

City of Salmon Arm

*Memorandum from the Manager of Financial Services and
Director of Engineering and Public Works*

Date: January 5, 2010
To: Mayor Bootsma and Members of Council
Subject: Loan Authorization Bylaw – Homely Water Reservoir – Cell No. 2 Project

Recommendation:

- THAT: Bylaw No. 3816 cited as the “City of Salmon Arm Homely Water Reservoir – Cell No. 2 Loan Authorization Bylaw No. 3816”, be given three readings;
- AND THAT: Approval of the electors be obtained through the Alternative Approval Process;
- AND THAT: The deadline for elector responses be March 31, 2010;
- AND THAT: The 2010 – 2014 Financial Plan be amended to reflect the revised project cost of the Homely Water Reservoir – Cell No. 2 of \$2,040,000.00

Background:

The City is planning to twin the existing Homely (Zone 1) Water Reservoir to add storage capacity to the water distribution system. The project involves the expansion of the existing reservoir to double its capacity. The design will include a secondary disinfection system which will help to resolve the issue of maintaining acceptable chlorine residuals in the outer limits of the reservoir distribution area. The construction of a second reservoir will ensure that the water system adequacy, reliability and compatibility with the existing and future facilities.

The additional capacity will allow the Water Treatment Plant to maintain a more consistent flow resulting in optimization of distribution pumping and provision of additional storage volumes for fire flow. This project was recommended in the comprehensive water study completed by Stantec Consulting Ltd in March 2001 and the Fire Underwriters Survey in 2003. This project is included in the Long Term Financial Plan.

The estimated cost to design and construct the Homely Water Reservoir – Cell No. 2 is \$2,000,000.00, an additional \$40,000.00 in required for MFA financing and debt reserve costs (not included in the original estimate). The design work for this project of \$95,000.00 was funded and undertaken in 2009.

Long Term Debt

A number of funding options were explored including the usage of reserves, reduction in capital spending and grant availability. The balance in the water reserves is not sufficient to finance this project. To date, the City is able to finance from revenue approximately \$675,000.00 of capital expenditures. It is important to note that \$.37 of every dollar collected from user fees is directed towards upgrading and improving the water system. The Long Term Financial Plan outlines that capital expenditures are expected to continue to be around \$1M to \$1.5M for the next two (2) years. In 2013, capital expenditures will level out and be financed through regular operations.

It is recommended that this project be funded through long term borrowing.

Project Costs:

Design and Construction	\$2,000,000.00
MFA - Financing and Debt Reserve Costs	<u>40,000.00*</u>
	\$2,040,000.00

*1% is returned to the City when the debenture is paid in full.

Total financing required for the Homely Reservoir is \$2,040,000.00. The projected annual repayment is as follows:

Principal	\$ 68,505.00
Interest - 5.00%	<u>102,000.00</u>
	\$ 170,505.00

As the City will not access the bond market to undertake the debenture debt until the fall of 2010, the debt repayment will not impact the 2010 budget. It is anticipated that the frontage rate will need to increase by .29 a foot to fund the increased debt repayment. It is important to note that the associated increase to the frontage rate as a result of the Water Treatment Plant was significantly less than anticipated. It was envisioned that the frontage rate would be increased to \$2.58, inclusive of this debenture of \$2,040,000.00 it is estimated that the frontage rate will increase to \$2.14. This analysis will be revisited during the 2011 budget process.

Alternative Approval Process

Pursuant to Section 180 of the Community Charter, approval of the electors is required before Council can adopt a Loan Authorization Bylaw. Pursuant to Section 84 of the Community Charter, elector approval may be obtained either by:

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

The Alternative Approval Process allows the electorate to request Council not to proceed with the borrowing of the \$2,040,000.00 for the design and construction of the Homely Water Reservoir, unless it is approved by assent of the electors. If at least 10% (1,327) of the electors request

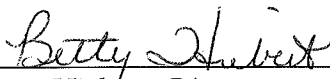
Council not to proceed with the borrowing, unless it is approved by assent of the electors, it must proceed to referendum.

It is recommended that Council proceed with elector approval through the Alternative Approval Process.

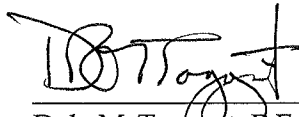
Procedural Process – Alternative Approval Process

After the Loan Authorization Bylaw has received three (3) readings, it is forwarded to the Inspector of Municipalities for approval. Once approved by the Inspector, a public notice is placed in two (2) issues of the local newspaper and posted at City Hall giving the electors an opportunity to request Council not to proceed with the borrowing of the \$2,040,000.00 for the design and construction of the Homely Water Reservoir, unless it is approved by assent of the electors. The public notice must outline the works, amount of proposed debenture, term, elector response procedure and estimated number of electors required to constitute a valid and sufficient request to have the bylaw put to referendum.

Council must establish the deadline date to which elector responses can be submitted. The deadline must be at least 30 days after the 2nd public notice in the local newspaper, that being February 24, 2010. If less than 10% (1,327) of the electors request Council not to proceed with the borrowing, then Council may adopt the Loan Authorization Bylaw.



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