



COUNCIL REPORT

To: Mayor and Council

Date: July 13, 2020

From: Paul Gipps, CAO

File No:

Subject: **Rose Valley Water Treatment Plant Presentation, Loan Authorization Bylaw and Local Area Service Establishment Bylaw**

RECOMMENDATION

THAT Council consider and resolve to read the City of West Kelowna Rose Valley Water Treatment Plant Local Area Service Establishment Bylaw No. 280, 2020 a first, second and third time; and further,

THAT Council consider and resolve to read the City of West Kelowna Rose Valley Water Treatment Plant Loan Authorization Bylaw No. 281, 2020 a first, second and third time; and,

THAT Council directs staff to submit the City of West Kelowna Rose Valley Water Treatment Plant Local Area Service Establishment Bylaw No. 280, 2020 and the City of West Kelowna Rose Valley Water Treatment Plant Loan Authorization Bylaw No. 281, 2020 to the Province, publish the required advertising and issue notification to the property owners within the proposed Local Area Service for establishment of the local area service on Council Initiative - Subject to Petition Against for both the establishment of the Local Area Service and to authorize borrowing.

STRATEGIC AREA(S) OF FOCUS

Invest in Infrastructure

Strengthen our Community

PURPOSE

The purpose of this report is to:

- Inform and seek Council's endorsement to begin the process of establishing a Local Area Service (LAS) and authorizing a Loan Authorization Bylaw reflecting long-term borrowing for future RVWTP users (currently 8,246 properties), and begin a Council Initiative – Subject to Petition Against process. This will determine if there is no sufficient petition against from RVWTP LAS property owners to the long-term borrowing of up to \$23.5 million and interest;
- To confirm that the planned RVWTP annual water rate increase of \$34 divided over two years (\$13 in 2021 and \$21 in 2022) remains unchanged despite the impacts of COVID-

19, and that no additional annual increases to design, build and finance the plant are required; and

- To confirm that the \$34 increase (from \$116 to \$150 annually) will cover the cost to design, build and finance the plant over the long-term borrowing period.

BACKGROUND

Construction of Rose Valley Water Treatment Plant (RVWTP) is the single largest infrastructure project the City of West Kelowna has ever undertaken. The plant is designed with at least a 75-year lifespan with the capability to expand. The City's asset management strategy over decades to come will factor in the maintenance required for the plant that extends well beyond the 75-years.

The City originally intended to begin design of the RVWTP in 2021 with construction to start in 2022, subject to funding availability. Having received the Federal and Provincial Canada Infrastructure grant, under the Clean Water and Wastewater Fund, the City is able to complete construction of the project in summer 2022 rather than begin in 2022. Completion of the plant in 2022 is also a funding grant requirement, which means the City must secure its borrowing this summer and subsequently award the final significant tender.

The Rose Valley Water Treatment Plant does not apply to the Powers Creek Water Treatment Plant users, nor does it apply to Westbank First Nations water users.

Once constructed, the RVWTP will be a state of the art, Level 4 Water Treatment Plant. The process will include dissolved air flotation (DAF), filtration and ultraviolet (UV) disinfection to provide water year-round that meets or exceeds all federal, provincial, and Interior Health Authority standards for safety and aesthetics. This treatment process has been successfully used all over the world, including the City's Powers Creek Water Treatment Plant. The plant is being designed to produce 70 mega litres per day (ML/D) which will serve Sunnyside, Pritchard, Local Rose Valley (Lakeview Heights) and West Kelowna Estates.

Land and Design

In March 2019, the City of West Kelowna confirmed the purchase of a 24-acre portion of 2010 Bartley Road, at a cost of \$915,000, for the purpose of building the RVWTP.

The City had applied in fall 2017 to obtain rights to use Crown land immediately north of Rose Ridge Park and approximately 1.5 kilometres south of the existing chlorine-only water treatment facility, built in 1977.

On March 26, 2019, Council withdrew its application to the Ministry of Forests, Lands, Natural Resources Operations and Rural Development for tenure on the parcel of the Crown land, located adjacent to District Lots 503, 2685 and 2188, Osoyoos Division Yale Land District.

Since the application process was ongoing after nearly 18-months, the City had chosen instead to make the nearby property purchase at 2010 Bartley Road in order to meet its grant obligations. Crown land tenure was therefore no longer required.

The plant was subsequently designed for the new site, which required significant updates to meet new site elevations, improved scale and function, site-specific environmental considerations and terrain, among other factors. Detailed design of the plant is substantially complete, which will enable the final significant tender to be released to the market later this summer.

Continued Use of a Long-term Borrowing Model

The City's previous significant infrastructure projects, such as its sewer systems and the Powers Creek Water Treatment Plant, required long-term borrowing in addition to the City funds available. Long-term borrowing is also being recommended for the RVWTP project.

