

CITY OF SALMON ARM

To: His Worship Mayor Harrison and Members of Council
From: Chelsea Van de Cappelle, Chief Financial Officer,
Robert Niewenhuizen, Director of Engineering and Public Works, and
Sue Wood, Director of Corporate Services
Date: January 2, 2024
Subject: Loan Authorization Bylaw No. 4618- Zone 2 Pump Station

Motions for Consideration:

THAT: The bylaw entitled City of Salmon Arm Zone 2 Pump Station Loan Authorization Bylaw No. 4618 be read a first, second and third time;

AND THAT: Approval of the electors be obtained through the Alternative Approval Process for the proposed borrowing of \$4,226,850.00 for the purpose of undertaking the construction of the replacement Zone 2 Pump Station;

AND THAT: Council establish Monday, May 6, 2024 at 4:00 p.m. as the deadline for receipt of the Elector Response Forms from electors for the proposed borrowing of \$4,226,850.00 for the purpose of undertaking the construction of the replacement Zone 2 Pump Station;

AND THAT: Council establish the Elector Response Form as shown on Appendix B for the proposed borrowing of \$4,226,850.00 for the purpose of undertaking the construction of the replacement Zone 2 Pump Station;

AND THAT: Council establish the fair determination of the total number of elector responses required as 1,480 for the proposed borrowing of \$4,226,850.00 for the purpose of undertaking the construction of the replacement Zone 2 Pump Station;

Background:

Constructed in 1970, the existing Zone 2 Pump Station is located on the north side of the CPKC rail corridor at Canoe Beach. In 1995 the Zone 1 Pump Station and trunk main were constructed adjacent to the Zone 2 Pump Station. The two pump stations share a common wall, and are provided potable water from the Water Treatment Plant for distribution to residents/users in the associated pressure zones. The existing Zone 2 Pump Station has exceeded its useful life. The proposed replacement will be relocated adjacent to the treatment plant (above the flood elevation), will increase the operating capacity for future demand, and will be constructed with modern equipment.

Through the Asset Management Risk Evaluation process, the replacement Zone 2 Pump Station was assessed a "Very High" risk due to the age of the infrastructure.

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A design and Class ‘A’ Opinion of Probable Cost was completed by WSP in May of 2023. The estimated cost to complete the proposed works including 10% contingency is \$4,337,690.00. As the estimate was completed in 2023, it has been inflated based on a 5 year rolling average of the Canadian Building Construction Price Index (BCPI), resulting in a rounded revised estimate of \$4,950,000.00.

Estimated Costs and Funding:

The following table summarizes the total estimated costs to undertake construction of the Zone 2 Pump Station Upgrade:

Description	Cost
Construction Costs including 10% Contingency	\$ 4,950,000.00
Engineering (5.5%)	275,000.00
Other Costs and Contingency	75,000.00
Borrowing Costs	<u>41,850.00</u>
Total Costs	5,341,850.00
Less: Revenue – Community Works (Gas Tax)	(1,000,000.00)
Less: Development Cost Charges	<u>(115,000.00)</u>
Net Costs	\$ 4,226,850.00

The existing budget for this project is \$5,341,850.00. The Zone 2 Pump Station is eligible for funding from the Water Development Cost Charge Reserve to a maximum of \$285,000.00. Of this, \$170,000.00 has been utilized, leaving \$115,000.00 available for this project.

It is anticipated that the annual operation and maintenance costs will remain similar to the current Zone 2 pump station (Canoe). However, there is likely to be a period (approximately 3 months) when both stations are operational until the old station is decommissioned. The estimated increase in costs during this time is \$25,000.00.

Long Term Debt:

The 2024 Budget reflects borrowing in the amount \$4,226,850.00 to undertake construction of the replacement Zone 2 Pump Station. The City intends to fund the project utilizing the temporary borrowing provisions (Section 181) of the *Community Charter*. Temporary borrowing may only be accessed once Council has adopted the loan authorization bylaw and obtained the necessary approvals. Under temporary borrowing, the City will be responsible for monthly interest (at a variable rate) only on any outstanding balance. Once the project is complete, the City will transfer the outstanding balance to long-term borrowing. It is anticipated that this will occur in the fall of 2025 or spring of 2026, and therefore will impact the 2025 Budget. Repayment of the debenture debt is approximately \$265,625.00 (Term: 30 years; Interest Rate: 4.41%).

