

**REPORT TO CEDARS OF TUAM WATER SERVICE COMMISSION
MEETING OF, FEBRUARY 4th, 2022**

SUBJECT **Cedars of Tuam Water New Well Grant Application, Loan Authorization and Water Conservation Plan**

ISSUE SUMMARY

To seek approval to proceed with preparing the Loan Authorization Bylaw, community consultation, and electoral assent process to advance the Cedars of Tuam Investing in Canada Infrastructure Program grant application (ICIP). A Capital Regional District (CRD) Board resolution is required for the grant application. The ICIP application also requires Service Commission and CRD Board endorsement of a current Water Conservation Plan.

BACKGROUND

The CRD is submitting an ICIP grant under the Green Infrastructure – Environmental Quality Sub-Stream. The ICIP-EQ program targets capital infrastructure projects in communities that will protect public health and environment, promote climate change resilience and support broad public benefits and service sustainability. The Cedars of Tuam new well and water treatment plant (WTP) meets one of the federal outcomes for green infrastructure – environmental quality that will support increased access to potable water. Projects must start within 2 years of the date of application and be completed by December 31st, 2026. The ICIP deadline for submission is **February 23, 2022**.

As a requirement of the ICIP application, a Board resolution supporting the project and commitment to its share of the project is required together with endorsement of a current Water Conservation Plan. The Cedars of Tuam had developed a Water Conservation Plan in October of 2011. Although the underlying strategies for water conservation have remained unchanged, it has been revised with new information and data added to bring it forward to 2022 as the Plan must be endorsed within the last five (5) years. Further, “A Manual for Owners and Residents of the Cedars of Tuam Water System”, developed in January of 2010 will be submitted with the ICIP application. The Water Conservation Plan is attached as Appendix A to this report.

The funding provided towards infrastructure projects is a three-way cost share between federal and provincial partners and the local government. Applicants must be prepared to finance project construction and their cost-share of the project, as well as cover any cost over-runs. The funding split is as follows:

Table 1: Program Funding Splits

<i>Ultimate Recipient</i>	<i>Federal</i>	<i>Provincial</i>	<i>Total Senior Gov't Contribution (up to)</i>	<i>Ultimate Recipient Contribution (up to)</i>
Local government	40%	33.33%	73.33%	26.67%

One of the requirements of the ICIP is a resolution/bylaw identifying the source of the proponent's share of the project costs including sufficient funds for cost overruns. The resolution is to be submitted as part of the application package, or within **one month** after the submission deadline

due to timing of CRD Board meetings.

The CRD must also submit evidence that their full share of funding has been or will be secured. This evidence may be in the form of staff reports and/or resolutions of board/council directing the use of reserve funds, or a loan authorization bylaw that has **received third reading**, and/or a date that borrowing has been approved through a formal public approval process and a copy of the related bylaw.

The Cedars of Tuam new well and WTP conceptual designs have a construction cost of approximately \$1,743,500 (Class D cost estimate with up to $\pm 40\%$). If the grant is awarded and the project budget is approved, staff will proceed with detailed design and Class A cost estimate of $\pm 10\%$ - 15% will be provided from final drawings and specifications for a tender ready project.

To fund the local government's share of the ICIP is as follows:

Cedars of Tuam Well and WTP Project Cost Estimate	
WTP Construction (Labour and Materials) ^{1 and 3}	\$1,054,010
Engineering, Quality Assurance and Project Management	\$193,990
Contingency (25%) ²	\$312,000
CRD Project Management, Internal Costs and Legal Costs	\$183,500
Total Estimated Cost	\$1,743,500

1. Cost Estimation is based on conceptual/preliminary design as of September 2019 (Class D, $\pm 40\%$)
2. 25% contingency is allowed due to uncertainties and risks associated with regulatory approval as well as preliminary analysis and design from conceptual/preliminary design project.
3. To allow for cost increases from the 2019 estimate until current date a factor of 20% was added.

There are currently insufficient funds in the Capital Reserve (\$18,697 as of December 31, 2021) to fund the proposed work; therefore, it is recommended to fund the project through a loan authorization bylaw as follows:

Cedars of Tuam Well and WTP Loan Authorization Amount	
Total Eligible Costs	\$1,560,000
ICIP Portion of Eligible Costs (73.33%)	<\$1,143,948>
CRD Project Management and Internal Costs	\$183,500
Total Loan Authorization Amount (Rounded from \$599,552)	\$600,000

Recipients of grant funding will be responsible for ineligible costs, managing project risks, including cost increases, as the ICIP is not designed to deal with cost overruns. Any project cost increases will be the responsibility of the Ultimate Recipient.

Where applicants plan to use or have applied for funds from other federal or provincial programs, the source of these funds must be disclosed. Applicants who have confirmed or identified potential sources of other senior government funding for their project should note that the ICIP program is subject to federal stacking rules. Federal funding towards the project is limited to the Government of Canada contribution in Table 1, from all federal sources. Community Works Funds cannot be utilized for the Ultimate Recipient's funding contribution to the project.

