Corporation of the Municipality of South Huron
Committee of the Whole
Agenda

Tuesday, July 11, 2017, 6:00 p.m.
Olde Town Hall-Carling Room

Accessibility of Documents:
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Pages

1. Meeting Called to Order

2. Amendments to the Agenda, as Distributed and Approved by Council

   Recommendation:
   That South Huron Committee of the Whole approves the Agenda as presented.

3. Disclosure of Pecuniary Interest and the General Nature Thereof

4. Reports

   4.1 Grand Bend sewage Treatment Facility and Pumping Station 2 Projects 1

   Recommendation:
   CAO report with recommendations

5. Adjournment

   Recommendation:
   That South Huron Committee of the Whole does now adjourn at 8:13 p.m.

MUNICIPALITY OF SOUTH HURON

Cost Recovery for the Grand Bend Sewage Treatment Facility and PS2 Projects Backgrounder

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Introduction

The purpose of this document is to provide Council with the following:

- To provide Council with final project costs and the cost recovery amount per household equivalent for the Grand Bend Sewage Treatment Facility and PS2 projects.
- To present the required next steps related to a payment option for customers and capital financing.

Background

Previous reports related to the capital cost recovery of these projects were presented to Council on the following dates;

- September 29, 2014 – Estimated project costs and capital cost recovery options presented.
    - Further information was requested on the financial impact of Option 2 - deferring 20% of the capital cost to be recovered from future development and include the financial impact of excluding the property owners who will receive a deferred benefit.
- October 20, 2014 – Financial impact of deferring 20% and the exclusion the property owners who will receive a deferred benefit.
    - **Motion 297-2014 – That Council hereby directs staff to proceed with the option of 80% capital cost recovery, with 20% deferred to future development.**
- November 3, 2014 – Cost Recovery Billing Option
    - **Motion 312-2014 – That South Huron Council hereby directs staff to proceed with capital cost recovery on utility bills as a separate identified debt charge for properties with a utility bill account, and as a separate identified amount on tax bills for properties that do not have a utility bill account.**

- June 1, 2015 – Waste Water Reserves Information

- September 8, 2015 – Project and capital cost recovery update
    - **Motion 394-2015 – That South Huron Council direct staff to bring a report to a future meeting regarding South Huron and Grand Bend Reserves and the option of using these reserves for the Grand Bend Sewage Treatment Facility and Pumping Station 2 projects.**
    - CAO direction was to bring this information to meeting once costs were finalized and full cost recovery options
    - **Motion 395-2015 – That South Huron Council hereby directs staff to bring back a report to a future meeting outlining methodology for ICI and vacant lots**
    - **Motion 396-2015 – That South Huron Council receives the report from S. Becker, Manager Financial Services/Treasurer re: Grand Bend Sewage Treatment Facility and Pumping Station 2 projects-capital cost recovery update.**
- September 21, 2015 – Methodology for determining household equivalencies
    - **Motion 424-2015 - THAT South Huron Council approves the following methodology for determining a per household equivalency for the benefiting Institutional, Commercial and Industrial properties in the defined service area of Phase 1 of the Grand Bend Sewage Treatment Facility project as established by the Environmental Study Report:**

a) Institutional, Commercial and Industrial properties with a sewage capacity allocation established through an individual Environmental Study Report, Site Plan or Plan of Subdivision approval process, the per household equivalency shall be based on the capacity allocation prorated using the average per household sewage flow established for the design of the Grand Bend Area Sewage Treatment Facility of 373m^3 per year.

b) Institutional, Commercial and Industrial properties <u>without</u> a sewage capacity allocation, the per household equivalency shall be based on a five year average of the individual metered

sewage flow, where this data exists, prorated using the average per household sewage flow established for the design of the Grand Bend Area Sewage Treatment Facility of 373m^3 per year.

c) Institutional, Commercial and Industrial properties <u>without</u> a sewage capacity allocation and where no individual metered sewage flow data exists, the per household equivalency shall be based on a five year average of the individual metered drinking water consumption prorated using 80% of the average per household drinking water consumption in Stephen Ward of 200m^3 per year.

d) Institutional, Commercial and Industrial properties <u>without</u> a sewage capacity allocation, no metered sewage and no metered drinking water data, the per household equivalency shall be based on theoretical sewage flows using Section 8 of the Ontario Building Code prorated using the per household sewage flow established for the design of the Grand Bend Area Sewage Treatment Facility of 373m3 per year.

e) The minimum per household equivalency for all Institutional, Commercial and Industrial properties shall be one (1) household and all per household equivalencies greater than one (1) household shall be rounded to the closest single digit number, with less than 0.50 rounded down and more than or equal to 0.50 shall be rounded up to the closest single digit number.

f) Vacant Institutional, Commercial, Industrial and Residential lots shall be equivalent to one (1) household.