The projected annual repayment of the debenture debt is estimated as follows:

Principal	\$ 79,221.00
Interest – 4.41%	<u>186,404.00</u>
	\$ 265,625.00

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The estimated cost of interest under temporary borrowing at a daily rate of 5.61% is as follows and is entirely dependent on the timing of drawdown:

2024 (July - December)	\$ 13,200.00
2025 (January - September)	<u>177,400.00</u>
	\$ 190,600.00

Funding Options:

With respect to debt repayment funding, a number of options were explored to rationally assess fairness and reasonableness and the economic impact to the water system users. Funding options explored included increases to user fees, frontage parcel taxes and a reduction in expenditures.

Frontage parcel tax funding is intended to cover debt servicing costs plus a component of operating and maintenance attributed to preventative maintenance and a portion of major capital improvements. All properties with access to the water system contribute to new or upgraded major water infrastructure via a frontage parcel tax. User fees are collected to operate and maintain components of the water system including replacement, new and upgraded infrastructure.

The reduction to expenditures included the following options:

- Operation and Maintenance – is not feasible without jeopardizing the integrity of the system;
- Transfer to Reserves – the transfer to the Water Major Maintenance Reserve could be reduced to account for a portion of the repayment, but will necessitate the need to borrow in the future; and
- Capital Expenditures – a certain amount of major maintenance infrastructure work needs to be undertaken annually.

In consideration of frontage parcel tax and user fee funding, three options were explored (Appendix A), the total estimated impact to a residential user are summarized below:

Funding Options	Total Additional Cost
1) Increase the Water Frontage Parcel (WFP) Tax Rate and User Fee	\$28.70
2) Increase the WFP Tax Rate Only	\$22.20
3) Increase the Water User Fee Only	\$29.50

Recommendation:

As a significant replacement and upgrade project, it is recommended to fund the repayment by increasing the water frontage parcel tax (Option 2). This option will also result in the lowest cost and is distributed to all with access to the system and not just the users. The WFP rate was last updated in 2011, following the completion of the Water Treatment Plant. An amendment to the Water Frontage Parcel Tax Bylaw will be brought forward at a later date.

Any interest incurred during temporary borrowing and the costs associated with increased operating and maintenance can be funded from the Water Future Expenditure Reserve, approximate balance - \$59,600.00, if necessary.

Elector Assent:

Elector Assent is required to undertake long-term borrowing and the process is outlined below.

The Local Government Act enables the City to establish and operate any service which is deemed necessary or desirable for all or part of the community. Construction of the replacement Zone 2 Pump Station aligns with the City of Salmon Arm's Corporate Strategic Plan and our focus on the provision of Core Services.

Pursuant to Section 180 of the *Community Charter*, approval of the electors is required before Council can adopt a long-term Loan Authorization Bylaw. In accordance with Section 84, elector approval may be obtained by either of the following means:

- a) assent of the electors through referendum; or
- b) approval of the electors by alternative approval process.

Both methods provide for formal consultation with the public, however, utilizing the alternative approval process would be more efficient and less cost prohibitive than a referendum, considering the essential nature of this project.

Should the Loan Authorization Bylaw receive third reading, it must be approved by the Inspector of Municipalities. When the bylaw has received statutory approval the alternative approval process can begin. It is estimated that the processes could be completed by May 6, 2024; however, this is a date that Council must establish.

Alternative Approval Process and Determination of Electors Methodology:

Council may proceed with borrowing the funds if less than 10% of the electors respond. If at least 10% or more have responded, Council cannot adopt the bylaw. In order to proceed Council must then obtain the assent of the electors through a referendum before moving forward.

Elector responses will be collected by the Corporate Officer for not less than thirty (30) days following the second public notice, on the elector response form attached in Appendix B.

After the established deadline, the Corporate Officer must determine and certify whether enough elector response forms have been submitted to exceed the 10% threshold. This determination is final and conclusive.

According to Statistics Canada, by 2021 the population of Salmon Arm had increased to approximately 19,432. Of this number, 15,580 are presumed eligible to vote (based on the age group). With an additional conservative reduction of 5%, the 10% required for the purpose of the alternative approval process is approximately **1,480**, the most conservative estimate available.

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Communication:

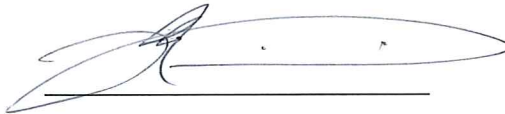
Pursuant to Section 86 of the *Community Charter*, notice of the approval process will be:

- Published in the newspaper once per week for 2 consecutive weeks;
- Posted at the front counter of City Hall;
- Posted on the City's Social Media; and
- Posted on the City's website.

Respectfully submitted,



Chelsea Van de Cappelle, CPA
Chief Financial Officer



Robert Niewenhuizen
Director of Eng. & Public Works



Sue Wood
Director of Corporate
Services