ALTERNATIVES

Alternative 1

The Cedars of Tuam Water Service Commission recommends the Electoral Areas Committee recommends to the Capital Regional District Board:

1. That the Board supports an application for grant funding for the SSI: Cedars of Tuam – New Well and Water Treatment Plant Project through the Investing in Canada Infrastructure Program – Green Infrastructure – Environmental Quality Program; and that the Board supports the project and commits to any associated ineligible costs and cost overruns.
2. That the Board review, accept and endorse the Cedars of Tuam Water Conservation Plan, Revised January 2022.
3. That staff be directed to proceed with preparing the Loan Authorization Bylaw, authorizing the borrowing up to \$600,000 with the amortization term of 30 years.
4. That staff be directed to present the project and funding option to the ratepayers; and bring forward a report to the Commission on the results of the public engagement, and ratepayer's preferred electoral assent process.

Alternative 2

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

IMPLICATIONS

Financial Implications

Currently there is no parcel tax within the Cedars of Tuam water service area, the service budget is funded by user charge only from the properties connected to the system. The estimated new debt servicing cost is proposed to be funded by a new parcel tax requisition from all the taxable folios in the service area (16 taxable folios and 17 SFEs as of December 2021 (one lot has a home and a cottage)).

Long-term debt for all BC municipalities, including regional districts, must be arranged through the Municipal Finance Authority (MFA). MFA issues debenture debt for different terms from 5 years to a maximum 30 years.

For analytic purposes only, the estimated debt servicing cost alternatives under four different amortization term scenarios are simulated and shown below based on the indicative interest rates published on MFA website as of January 27, 2022.

Loan	Amortization Term			
Loan Authorization \$600,000	15 year	20 year	25 year	30 year

Indicative Interest Rate	2.86%	2.99%	2.99%	2.99%
Cost of Borrowing \$	168,497	240,505	302,040	364,788
Annual Debt Payment \$	51,233	42,025	36,082	32,160
Annual Parcel Tax per taxable folio \$	3,202	2,627	2,255	2,010

The longer amortization term will minimize the annual debt payments, but results in higher total cost of borrowing and higher future interest risk exposure. A debt term of 15 years mitigates interest rate risk to only one subsequent renewal period. CRD staff consider multiple guidelines on each issue with respect to term maturity, including the interest risk exposure, estimated useful life of the infrastructure and the overall impact of both the annual debt payment costs and total cost of borrowing when bringing forward recommendations.

Service Establishment

The Cedars of Tuam system was established as a specified area in 2002 to operate a water supply system (the CRD took over the service which was originally installed in ~ 1970). The existing Cedars of Tuam well and water treatment plant are at the end of their useful life and the well itself has been failing to produce enough water to meet demand, particularly over the drought in the summer of 2021. Water had to be trucked in to meet the demand of the residents. The CRD may levy a tax requisition on the ratepayers in the Cedars of Tuam service area to fund the annual operating costs and transfers to reserves for the service. The current maximum tax levy is the greater of \$25,425 or \$6.75/\$1,000 on actual assessed value of land and improvements to a maximum of \$81,899 based on 2021 assessment. The Cedars of Tuam service has sufficient room in the tax levy to meet the debt servicing costs for the proposed \$600,000 loan authorization.

Water Conservation Plan

One of the requirements of the ICIP grant program is Board endorsement of a water conservation plan for any drinking water and wastewater projects. In order to meet the grant application requirements, the Board endorsement for the Water Conservation Plan must be submitted with the application.

The Cedars of Tuam Water Conservation Plan contemplates population and potential growth, current water demand, water supply capacity and climate change adaptation and mitigation and in this context sets out water demand reduction targets as well as measures for current and planned water conservation. Measures include universal metering, reporting usage on water bills, consumption based billing as well as community awareness and education. Further, the Plan is periodically reviewed. The benefit of having a Plan is that it creates a sense of community responsibility, accountability, awareness and to a certain extent creates peer pressure for water conservation. Water, particularly on Salt Spring Island, is a precious resource and a formal Water Conservation Plan, when implemented and followed ensures it will always be available.

Alternative 1

It is recommended the Commission proceed with Alternative 1 and seek electoral assent for borrowing the total of the amount not covered by the ICIP grant (26.67% of eligible costs) plus all of the ineligible costs with a thirty (30) year amortization and adopt the Cedars of Tuam Water Conservation Plan.

1. The grant is not guaranteed and will be very competitive.
2. If the grant is not awarded some other solution must be developed to provide an adequate supply of water to the community.
3. ICIP requires a secured funding plan for the replacement within the application to support the cost of the project. The funding plan is to include sufficient funds to cover all eligible costs, cost overruns beyond budget contingencies, ongoing operational costs associated with the project.
4. ICIP may not consider applications if the project represents a risk to the program funder, including, but not limited to, if there is a potential for the project not to proceed should there be applicant funding difficulties; the project does not have public support; and the applicant does not demonstrate they are able to manage, maintain, and finance the project over the long term.
5. The loan authorization bylaw can be held at third reading until grant award.