The City's financial model, outlined later in this report, reflects the requirement to borrow **up to** \$23.5 million and interest beginning in 2022. It is important to recognize that the actual amount in 2022 may be lower, thus an '**up to**' \$23.5 million framework is used.

Influences that may help lower the actual borrowing amount include:

- Lower construction costs with an increased competitive market due to COVID-19;
- *Actual* overall capital cost expenditures may be lower than today's *estimate*;
- Users who prefer to pay their portion up front will reduce the amount required to borrow in 2022; and
- Additional development over the next two years will include new users who will pay into the system.

The City does not require public approval for short-term borrowing (e.g. 5 years) and could proceed to cover the cost of up to \$23.5 million and interest through short-term borrowing.

This option is not recommended as the time constraints for property owners to pay are much shorter. Short-term borrowing has not been used for similar infrastructure across the city.




As part of Council's *Strengthen our Community* pillar within its 2020 – 2022 Strategic Priorities, understanding the preference of the community about how to pay remains a priority of Council. Should Council endorse the recommendation in this report, staff will proceed with the legislative and non-legislative processes to inform the community about the Council Initiative - Counter Petition Against process, timing, next steps, and provide the community with customer service support to help guide them through the process.

Should Council prefer an alternative option, staff will develop the appropriate process and public information material about how to pay with a short-term borrowing model.

DISCUSSION

Current Project Status

The site was cleared in fall 2019 and early works construction for the first tender awarded in March 2020 continues to progress, which includes:

-  Excavation
-  Blasting
-  Roadworks



Utilities

Other site prep works

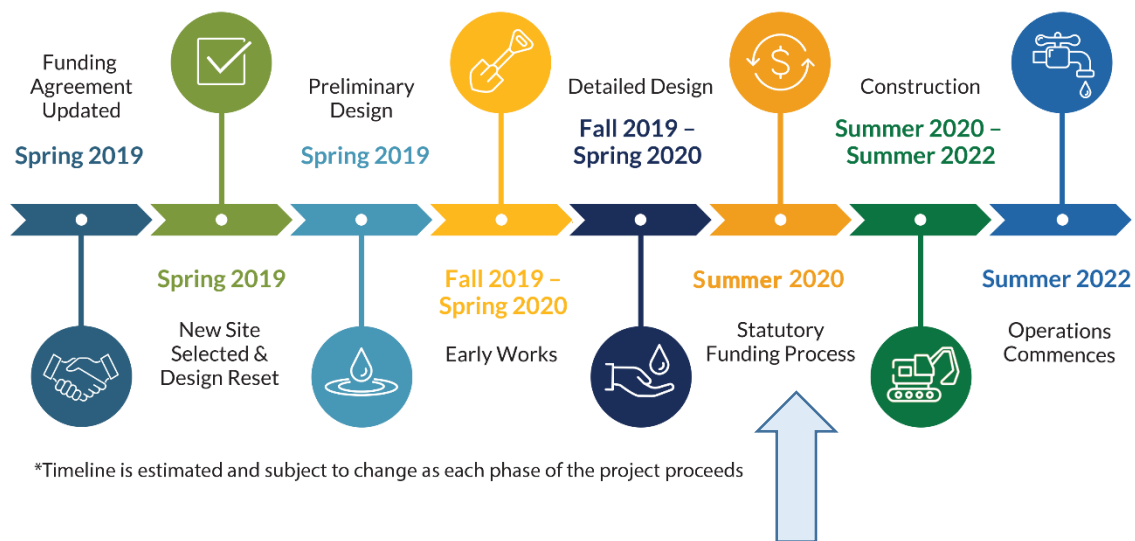
The remaining general contractor tender that will be issued later this summer also remains on-track with the pre-qualification process for bidders underway. Following that, smaller tenders will be awarded for components such as electrical and instrumental equipment.

A cost breakdown for design and construction of the project will be provided once the remaining significant general contractor tender is awarded in late summer 2020. This will ensure the City does not compromise its competitive bidding and contractor selection process prior to tender award.

Additional information and progress completion images are included in the companion presentation and posted online at www.westkelownacity.ca/rvwtp.

Project Schedule

Rose Valley Water Treatment Plant Timeline*



WE ARE HERE

Next Steps

Establishing a Local Area Service (LAS) and Loan Authorization Bylaw

Staff has identified a Local Area Service (LAS) for the Rose Valley Water Treatment Plant, which currently includes approximately 8,350 properties. Please refer to RWWTP LAS map attached to this report as part of establishing the **City of West Kelowna Rose Valley Water Treatment Plant Local Area Service Establishment Bylaw No. 280, 2020** under Section 211 (1)(b) of the *Community Charter*.

