

**REPORT TO CORE AREA LIQUID WASTE MANAGEMENT COMMITTEE
MEETING OF WEDNESDAY, OCTOBER 07, 2020**

SUBJECT **Bylaw Nos. 4376, 4377, 4378: Core Area Sewer Reserve Bylaws**

ISSUE SUMMARY

A series of bylaws are required to facilitate administration of the combined Core Area Wastewater service.

BACKGROUND

On August 12, 2020, the Board amended the cost-sharing framework for the Core Area Wastewater Service pursuant to Liquid Waste Management Core Area and Western Communities Service Establishment Bylaw No. 1, 1995, Amendment Bylaw No. 3, 2020 (Bylaw No. 4304, amending Bylaw No. 2312). Now, all conveyance and treatment costs will be combined and cost apportioned as per Bylaw 4304. The bylaw contains two methods of cost apportionment, one for operating based on actual flows and one for capital costs based on treatment capacity allocation. To administer this, the operating costs will be accounted for in a new service area referred to as Service Area 3.717 Core Area Wastewater Operations and capital costs will be accounted for within the existing Service Area 3.798C Core Area Wastewater Capital, effective January 1, 2021.

In order to facilitate financial administration of the 2021–2025 Provisional Financial Plan, as will be presented to Committee of the Whole on October 28, 2020, staff are seeking approval of a number of bylaws to establish and amend reserve funds. The following reserve funds are required:

- Operating Reserve Fund (3.717)
- Equipment Replacement Fund (ERF) (3.717)
- Debt Retirement Reserve Fund, (3.798C) and
- Capital Replacement Reserve Fund (3.798C)

The following three (3) bylaws are recommended for approval:

Service Area	Action	Purpose	Bylaw
3.717	Amending Bylaw	Amendment to the Operating Sewer and Water Reserve Fund bylaw to include the new Core Area Wastewater Service	4376 Capital Regional District Sewer and Water Services Operating Reserve Fund Bylaw No. 1, 2016, Amendment Bylaw No. 2, 2020 (Bylaw No. 4376)

3.798C	Reserve Fund Establishment Bylaw	Establishment of a Debt Repayment Reserve Fund	4377 Liquid Waste Management Core Area and Western Communities Service Debt Repayment Reserve Establishment Bylaw No. 1, 2020 (Bylaw No. 4377)
3.798C	Reserve Fund Establishment Bylaw	Establishment of a Capital Reserve Fund	4378 Liquid Waste Management Core Area and Western Communities Service Capital Reserve No. 1, 2020 (Bylaw No. 4378)

The function of an equipment replacement reserve fund is authorized through the existing Bylaw No. 945 Equipment Replacement Fund By-law No.1, 1981. A separate bylaw is not required to establish an account.

Future Bylaws

The new combined service and apportionment comes into effect January 1, 2021. At this time the historical trunk operations and respective reserves will need to be wound up and funds transferred to the new operating and equipment replacement reserve funds. Early in 2021, Staff anticipate seeking approval on two (2) Reserve Transfer Bylaws, one for Operating and one for ERF. The following bylaws will be brought forward in 2021 once final balances are determined:

3.717	Transfer Bylaw	Transfer bylaw to move reserve funds in individual Trunks Operating Reserves to the CAWW Operating Reserve	Proposed Bylaw 2021
3.717	Transfer Bylaw	Transfer bylaw to move reserve funds in individual Trunks Equipment Replacement Reserves to the CAWW Equipment Replacement Reserve	Proposed Bylaw 2021

ALTERNATIVES

Alternative 1

The Core Area Liquid Waste Management Committee recommends to the Capital Regional District Board:

1. That Bylaw No. 4376, "Capital Regional District Sewer and Water Services Operating Reserve Fund Bylaw No. 1, 2016, Amendment Bylaw No. 2, 2020" be introduced and read a first, second, and third time; and
2. That Bylaw No. 4376 be adopted.
3. That Bylaw No. 4377, "Liquid Waste Management Core Area and Western Communities Service Debt Repayment Reserve Establishment Bylaw No. 1, 2020", be introduced and read a first, second, and third time; and
4. That Bylaw No. 4377 be adopted.

5. That Bylaw No. 4378, “Liquid Waste Management Core Area and Western Communities Service Capital Reserve No. 1, 2020”, be introduced and read a first, second, and third time; and
6. That Bylaw No. 4378 be adopted.