Alternative 2

Alternative 2 will require the further development of options to provide an adequate supply of water. Options other than trucking water, an extension of the pipeline from the Fulford Water Service or dissolution of the Water Service with taxpayers drilling their own wells all will still require further development and exploration.

Funding Approval Options

There are three options for approval of a loan authorization bylaw under the LGA to undertake this project:

1. Electoral Participating Area Petition Process
2. Alternative Approval Process
3. Referendum Process

Electoral Participating Area Petition Process

The owners of parcels within the service can sign and submit a petition under section 408 of the LGA to give their consent to borrowing and maximum term for the debt in relation to the infrastructure works. This is used for services where there are a small number of parcels. The petition must be signed by the owners of at least 50% of the parcels liable to be charged in relation to the proposed borrowing, and the persons signing must be the owners of parcels that in total represent 50% of the net taxable value of all land and improvements within the participating area.

An Electoral Participating Area Petition and would cost approximately \$1,000.

Alternative Approval Process (AAP)

Local/regional governments can use the Alternative Approval Process under Section 345 of the LGA to obtain participating area approval of a loan authorization bylaw. It is most commonly used in relation to long-term borrowing bylaws as it is a less expensive option than using a referendum.

If more than 10% of the affected electors sign a counter-petition opposing the bylaw, a referendum must be held if the Committee still wishes to adopt it. Proceeding to referendum voting must occur no later than 80 days after the deadline established for submitting elector response forms during the AAP.

An AAP would take approximately six (6) months, and would cost approximately \$5,000.

Referendum Process

The referendum process is typically used to seek approval by assent of the electors, Section 407 of the LGA, where for a participating area, a majority of the valid votes are counted in favour of the bylaw to fund a project. Typically, a referendum question is developed and then reviewed by the Inspector of Municipalities at the province, requesting the electors to approve the borrowing of a specified amount of funds for the project. If electoral assent is not received, local government must wait at least six (6) months before seeking elector assent on another bylaw for the same purpose in a referendum. In special circumstances, the local government may request approval from the Minister to hold another assent voting opportunity sooner.

Based on the above tentative schedule, the referendum would take approximately seven (7) months and cost approximately \$10,000.

Public Engagement

Due to the financial impact of the alternatives on the taxpayers, there is a need for public engagement to inform the stakeholders of the issues, alternatives, impacts and timeline for the process. The exact form and extent of this process will be developed once the Commission decides on the preferred borrowing alternative.

The CRD follows the Public Participation Spectrum developed by the International Association for Public Participation (IAP2) as a model for developing our public engagement strategy. The Spectrum outlines varying levels of public participation: inform, consult, involve, collaborate and empower. Even though the taxpayers are empowered by default through an electoral assent process, at this point in the public engagement process, staff advise focusing on informing and consulting with the ratepayers to provide them with information needed to assist them in making an informed decision. During the process, a method of obtaining public feedback will be an important factor in order to determine the community understanding of the project, gauge their support for borrowing, and their preference for the method to seek electoral assent.

CONCLUSION

The Cedars of Tuam well and WTP was originally constructed in the early 1970s. Since its original construction, there were modifications and upgrades to the system to address performance issues. The well has been failing to produce enough water to meet the demand of the residents, particularly this past summer (2021) where water had to be trucked in from both Vancouver Island and locally from Salt Spring Island. The total cost of the project is estimated at \$1,743,500 and staff will be submitting an application for up to 73.33% ICIP grant funding towards the cost of the project that is intended to provide an adequate, safe and secure supply of quality potable water. Should the CRD be successful in an ICIP grant award it will allow the project to proceed. The

Cedars of Tuam Water Service Water Conservation Plan is an important and integral component of the ICIP application and its timely endorsement will fulfill the requirement in the application.

RECOMMENDATION

The Cedars of Tuam Water Service Commission recommends the Electoral Areas Committee recommends to the Capital Regional District Board:

1. That the Board supports an application for grant funding for the SSI: Cedars of Tuam – New Well and Water Treatment Plant Project through the Investing in Canada Infrastructure Program – Green Infrastructure – Environmental Quality Program; and that the Board supports the project and commits to any associated ineligible costs and cost overruns.
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4. That staff be directed to present the project and funding option to the ratepayers; and bring forward a report to the Commission on the results of the public engagement, and ratepayer's preferred electoral assent process.

Submitted by:	Karla Campbell, BPA, Senior Manager, Salt Spring Electoral Area
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ATTACHMENT(S)

Appendix A: Cedars of Tuam Water Service Water Conservation Plan, Revised January 2022