- **Motion 430-2015 – That the capital cost recovery will be from benefitting property owners in the defined service area of Phase1 of the Grand Bend Sewage Treatment Facility project as established by the Environmental Assessment process and shall include all existing users and shall exclude property owners receiving a deferred benefit.**

- May 16, 2016 – Capital cost recovery update – CAO report clarifying until all financial information is finalized a final per property costs cannot be determined.

Final Project Costs (Net of BCF Grant)

The following Table outlines the final project costs (net of BCF Grant):

Grand Bend Area STF & PS2	Project Budget Amounts	Expense to Date	South Huron Share of Costs
STF			
Shared Eligible Costs to Dec. 31, 2013	1,204,747.78	1,204,747.86	372,298.21
Shared Non-eligible Costs to Dec. 31, 2013	228,643.34	228,643.34	63,329.66
Non Shared Non-eligible Costs to Dec. 31, 2013	417,304.61	417,304.61	
New Project Engineering	1,305,987.84	1,480,213.68	522,515.43
New Project Construction Tender	15,027,815.04	13,821,415.97	4,878,959.83
Shared Eligible Miscellaneous		37,498.79	13,237.07
Shared Non-eligible Miscellaneous		36,284.19	13,478.26
Holdback		42,739.20	15,086.94
SH carrying costs		10,660.41	10,660.41
SH Non-eligible non shared costs		464,746.89	464,746.90
LS Non-eligible non shared costs		87,421.74	
Sub Total	18,184,498.61	17,831,676.68	6,354,312.71
PS 2			
New Project Engineering	113,564.16	115,498.92	57,749.46
New Project Construction Estimate	1,328,835.00	1,166,123.38	583,061.69
Miscellaneous		6,143.50	3,071.75
SH Carrying costs		1,189.03	1,189.03
SH Non-eligible non shared costs		10,540.82	10,540.82
Sub Total	1,442,399.16	1,299,495.65	655,612.75
Total Project Costs	19,626,897.77	19,131,172.33	7,009,925.46
BCF Funding			
Funding Claimed To Date (Dec 2013)	803,165.18	803,165.24	248,198.81
Eligible Funding Balance STF	10,889,201.93	10,240,600.65	3,614,932.03
Eligible Funding Balance PS2	961,599.44	858,510.50	429,255.25
Total Funding	12,653,966.54	11,902,276.39	4,292,386.09
Net Cost	**6,972,931.22**	**7,228,895.94**	**2,717,539.37**
STF Net Cost	6,492,131.50	6,787,910.79	2,491,181.87
PS2 Net Cost	480,799.72	440,985.15	226,357.50
Total Net Cost	6,972,931.22	7,228,895.94	2,717,539.37

Breakdown of South Huron FCM Non-Eligible Non-Shared Costs

Breakdown of SH FCM Non-Eligible non shared costs		
Engineer/Consultant	112,392.64	Site Plan Review, Mollard Line Condition Assessment, ICI Equivalencies
		Cost/Capacity Allocations, Historical/technical research of GB Sewers
Legal	246,588.48	Costs associated with OMB mediation, negotiation of joint agreement,
		property title search, opinion re cost recovery option
Miscellaneous	1,943.18	Advertising, public meetings, working group meetings, FOI request,
		Wet Land children's activity book
Flow Monitoring	18,173.14	Flow monitoring at PS2, POG, and Playhouse to verify SH flows
		contributing to GBSTF
Lambton Shores (Pre 2009)	85,649.46	Dillon Consulting costs associated with GBSTF class environmental
		assessment and preliminary design
	464,746.90	
SH carrying costs	10,660.41	
	475,407.31	

Cost per Household Equivalency with 20% of Project Costs Deferred

The following chart below reflects the cost per household equivalency with 20% of project costs deferred to future development:

