

**REPORT TO FINANCE COMMITTEE
MEETING OF WEDNESDAY, SEPTEMBER 6, 2017**

SUBJECT **Bylaw 4204: Core Area Wastewater Treatment Program Loan Authorization
Bylaw No. 1, 2017**

ISSUE

As the Capital Regional District (CRD) moves into the construction phase of the Core Area Wastewater Treatment Program (WTP), forecasted expenditures over the short term will result in cash flow requirements that require a loan authorization.

BACKGROUND

On May 25, 2016 the Capital Regional District Board:

- i) Adopted by resolution the Core Area Wastewater Treatment Project Board Terms of Reference (Project Board Terms of Reference) for the purposes of establishing principles governing the Core Area Wastewater Treatment Project (the Wastewater Treatment Project or the WTP);
- ii) Established the Core Area Wastewater Treatment Project Board (Project Board) under Bylaw 4109 (the CRD Core Area Wastewater Treatment Board Bylaw No. 1, 2016) for the purposes of administering the Core Area Wastewater Treatment Project; and
- iii) Delegated certain of its powers, duties and functions to the Project Board under Bylaw 4110 (the CRD Core Area Wastewater Treatment Project Board Delegation Bylaw No. 1, 2016).

On September 14, 2016 the Capital Regional District Board:

- i) Received the final report of the Project Board with respect to its recommendation for the WTP, dated September 7, 2016 (the Final Report); and
- ii) Approved the business case attached as Appendix 1 (the Business Case) to the Final Report.

The Business Case established the WTP control budget (the Control Budget) of \$765 million.

The WTP project will be funded by a combination of requisition dollars, grant funding and long-term debt. Due to the timing of various grant funding sources, short-term financing will be required to raise working capital to cover temporary shortfalls in funding so that the project can continue construction and meet payment obligations.

The intent is to utilize both short and long term-borrowing to fund the WTP project. A temporary borrowing bylaw following the quashing period will provide access to the borrowing capacity of this loan authorization. When it is strategically optimal to convert short term financing to long term debentures, a security issuing bylaw will be presented to the Board for approval.

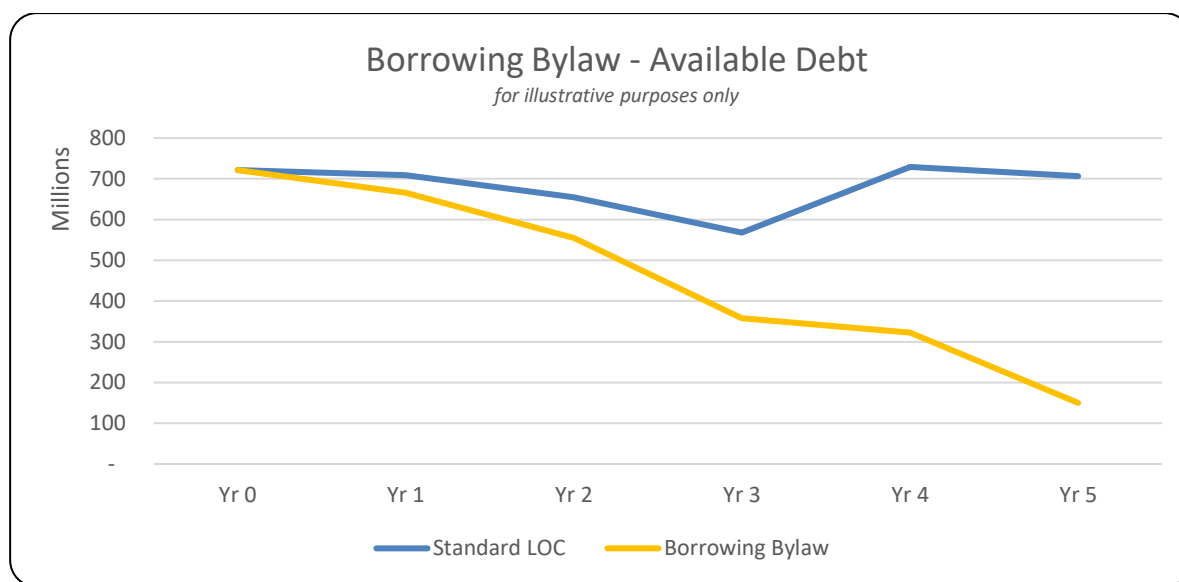
DISCUSSION

A board that has adopted a loan authorization bylaw may temporarily borrow money not exceeding the difference between the total amount authorized by the loan authorization bylaw and the amount already borrowed in relation to that bylaw.