Alternative 2

The Governance and Finance Committee recommends to the Capital Regional District Board: That Bylaws No. 4376, 4377, and 4378 be deferred pending further analysis by CRD staff.

IMPLICATIONS

Financial Implications

Operating Reserve (3.717)

Due to the cyclical nature of some operating and maintenance costs within the wastewater service, an operating reserve is recommended to minimize fluctuations in revenue requirements in any given year. Additionally, unforeseen or extraordinary operating costs can be mitigated through use of the operating reserve.

To establish the operating reserve Bylaw No. 4376 to amend the existing Operating Sewer and Water Reserve Fund Bylaw No. 4242 by replacing Schedule A. Schedule A has been amended to remove ‘Trunk Sewers & Sewage Disposal’ and replace with Core Area and Western Communities Liquid Waste Management Service.

The operating reserve fund will be funded through surplus fund transfers and required amounts to meet cyclical or irregular operating expenditures commitments from year to year.

Equipment Replacement Reserve Fund (3.717)

The Equipment Replacement Reserve fund is used to pay for ‘minor’ equipment replacement that typically has a service life of less than five years and/or a value of less than \$25,000. The reserve fund contributions are set to meet replacement lifecycle requirements of ongoing operations.

Debt Repayment Reserve Fund (3.798C)

The debt repayment reserve fund will be used to set aside funding sufficient to exercise the 10-year early payout option on debt issuances within the CAWTP debt program.

The establishment of this fund aligns with the financing strategy approved by the Board in 2019 which was designed to deliver the most cost effective financing structure, with the lowest overall cost to the participants. The annual contribution to the debt repayment reserve will be based on the forecasted obligations of early payout.

Capital Reserves (3.798C)

Establishment of the capital reserve is required to facilitate savings for long-term (over 15 years) capital works as required in the new amalgamated service and for future system betterments or expansions. Planned annual contributions to the capital reserve fund have been set low initially

to offset impacts of the debt repayment reserve contributions and with lifecycle replacement requirements further in the future on a largely new asset base. Once debts are paid in full (planned in 2032), reserve contribution levels will be maintained, but transfers will build up the capital reserve rather than service debts.

CONCLUSION

In order to facilitate financial administration of the 2021–2025 Provisional Financial Plan, as will be presented to Committee of the Whole on October 28, 2020, staff are seeking Committee recommendation for the Board to approve Bylaw Nos. 4376, 4377 and 4378. The bylaws amend and establish reserve funds required to facilitate transactions within the Core Area Wastewater Service, in compliance with the *Local Government Act*.

RECOMMENDATION

The Core Area Liquid Waste Management Committee recommends to the Capital Regional District Board:

1. That Bylaw No. 4376, “Capital Regional District Sewer and Water Services Operating Reserve Fund Bylaw No. 1, 2016, Amendment Bylaw No. 2, 2020” be introduced and read a first, second, and third time; and
2. That Bylaw No. 4376 be adopted.
3. That Bylaw No. 4377, “Liquid Waste Management Core Area and Western Communities Service Debt Repayment Reserve Establishment Bylaw No. 1, 2020”, be introduced and read a first, second, and third time; and
4. That Bylaw No. 4377 be adopted.
5. That Bylaw No. 4378, “Liquid Waste Management Core Area and Western Communities Service Capital Reserve No. 1, 2020”, be introduced and read a first, second, and third time; and
6. That Bylaw No. 4378 be adopted.

Submitted by:	Rianna Lachance, BCom, CPA, CA, Senior Manager, Financial Services
Concurrence:	Nelson Chan, MBA, CPA, CMA, Chief Financial Officer
Concurrence:	Ted Robbins, B. Sc., C. Tech., General Manager, Integrated Water Services
Concurrence:	Kristen Morley, J.D., General Manager, Corporate Services & Corporate Officer
Concurrence:	Robert Lapham, MCIP, RPP, Chief Administrative Officer

ATTACHMENT(S)

Appendix A: Bylaw 4376 “Capital Regional District Sewer and Water Services Operating Reserve Fund Bylaw No. 1, 2016, Amendment Bylaw No. 2, 2020”

Appendix B: Bylaw 4377 “Liquid Waste Management Core Area and Western Communities Service Debt Repayment Reserve Establishment Bylaw No. 1, 2020”

Appendix C: Bylaw 4378 “Liquid Waste Management Core Area and Western Communities Service Capital Reserve No. 1, 2020”