	Project Costs (net of BCF grant)	Less 20% Deferred to future development	80% Capital Cost Recovery
Grand Bend STF (FCM eligible)	2,015,774.56	403,154.91	1,612,619.65
Grand Bend STF (Non FCM eligible)	475,407.31	95,081.46	380,325.85
Pumping Station 2	226,357.50	45,271.50	181,086.00
Total	**2,717,539.37**	**543,507.87**	**2,174,031.50**
		Number of Household Equivalencies	629
		Cost per household equivalency	**$ 3,456.33**

Reserves

South Huron and Grand Bend sewer reserves were not used to reduce the capital cost recovery. It is an integral part of the Asset Management Plan to implement Council's long term strategy of a phased approach to increasing

contributions to capital replacement reserves to achieve a sustainable level of funding. Contributions to the Capital Replacement Reserves only commenced in recent years and therefore we have not yet attained a sustainable level of funding.

There is a known failure issue with the Mollard Line sanitary forcemain that is currently being investigated. Any replacement or rehabilitation of the existing forcemain in the next couple of years will require the use of Capital Replacement Reserves to fund our share of this work.

It is recommended that Sewers Capital Replacement Reserves be retained and be used to meet our future infrastructure replacement obligations related to the Mollard Line failure.

FCM Loan and Grant (only applies to eligible costs related to the GBSTF)

The FCM grant was not used to reduce the capital cost recovery, as the grant amount is linked to FCM loan. At this time we do not know how much we will be borrowing (if at all) from FCM.

Also, the FCM grant is dependent on whether the plant achieves environmental benefits as stipulated in the agreement. This will not be known for at least 12 months from the date that testing commences

As of the date of this report, testing had not yet commenced. If we do not achieve these environmental benefits we will be required to repay any grant money received. Therefore, any grant money received would be considered deferred revenue which could not be used in the reduction of the capital cost recovery.

To further complicate, the grant revenue can only be used for FCM eligible costs. Therefore, we would need to leave FCM eligible expenses unfinanced until confirmation of the FCM grant is received, such as the 20% deferred amount. This is not recommended due to the risk of higher future interest rates.

The agreement for the FCM loan indicates a required 20 year term and the interest rate is now at 4%. Infrastructure Ontario (IO) financing for the same term is at 2.92%. Financing with Infrastructure Ontario would provide flexibility on the loan term. Even if we were successful in receiving the grant money the higher interest rate, along with the required 20 year term and

the risk of higher interest rates on the unfinanced portion, make the use of the FCM loan less financially desirable.

The FCM agreement stipulates a loan maximum of $5,765,347 and grant amount that is equal to the lessor of the sum of $1,000,000 or 20% of the principal amount of the loan disbursed. Therefore any reduction in the maximum loan amount will mean a corresponding 20% reduction in the grant. The maximum grant amount that South Huron could realize is $353,000. We would only realize this if the maximum loan amount per the agreement is debentured through FCM. At this time Lambton Shores has not determined whether they will be doing any financing through FCM.

The potential of us realizing the maximum grant becomes less likely.

As of the date of this report, if the maximum amount was borrowed through FCM (SH & LS) and if we were successful in receiving the maximum grant, the maximum estimated net benefit realized would be $76,000.

The FCM grant/loan is complicated and comes with some risk. If we do not achieve the required environmental benefits we will have to return the grant money. Also, waiting to determine if grant money will be realized and used to offset eligible costs will delay finalizing the financing of this project with potential for increased debt costs.

FCM vs. Infrastructure Ontario

The following tables outline cost recovery models accessing FCM funding or Infrastructure Ontario (IO) funding:

Cost recovery for affected customers/property owners Utilizing FCM loan at 4% and IO loan @ 2.92%, Term of 20 years

	Project Costs (net of BCF grant)	Less 20% Deferred to future development	80% Capital cost recovery	Debt Costs - FCM 20 yrs @4% & IO 20 yrs @ 2.92%	Capital Cost Recovery Amount for benefiting property owners	Per household cost based on 629 HH
Grand Bend STF (FCM eligible)	2,015,774.56	403,154.91	1,612,619.65	760,567.99	2,373,187.64	
Grand Bend STF (Non FCM eligible)	475,407.31	95,081.46	380,325.85	187,731.00	568,056.85	
Pumping Station 2	226,357.50	45,271.50	181,086.00		181,086.00	
Total	**2,717,539.37**	**543,507.87**	**2,174,031.50**	**948,298.99**	**3,122,330.49**	**4,963.96**

Cost Recovery for affected customers/property owners Utilizing IO loan @ 2.92% with Term of 20 years