The borrowing bylaw establishes a maximum loan balance the CRD can access or maintain. The CRD can access funds from the temporary borrowing bylaw at any time as long as the CRD does not exceed the maximum amount set in the agreement.

The main advantages of a temporary borrowing bylaw is flexibility and effective cash flow management; it allows the CRD to tailor borrowing to its needs, only having to pay interim interest on working capital and long-term interest on the final net borrowing amount spent. The net long-term borrowing amount will be subject to grant funding claims, requisition funds, and total project costs.

An important distinction is that unlike a line of credit, a borrowing bylaw is not a revolving account. Compared to a line of credit where the borrower can spend money, repay it and spend it again in a virtually never-ending revolving cycle, once the temporary borrowing amount has been paid off, the funds or capacity cannot be accessed again. The difference in the mechanics of these financial instruments is depicted for illustrative purposes only.



Calculation

The approved control budget for the WTP is \$765 million. As a result of the aforementioned short-term borrowing mechanics of the Municipal Financing Authority (MFA), and to ensure cash flow requirements are met over the term of the WTP, the basis for a \$665 million loan authorization are detailed below.

The following bylaws were authorized for the estimated cost of works relating to the Core Area and West Shore Wastewater treatment facilities and have been used/partially applied towards the WTP costs to date:

Summary of Bylaw Expenditures to Date:

(\$millions)	Adoption date	Bylaw Authorization	Borrowed to Date	Available Balance
Bylaw No. 3461	April 9, 2008	10	10	-
Bylaw No. 3615	July 8, 2009	12	12	-
Bylaw No. 3887	March 27, 2013	100	23.8	76.2
Total		\$122M	\$45.8M	\$76.2M

Bylaw 4204 Calculation:

Control Budget	765
WTP Funding to date:	(23.4)
WTP Funding available:	(76.2)
Total required bylaw	\$665M

ALTERNATIVES*Alternative 1*

That the Finance Committee recommend to the Capital Regional District Board:

That Bylaw No. 4204, cited as “Core Area Wastewater Treatment Program Loan Authorization Bylaw No 1, 2017” be introduced and read a first time, read a second time, and read a third time.

Alternative 2

That Bylaw No. 4204 be deferred to a future meeting pending further information.

IMPLICATIONS

The proposed loan authorization will facilitate financing requirements for the WTP in alignment with the Board approved WTP Control Budget.

Although there are existing loan authorizations and temporary borrowing bylaws in place, the capacity remaining is not sufficient to fund the project through completion. A loan authorization will be required to finance the timing differences in funding and cover project costs as approved in the Control Budget.

The MFA provides short-term borrowing to assist with cash flow needs, allowing access to low cost funding and the flexibility to borrow and repay on short notice. Short-term loans, unlike long-term debt can be repaid at any time without notice or penalty.

The temporary borrowing bylaw is a mechanism to allow the CRD to finance the construction of the WTP while being flexible to the timing of grant funding from the federal and provincial governments. The MFA's short-term financing daily floating rate is currently 1.74% while in comparison, indicative 10 and 25 year market rates for analytic purposes are 2.77% and 3.40% respectively.

Utilizing short-term borrowing allows the CRD to manage financing costs, minimize interest expense, be flexible to timing of grant funding, borrow necessary funds as needed, and convert to long-term debt at an optimal period.

CONCLUSION

Due to the timing differences between construction expenditures and receipt of grant funding, and in consideration of the Provincial grants being due upon substantial completion of the Wastewater Treatment Plant and Residuals Treatment Facility, short-term borrowing best meets the financing needs for the WTP based on flexibility and effective cash flow management.

RECOMMENDATION(S)

That the Finance Committee recommend to the Capital Regional District Board:

That Bylaw No. 4204, cited as “Core Area Wastewater Treatment Program Loan Authorization Bylaw No 1, 2017” be introduced and read a first time, read a second time, and read a third time.

Submitted by:	Agnes Piotrowski, CPA, CA, Manager, Finance
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Concurrence:	Nelson Chan, MBA, CPA, CMA, Chief Financial Officer
Concurrence:	Larisa Hutcheson, P.Eng., A/Chief Administrative Officer

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Attachments: Appendix A Estimated WTP Cash Flow
Appendix B Bylaw No. 4204, Core Area Wastewater Treatment Program Loan Authorization Bylaw No.1, 2017

Appendix A