The new RWWTP LAS will serve the following areas:

- Pritchard Water Service Area
- Local Rose Valley Water Service Area (Lakeview Heights)
- Sunnyside Water Service Area

- West Kelowna Estates Water Service Area

As summarized in the infographic attached to this report, from 2018 through June 2020, the new RVWTP LAS's noted above experienced 890 combined water quality advisory days out of 918 days.

In contrast, the Powers Creek Water Treatment Plant users only experienced 13 water quality advisory days out of 918 days. Those rare instances were primarily due to a third-party contractor striking city water mains.

When the RVWTP goes into operation in 2022, water quality advisory days will be extremely limited just as they are with the Powers Creek plant. Together, the two plants will serve most of the City of West Kelowna properties and the City will be able to meet its requirement to deliver clean, safe and reliable drinking water to the community for generations to come.

Staff has also provided Council with the **City of West Kelowna Rose Valley Water Treatment Plant Loan Authorization Bylaw No. 281, 2020** under Sections 217 (1)(b) and 213 of the *Community Charter*.

This is to undertake borrowing from the Municipal Finance Association (MFA) of up to \$23.5 million through a Council Initiative – Subject to Petition Against process that could proceed based on no sufficient petition against received by Council in the required timeframe (30-day period).

This method would require at least 50 per cent of all RVWTP parcel owners representing at least 50 per cent of the local service area property value to sign and submit the written counter petition against form to the City within the 30-day period.

Based on the process outlined below, staff anticipate undertaking the 30-day response period in August/September 2020.

At-a-Glance: Counter Petition Process

July 14, 2020 – Report to Council seeking Council's endorsement on the Local Area Service (LAS) Establishment Bylaw and Loan Authorization Bylaw with three readings (1 week).

If endorsed:

July 15 – Loan Authorization Bylaw to the Ministry of Municipal Affairs and Housing for Inspector Approval, including Liability Servicing Limit Certificate (4 – 6 weeks).

August – Statutory advertising (Notice of Intent), posting and deliver Notice of Intent and counter petition package to all RVWTP service area parcel owners (2 weeks).

August/September – Response period is 30 days for RVWTP LAS property owners to return a Petition Against form (4 weeks).

August/September - Corporate Officer review, determination of results and issuance of the Certificate of Sufficiency (1 week).

August/September – LAS Bylaw and Loan Authorization Bylaw to Regular Council Meeting for Adoption (1 week). This is the 13 - 15 week period.

August/September – Quashing period, Corporate Officer’s Certificate to the Ministry of Municipal Affairs and Housing, and Ministry of Municipal Affairs and Housing Inspector Certificate of Approval (9 weeks combined).

Estimated Total Weeks to Bylaw Adoption (13 – 15 weeks).

Throughout the legislative process, staff will include a RVWTP Project Update as a standing Regular Council agenda item beginning in August 2020. This, along with ongoing stakeholder and public communication and engagement, will provide accurate, timely and transparent updates about what’s been completed, where we are today and what’s next.

FINANCIAL IMPLICATIONS

Local governments borrow through the Municipal Finance Authority (MFA) in BC. This organization was created in 1970 and exists to provide long-term debt issuance under a collaborative borrowing model. This model allows member municipalities to realize economies of scale, thus minimizing borrowing costs over the short and long term.

West Kelowna has used the borrowing facilities provided by the MFA in the past and is planning to borrow under this structure for the RVWTP. The estimated maximum borrowing is up to \$23.5 million, which would require yearly principal/interest payments of approximately \$1,252,800 per year. This amount is well within the City’s capacity to service its borrowing commitments.

The MFA calculates the liability-servicing limit to be 25% of a local government’s revenues from the previous year. This means the City of West Kelowna will only be at 28% of its borrowing capacity, which includes the RVWTP project. If Council endorses the borrowing recommendation, the City will still have more than 70% of its borrowing capacity remaining.

The estimated \$23.5 million loan is calculated before taking into account the taxpayer’s option of paying a commuted value up front and avoiding interest. The City’s planning for borrowing anticipates offering a one-time commuted value of \$2,815 (estimated) paid up front thus reducing the total borrowing required.

Annual payments of \$1,252,800 has been estimated under a conservative 25-year rate structure (2.58%). In reality, the loan would be initiated with a ten-year term and then renewed in five-year segments. This provides options for debts to be paid down early if the opportunity exists but also potentially provides for lower interest rates at each renewal. Currently the ten-year rate sits at 1.8%, which would save City of West Kelowna taxpayers almost \$200,000 per year.