	Project Costs (net of BCF grant)	Less 20% Deferred to future development	80% Capital cost recovery	Debt Costs - IO 20 yrs @ 2.92%	Capital Cost Recovery Amount for benefiting property owners	Per household cost based on 629 HH
Grand Bend STF (FCM eligible)	2,015,774.56	403,154.91	1,612,619.65			
Grand Bend STF (Non FCM eligible)	475,407.31	95,081.46	380,325.85	726,976.00	2,901,007.50	
Pumping Station 2	226,357.50	45,271.50	181,086.00			
Total	2,717,539.37	543,507.87	2,174,031.50	726,976.00	2,901,007.50	**4,612.09**

Cost recovery for affected customers/property owners Utilizing IO loan @2.77% with Term of 15 years

		Less 20% Deferred to future development	80% Capital cost recovery	Debt Costs - IO 15 yrs @ 2.77%	Capital Cost Recovery Amount for benefiting property owners	Per household cost based on 629 HH
Grand Bend STF (FCM eligible)	2,015,774.56	403,154.91	1,612,619.65			
Grand Bend STF (Non FCM eligible)	475,407.31	95,081.46	380,325.85	512,394.00	2,686,425.50	
Pumping Station 2	226,357.50	45,271.50	181,086.00			
Total	**2,717,539.37**	**543,507.87**	**2,174,031.50**	**512,394.00**	**2,686,425.50**	**4,270.95**

Cost recovery for affected customers/property owners Utilizing IO loan @2.43% with Term of 10 years

		Less 20% Deferred to future development	80% Capital cost recovery	Debt Costs - IO 10 yrs @ 2.43%	Capital Cost Recovery Amount for benefiting property owners	Per household cost based on 629 HH
Grand Bend STF (FCM eligible)	2,015,774.56	403,154.91	1,612,619.65			
Grand Bend STF (Non FCM eligible)	475,407.31	95,081.46	380,325.85	301,013.00	2,475,044.50	
Pumping Station 2	226,357.50	45,271.50	181,086.00			
Total	**2,717,539.37**	**543,507.87**	**2,174,031.50**	**301,013.00**	**2,475,044.50**	**3,934.89**

Cost recovery for affected customers/property owners Utilizing IO loan @1.97% with Term of 5 years

		Less 20% Deferred to future development	80% Capital cost recovery	Debt Costs - IO 5 yrs @ 1.97%	Capital Cost Recovery Amount for benefiting property owners	Per household cost based on 629 HH
Grand Bend STF (FCM eligible)	2,015,774.56	403,154.91	1,612,619.65			
Grand Bend STF (Non FCM eligible)	475,407.31	95,081.46	380,325.85	130,156.00	2,304,187.50	
Pumping Station 2	226,357.50	45,271.50	181,086.00			
Total	**2,717,539.37**	**543,507.87**	**2,174,031.50**	**130,156.00**	**2,304,187.50**	**3,663.26**

Where We Are To Date

- Based on Council direction to date, the following provides a summary of where we are at:

- 20% of the total project costs is deferred to future development. The 20% will be financed and the principal and interest payments would be paid by all sewer system users across the municipality through user fees.

- 80% of the total project costs will be recovered from the benefiting property owners in the defined service area of Phase 1 of the Grand Bend Sewage Treatment Facility project as established by the Environmental Assessment process (this excludes property owners receiving a deferred benefit)

- If the capital cost recovery amount is not paid in full by affected customers/benefiting property owners, the amount will be recovered on utility bills as a separate identified debt charge for properties with a utility account, and as a separate identified amount on tax bills for properties that do not have a utility bill account. (Note there is a software restriction on the number of different billing amounts that can be accommodated)

- Based on methodology adopted by Council there is 629 household equivalencies. This includes the ICI equivalencies (152).

Moving Forward:

The following elements will be required moving forward:

- Preparation of a cost recovery bylaw for adoption by Council based on the cost per household equivalency of $3,456.33.
- Determination of Financing Option – Can only be one option. At this time it is recommended to move forward with the following as a financing option:

Cost recovery for affected customers/property owners Utilizing IO loan @1.97% with Term of 5 years

- For those customers who do not wish to access the financing option, payment would be required within a thirty day period.

- Determine method of Community Engagement session(s) with customers
- Notice to affected customers
- Report back to Council on financing requirements (if any)
- Prepare bylaw to enter into loan agreement(s) with respective financing agent(s)