

THE CORPORATION OF THE TOWN OF MISSISSIPPI MLLS

COMMITTEE REPORT

SUBJECT: SEWAGE TREATMENT PLANT FINANCING

BY: RHONDA WHITMARSH, TREASURER

CC: DIANE SMITHSON, CAO

DATE: DECEMBER 11, 2008

RECOMMENDATIONS:

THAT the Finance, Administration and Policy Committee recommends that the cost of the water & sewer rate study amendment be included in the 2009 water & sewer budget.

BACKGROUND:

The Town is proposing to construct a mechanical treatment plant with a septage receiving facility to address capacity issues within the Almonte ward as well as requirements under the Nutrient Management Act for residents in the rural wards.

An application was submitted under COMRIF (Canada-Ontario Municipal Rural Infrastructure Fund) to try and obtain 2/3 government funding for this project. Although the application itself was unsuccessful, the federal government has approved a grant in excess of \$7 million towards their share of this project.

Another application under a new funding program, Building Canada, was submitted on November 21, 2008. It would also provide 2/3 funding and has been amended to include the revised cost estimate for the project which is around \$28 million. The results of the application are anticipated by mid February, 2009. If successful, it would secure funding of around \$18.7 million with the Town having to contribute the balance of approximately \$9.3 million. The balance, net of development charges and reserve allocations, would be long term financed over the estimated life of the plant which is approximately 25 years.

It is expected that the Almonte Ward residents would pay the majority of this cost through their water bills. The portion related to the septage receiving facility (\$2.6 million net of development charges) would be borne by the rural residents.

DISCUSSION:

In order for the sewage treatment plant (STP) project to proceed, it requires grant funding. The Town does not have the borrowing capability to finance such a large scale project nor can the residents afford the large increase in water & sewer rates/user fees or taxes that would be required to pay for it. The funding for the balance of the STP (after grants) has not been fully developed at this point because there are still a number of unknowns, however, there have been measures taken by Council in anticipation of this project proceeding.

Water & Sewer Rate Study

In anticipation of the construction of the STP, the Town included the project in the Water & Sewer rate study that was prepared by Watson & Associates in 2006. In the study, the Town has a number of options as to how to set the water & sewer rates to 2015 but has been following the option that provides for 2/3 grant funding for the treatment plant. An allocation to reserves has been made in both the 2007 and 2008 budgets for the treatment plant as well as the replacement and maintenance of all water & sewer infrastructure. The balance of this reserve is expected to be \$600,000 at the end of 2008.

The rate study needs to be updated to address the increase in costs associated with the construction of the STP as well as the change in the operating and lifecycle costs. I would recommend that this be completed in 2009 and included in the 2009 water & sewer budget. Consideration should be given to whether or not the financing for the project should be included in the base charge (like the OCWA contract and master plan debt) or the consumption charge (as it is currently proposed in the rate study from 2006).

Development Charges

In 2007 the development charges study was amended to include the STP. The amendment was only for the treatment plant itself and did not include the septage component. The Town has been collecting DC's for the treatment plant since passing of the amended By-law 07-35 on May 14, 2007. The balance in the fund related to the treatment plant at November 30, 2008 is \$128,700.

The new Development Charges background study that is expected to be completed in early 2009 includes the STP at the revised cost estimate. The development charge was also calculated for the septage component applicable to the rural wards. The background study takes into consideration the \$7 million in grant funding allocated from the federal government but as yet does not include the possible grant funding through Building Canada. The proposed amount recoverable from DC's is \$8,436,450 for the treatment plant and \$304,740 for the septage component. If the Town is successful through its Building Canada application, then the amount recoverable through development charges for the STP will be much lower. Council does not intend to pass the new

development charges by-law until after this funding announcement in the spring of 2009.

FINANCIAL IMPLICATIONS:

It is difficult at this point to determine the full financial implications of the STP without knowing if the Building Canada grant application is successful. For now, I will assume that 2/3 grant funding will be received and the Town will require funding for the balance as follows (approximations only):

	Treatment Plant	Septage Receiving
Total Cost	25,400,000	2,600,000
Less: 2/3 grant funding	16,933,333	1,733,333
Net Cost	8,466,667	866,667
Less: Reserves (2008 balance)	600,000	0
Less: Development Charges-estimate only	3,649,550	304,740
Balance to be financed	4,217,117	561,927
Debt costs assuming 25 yrs at 6%	3,934,168	524,223
Total to be recovered from residents	8,151,285	1,086,150

Treatment Plant

The treatment plant costs of \$8.15 million are expected to be recovered through the Almonte Ward water & sewer budget net of any other revenues (MRPC/ORPC etc.) either as an increase to the base charge or to the consumption charge per the rate study. The other option would be to bill the residents a lump sum amount that could be payable over a number of years. This is what the Town of Carleton Place did when they constructed their treatment plant. This was likely their only option at the time as they do not have metered water. With the constant change of people moving in and out of Town it would be easier administratively to recover the amounts through the water bills. As the water bills increase in value to cover the costs of the treatment plant and to address full cost recovery of the water & sewer infrastructure, the Town will have to change billing practices so that billing is done in a more timely fashion to ensure adequate cash flows.

Septage Receiving Facility

The anticipated recoverable capital amount for the septage receiving facility noted above along with the associated operating costs could be funded through a combination of special tax levy and/or user fees.

If the capital costs only were to be added as a special charge on the rural residents tax bill the annual cost would be approximately \$16.00 per household

(annual debt repayments of \$43,500 divided by 2,760 rural households). The operating costs less any amount recovered through tipping fees could then be added as part of this special charge. The intent is that the tipping fees would eventually pay for the annual operating costs. If in any year the tipping fees were in excess of the operating costs, it could be set aside in a reserve for future maintenance and replacement or used to reduce the special tax levy in the next year.

SUMMARY:

There are still a number of unknown variables with regard to the STP including when it may proceed to construction. In the interim, the Town has taken steps to ensure that some funding is in place before proceeding, including completing the grant application and adding the project to the development charges study and the rate study. At the very least, the rate study should be updated in 2009 to reflect the revised cost estimates and timeline for the STP. Further discussion needs to take place surrounding the funding of the Town's share of the project particularly with regard to the septage receiving facility. This report is for information at this time, and will be updated after the grant results are received in 2009.

Respectfully Submitted

Reviewed by

Rhonda Whitmarsh,
Treasurer

Diane Smithson,
CAO