Prior to COVID-19 and reviewed again in May/June 2020, staff has confirmed the financial model to design, build and finance the RVWTP:

Project Value

Not To Exceed \$75 million

Grant Funding

\$41 million Federal and Provincial Canada Infrastructure Grant

City Reserve

\$4.4 million

Eligible Development Cost Charges (DCCs)

\$6.1 million

Borrowing

Up to \$23.5 million (borrow only what's required beginning in 2022)

Grant Funding	\$41 million
City Reserve	\$4.4 million
Eligible DCCs	\$6.1 million
Borrowing	\$23.5 (maximum)
Total Project Value	\$75 million (not to exceed)

1) Number of Parcels in RVWTP area (est)	8,350
2) Annual Debt Servicing (high estimate)	\$1,252,800
Cost per parcel (divide lines 1 and 2)	\$150 per year, per parcel
Re-payment Option Through One-time Fee: one-time payment of total debt servicing cost in 2022 (with no interest)	\$2,815 per parcel
Repayment Option Through Parcel Tax: users existing \$150 utility fee will be removed from their annual water bill and moved into an annual parcel tax in 2022	\$150 per year, per parcel

COMMUNICATION AND ENGAGEMENT SUMMARY

Both statutory and non-statutory communication and engagement will occur with those directly in the RVWTP LAS, with community leaders and key stakeholders, and with the broad public leading up to, during and after the Council Initiative – Subject to Petition Against process. Communications and engagement planning has been adapted to adhere to the social distancing requirements during COVID-19 and will include primarily digital and print information and engagement.

Pre-Subject to Petition Against Process: Non-legislative

This phase has and will continue to include the following tools and methods:

- ✓ Publicity through media releases, public service announcements and interviews
- ✓ Paid newspaper advertising
- ✓ Website updates
- ✓ E-blasts to subscribers
- ✓ Video clips

- ✓ Social media posts and interactions
- ✓ One-on-one discussions with community members
- ✓ Project information handouts
- ✓ Presentations
- ✓ Reports to Council
- ✓ Small online group information sessions

Should Council endorse the report recommendation, the attached household mailer would be finalized and mailed to RVWTP LAS property owners the week of July 20, 2020. The purpose is to create awareness with RVWTP LAS property owners about the \$34 increase, the long-term borrowing recommendation and that the Council Initiative - Subject to Petition Against process is underway prior to property owners receiving the counter petition package in the mail.

Staff will also continue with broader outreach through the tools and methods listed above. Customer service points of entry, such as Legislative Services, Engineering and Finance staff, are also available by phone, email and can accommodate pre-scheduled individual meetings to help guide the public through the process.

Subject to Petition Against Process: Legislative

The Corporate Officer will mail the Council Initiative – Subject to Petition Against package with supplemental information to all RVWTP LAS land parcels (properties) once the Loan Authorization Bylaw has received Inspector Approval. Two statutory newspaper advertisements (Notice of Intent) will be placed, with the second ad earmarking the start of the 30-day period.

While the legislative process is underway, continued print, electronic and virtual community relations activities will also continue as noted above. Note there will be no in-person gatherings that exceed the Provincial Health Officer's social distancing requirements. Thus, the Petition Against Form must be returned via mail or dropped in the City Hall drop box received by the City before the 30-day period ends.

Post-Subject to Petition Against Process: Non-legislative

Once the 30-day period has passed, staff will provide Council and the community with the outcome, recommendations, next steps and timing through the tools and methods noted above. As this phase will be guided by the outcome of responses received, greater detail will be provided at the start of this phase.

CONCLUSION

Staff have prepared the following three options for Council's consideration:

- 1) Proceed with long-term borrowing of 25 years, including a loan authorization bylaw that would see each parcel within the RVWTP local area service pay \$150 annually or \$2,815 lump sum (estimated in 2022) to service the up to \$23.5 million funds required; or
- 2) Proceed with short term borrowing of 5 years, including a loan authorization bylaw that would see each parcel within the RVWTP local service area pay \$600 annually for 5-

years or \$2,815 lump sum (estimated in 2022) to service the up to \$23.5 million funds required; or

- 3) Proceed with a single one-time payment of \$2,815 (estimated in 2022) per parcel within the RVWTP local area service to fund the up to \$23.5 million funds required.

REVIEWED BY

Warren Everton, CFO

Allen Fillion, Director of Engineering and Public Works

Sandy Webster, Director of Corporate Initiatives

Tracey Batten, Deputy CAO/Corporate Officer

APPROVED FOR THE AGENDA BY

Paul Gipps, CAO

Powerpoint: Yes No

Attachments:

- 1) Rose Valley Water Treatment Plant Local Area Service Establishment Bylaw No. 280, 2020
- 2) Rose Valley Water Treatment Plant Loan Authorization Bylaw 281, 2020
- 3) RVWTP LAS Map (as of July 2020)
- 4) It's All About Water! Did You Know? Water quality infographic (as of July 2020)
- 5) Important Update About Your Water! DRAFT household mailer (to be finalized following Council direction)
- 6) Question and Answer DRAFT document (to be finalized following Council direction)
- 7) Newspaper Ad for Future Rose Valley Water Treatment Plant Users