plans & Strategies

The 2017 Regional Water Supply Strategic Plan calls for the CRD to “seek ownership and control of the remaining catchment lands and critical adjacent lands to act as a buffer”. The Commission adopted land acquisition priorities for the GVWSA to guide the acquisition of lands. In principle, establishment of a land acquisition reserve fund provides further commitment to acquire GVWSA

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lands, but lack of a reserve fund is likely not a barrier given the ability to acquire financing relatively quickly and easily through existing processes. Long term financing rates available to the Regional Water Supply Service through the MFA are currently 2.9%.

CONCLUSION

The Regional Water Supply Commission adopted Greater Victoria Water Supply Area (GVWSA) Land Acquisition Priorities in 2020 and directed staff to report on options and implications of developing a reserve fund to support the land acquisition goals.

There is a great deal of uncertainty and lack of control over when priority land parcels may become available for purchase, and the price of any land parcels. If established, reserve funds may be wholly insufficient or sit idle for many years, and may charge consumers for service they do not receive.

The current wholesale water rate model, with access to financing for capital projects, provides ability and flexibility to accommodate land purchases as they arise without significantly burdening the wholesale water rate and/or customers of today.

RECOMMENDATION

That the Regional Water Supply Commission:

Not pursue the establishment of a reserve fund for Greater Victoria Water Supply Area Land Acquisition at this time, and address any land purchase opportunities through adjustments to the existing capital program and utilize existing capital funding and/or debt financing to fund the acquisition.

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