



Request for Decision

Meeting: May 15, 2023
Agenda Item: 5.2

Funding for WWTP Upgrades

ADMINISTRATIVE RECOMMENDATION:

That the Town fund its portion of the WWTP sludge handling upgrades by borrowing \$581,900 and utilizing \$581,900 from reserves.

DECISION OPTIONS:

- #1 – Approve as per administration's recommendation.
- #2 – Amend the recommendation per council direction.
- #3 – Refer to the finance committee for further review.

BACKGROUND / IMPLICATIONS:

In mid April the Town was advised of a successful application to the AMWWP for upgrades to its wastewater treatment plant sludge handling system. Shortly thereafter a memorandum of agreement was signed outlining conditions of the grant.

The total estimated project is \$3,026,000 and of that the province will contribute \$1,862,200 (61.54%) meaning the Town will be responsible to cover the remaining \$1,163,800. As per the agreement, the project needs to be completed by March 31, 2028 giving us ample time but the sooner the project can be completed the better as it will help immensely to reduce annual operating costs. An initial payment from the province will be forwarded before March 31, 2024 in an amount to coincide with progress of the project. Administration is therefore requesting direction/a decision from council on how to fund its portion.

One option (the simplest) would be to pull from reserves. Currently the wastewater capital reserve has/will have \$586,225 available. This alone would not be enough so pulling from another reserve would be required and is permitted. Total reserves sit at just over \$5.5 million so pulling the amount required from reserves would eat up about 20% of reserves which isn't ideal based on the fact that there are other needs for reserves. Utilizing a large junk of reserves would also mean forgoing interest earned off the reserves. Interest rates are decent right now meaning reserves are earning more than usual.

A second option would be to tax for the amount needed. This option isn't ideal either as the Town wouldn't be able to tax for the amount until 2024. This is also a very large amount which would dramatically increase taxes, but it would be for one or two years only. A similar option would be adding this amount to wastewater user fees. This could be implemented through a change to the fees and rates bylaw but also not ideal as this would greatly increase the user fees for a short period of time.

A third option is to borrow the amount required. This would be done by way of a debenture which the Town has done before, and this spreads the costs out over a period of the Town's choice. The Town's current borrowing limit is \$8.2 million so borrowing the amount needed would be allowable. The current problem with borrowing is that the cost of borrowing is quite high. If the Town were to borrow, the added interest costs to the Town on a 20-year debenture would be approximately \$679,000 over the life of the

loan. A shorter loan term would cost less while a longer loan term would cost more. In terms of annual payments, the 20 year loan would mean \$92,177 being added to taxes every year. A shorter term loan by contrast would mean a bigger annual payment, while a longer term loan would mean a lower annual payment – there’s always a tradeoff.

In terms of borrowing timelines, the Town would need to apply by end of July to have the borrowing in place by middle of September or apply by end of October to have the borrowing in place by middle of December. The latter option would be recommended as the bulk of the work probably won’t commence until next year. Borrowing does require a borrowing bylaw with advertising requirements and while no statutory public hearing is required some form of public consultation is recommended.

Another option for council to consider is a combination of borrowing and pulling from reserves. By doing this, the extra costs to borrow won’t be as high and at the same time we wouldn’t be pulling such a large chunk from reserves. The recommendation from administration would be to pull half from reserves and borrow the other half. This would look as follows:

WWTP Capital reserve -	\$350,000
Road Reserve -	\$231,900
Borrowing -	\$581,900

Annual debenture payment -	\$54,461 (based on a 15-year loan)
Interest costs over life of loan -	\$235,013 (4.69% as of May 9, 2023)

For comparison –	
10 year debenture =	\$146,432 in interest - \$72,833 annual payment
25 year debenture =	\$439,837 in interest - \$40,869 annual payment

If council felt the extra added cost of borrowing was too high we could borrow less and tax for a portion. For example, we could borrow 290,950 over 10 years and the interest cost in this case would be \$73,216. This though would mean adding 327,366 to taxes (the debenture payment plus the \$290,950) in 2024 and would result in approximately \$400 more in municipal taxes for the average assessed household compared to what is paid in 2023. One can see there are savings in the amount of interest that is paid but there is a pretty significant increase to taxes for one year.

Interest rates are probably close to their highs and should start to slowly come down so there is the option to wait for another 6 months to a year before borrowing. In terms of making the annual debenture payment, the Town does contribute \$75,000 annually to the wastewater reserve so it would be possible to utilize that to cover the debenture cost but no decision on that is required right now. For reserves, we don’t want to pull the full amount from the wastewater reserve as there are other possible needs in coming years (membranes). We’ve chosen the road reserve as it is quite healthy and there are no planned uses in the next few years.

Administration believes the scenario of borrowing half and pulling half from reserves is the best option as it keeps the annual cost to the taxpayer or user at a reasonable level, reserves use is kept at a reasonable level, and the extra cost of borrowing is not too high. There isn’t really a perfect option, but we are very fortunate to receive provincial funding and the upgrades that will be done are very important/needed and are meant to reduce the plant’s operating cost in the long run.

CAO COMMENT:

While interest rates are higher than they were, this scale of project is arguably what borrowing bylaws were designed for. The Town did not borrow any funds for the original \$11 million project in 2015 at the plant, which should be considered highly unusual. Excessive pressure on Town reserves instead of long term debentures is not recommended when the Town has so many grant-conditional contribution

applications under consideration by the federal government at this time. A balance can be struck between borrowing, reserves and future tax increases.

NANTON STRATEGIC PLAN ALIGNMENT	
<input type="checkbox"/> OPERATIONS	<input type="checkbox"/> EMERGENCY SERVICES
<input type="checkbox"/> PLANNING AND DEVELOPMENT	<input type="checkbox"/> COMMUNITY AND ECONOMIC DEVELOPMENT
<input checked="" type="checkbox"/> GOVERNANCE AND CORPORATE SERVICES	<input type="checkbox"/> NOT APPLICABLE
<i>PRIORITY OR ACTION: To support business attraction, retention and expansion.</i>	

ALTERNATIVES:

- REFER to (Administration or Committee) _____
- DEFER the matter to the Council meeting of (date) _____

Financial (GL# / Amount): _____

Communications/PR:

Applicable Legislation:

Attachments:

Prepared By: Clayton Gillespie, Corporate Services Manager

Date: May 11, 2023

APPROVED BY: Neil Smith, Chief Administrative Officer:

