REPORT TO COUNCIL

DATE: September 17, 2013 **REPORT NO.:** 13-203

SUBMITTED BY: Shelly Woolf, Chief Financial Officer **FILE NO.:** 1-6-12

SUBJECT: Water Pipeline Funding Analysis

PURPOSE

To provide Council with funding options as requested by Councillor Parslow at the August 9, 2013 Council meeting. The resolution follows:

"That staff prepare a report on the funding of a pipeline to the Peace River using three "ball park figures" for the project, $55,000,000, $75,000,000 and $100,000,000. The report should address the borrowing capacity of the city, taxation, water utility funds, impact on other infrastructure needs, possible application of Fair Share funding, operating costs, private sector partnerships and any other factors staff believe important in helping Council come to a resolution of this issue."

Magnitude - Cost Comparisons

$55 Million
1.3X Total Water Infrastructure
4.3X Average Annual Capital Spending (2000-2012)

$75 Million
1.8X Total Water Infrastructure
5.8X Average Annual Capital Spending (2000-2012)

$100Million
2.4X Total Water Infrastructure
7.8X Average Annual Capital Spending (2000-2012)

$ 8.6M Water Supply Infrastructure
$ 643K Water Supply Operating costs

Magnitude of the Pipeline Project

Regardless of what funding option the City uses, the cost of this one project is expensive. At present, the community does not have the money to pay for this project and moving forward with it prematurely will stress the systems and financial resources of both the Corporation and the residents of Dawson Creek. Increasing taxes or user fees to the level needed to pay for this project by saving money or borrowing money would result in significant negative impacts and could affect investment, community growth and existing small business operations, as well as those families and individuals with moderate or fixed incomes. This would not only be the case in the short term but could have such an impact for ten to twenty years as money is saved or paid back. The City uses taxation and user fees to fund many services and the infrastructure that supports these services. Water supply is only a portion of one service. To give Council some context on the magnitude of the project, note the comparisons to the left.

Funding Any Capital Project

Funding = Spending

Funding Must Be Secured

Funding Must Be Included in the Five Year Plan

Money can come from one source or a combination of many sources

High cost projects are more risky than low cost projects

Requirements for Funding Any Capital Project

There are many ways to fund a capital project. A local government can employ one funding source or a combination of many. Before beginning a capital project, however, the funding must be secured and included in the City's five year plan.

Regulation, permitting, borrowing authorizations and multiple agreements make the process of establishing appropriate funding a lengthy and complex one. Due to these considerations, costs can change throughout the process.

Changes to scope and/or contractor market pricing often change or increase when undertaking multi-year projects. When this occurs additional funding sources need to be secured throughout the project timeline. This happened with both the Multiplex and the Calvin Kruk Arts Centre projects. For both of these there was room to secure additional funding; however due to the magnitude of this project, funding options will most likely be maxed out leaving few alternatives besides increasing taxation or user fees. Because this commitment is so costly there is a great amount of risk that comes with it.

The "true cost" of the pipeline is unknown today

Costing = "the spend"

Funding = "paying for the spend"

Paying for a new pipeline will have significant impacts on every financial decision Council makes in the foreseeable future

This report discusses funding alternatives for the three amounts listed in the resolution; readers should be cautioned that these amounts are not the "true costs" of the pipeline; that is yet to be determined.

Funding is different than costing. Costing refers to "the spend" and funding refers to "paying for the spend." This report focuses on the latter. Many assumptions are used throughout the report, and changing any one of them will change the outcomes and impacts of the project. As stated in the annual budget report, City finances are very interconnected and integrated. One decision made today affects many other decisions made in the future. This analysis is a "what if" scenario only.

Two Basic Ways to Pay

1. **Save and pay later**
2. **Borrow and pay now**

Paying for the Pipeline (Funding)

There are 2 basic ways to pay for something:

1) Use your (our) own money
2) Use someone else's money

These two ways apply to Local Government spending just like they do for personal spending. The difference, however, is that a personal decision affects only one person, just like a family decision only affects that family, however a Local Government decision affects an entire community.

Because "affordability" is subjective and based on one's own particular financial circumstances, readers of this report are asked to apply the impacts of these "what if" analyses to their own financial situation. Once an individual, family and/or business determination of "affordability" is made, the information can be combined collectively to make a community determination of "affordability."

The final decision to move forward with a pipeline will be dependent on many variables, too many to summarize in this report, but the "affordability" piece should play a big part in determining the final decision to move forward, because in the end it is not the Corporation that pays for the pipeline, it is the taxpayers and water users of Dawson Creek.

Questions to Consider

A sequence of questions similar to those used in a personal financing decision can also be used for Local Government. The terminology, variables and risks are more complex in this situation, but going through the process gives us some insight and useful information to proceed with the discussion. Often, the answer to one question affects the answer to the next question and so on, but eventually a final decision on the project can be made. For example:

- Do I (we) have the money to pay for it?
- Can I (we) save the money to pay for it?
- How long will it take me (us) to save for it?
- Will I (we) have to give up something while I (we) save for it?

- Can I (we) borrow the money?
- How much can I (we) borrow?
- Who will I (we) borrow it from?

- Will the government give me (us) the money?
- Will a private company give me (us) the money?

- What is the cost of getting this money?
- Is the cost of capital fixed or variable?
- What is the current interest rate? Is it likely to change?
- Are there any conditions attached? Are they fixed or variable?

- How long will it take to pay it back?
- How much will it cost me (us) each year to pay it back?
- Will I have to give up having something while I (we) pay it back?

- Can I (we) afford to do this right now or should I (we) wait?
- Are there any less costly alternatives?

Going through these questions gives some context to the process before moving forward. Some of them will be considered and explored in this report, which hopefully will help Council with the discussion and in finding a resolution.

Cost Comparison to Bank Balance

Bank Balance $16.8M

Water Capital Reserve Bank Balance $5.3M
(December 31, 2012)

$55 Million
3.26X Bank balance
10.46X Water Capital Bank balance

$75 Million
4.45X Bank balance
14.27X Water Capital Bank balance

$100Million
5.93X Bank balance
19.02X Water Capital Bank balance

2013 Operating Budget

$34.4 Million

2013 Capital Budget

$21.4 Million

Save and Pay Later

Does the City Have the Money

Right now, the City of Dawson Creek does not have the money to fund this project, whether it costs $55M, $75M or $100M. At December 31, 2012 the City had $16.8M in the bank. Approximately 1/3 of the balance is unrestricted and used to cover ongoing operations. Approximately $5.3M is set aside in a water capital reserve with some of the money already committed to other projects.

The 2013 annual operating budget is $34.4M and this money is used to pay for annual service programs and past capital commitments. The 2013 capital budget is $21.4M and this money is used to pay for capital upgrades to the buildings, equipment and infrastructure that support all of the City provided services. Much of the money in the bank is set aside for spending that has already been committed to something else leaving little money for future commitments like the pipeline.

Each resident should consider their bank and savings account balance, household budget and capital commitments they have presently to determine if they have extra money to pay for increased water fees and/or taxes because the cost of the pipeline will ultimately be paid in whole or in part by the residents of Dawson Creek.

Comparing the three estimates to the current bank balance and the water capital reserve account gives Council an idea of how much money is needed for this project and that paying for it has to come from future revenues because we don't have sufficient savings right now to support the project.

Can the City Save the Money?

The next question to consider is - Can the City save the money? The answer to this question would be yes, but how much money to set aside annually will be dependent firstly on how much other sourcing can be secured and secondly how quickly Council would want to proceed with the project.

If Council chooses to use the savings model to fund the project then effectively the City would be setting aside a predetermined amount of money annually for a specific period of time. Saving any or all of the $55M - $100M will take a long time unless some unforeseen windfall occurs.

The impact to the resident will be dependent on how Council chooses to raise the money. This concept was explored in the Fiscal Gap report prepared by the City's CAO, Jim Chute and readers are encouraged to refer to that report for additional context, for the funding of this project

will have an exponential impact on that gap.

Some examples for raising the money to accumulate into savings (reserve account) are as follows:

- cutting services and putting the money saved from not providing those services into a reserve
- levying a special tax and accumulating it into a reserve
- using taxation from growth assessment and putting the extra money into a reserve
- using a combination of all of the above approaches

Saving the Money Annually by Service Cuts to the Operating Budget *

$55 Million
5% = $1.7M = 32.35 years
10% = $3.5M = 15.71 years
20% = $7.0M = 7.86 years

$75 Million
5% = $1.7M = 44.12 years
10% = $3.5M = 21.43 years
20% = $7.0M = 10.71 years

$100Million
5% = $1.7M = 58.82 years
10% = $3.5M = 28.57 years
20% = $7.0M = 14.29 years

*(Interest earned on the annual savings is not included in the analysis for simplicity purposes only. The time period needed to raise the money would decrease as interest rates increased).

Cutting Services and/or Reallocating Fair Share

The information to the left illustrates how much money could be saved annually if Council chose to cut a specific percentage of the operating budget. For example, if Council chose to cut the operating budget by 5%, $1.7M could be saved annually and put into a reserve. This example would take 32.35 years to save $55M. Alternatively, if Council cut the budget by the same amount but needed $100M it would take 58.82 years to save the entire amount. On the other hand a higher cut of 20% would raise the money in 7-14 years.

The higher the cut, the faster the increase in accumulating a desired savings target but the impact to residents is also higher. Where to cut and how to cut is a topic for a different report. Council and the community will have to make those decisions together if this scenario is chosen.

Cutting budgets in contracting economies is a common strategy for reducing expenditures because revenues are declining and activity is slowing; reducing budgets in expanding economies can be more difficult because activity is increasing and expanding infrastructure is needed to support the increased activity.

Reallocating Fair Share and/or any other "general fund" revenue to a water fund capital project or reserve has a similar effect as cutting service because essentially the general revenue used in the fund is gone. This method of transfer is simply reprioritizing spending from the general fund service programs to water capital projects. The money to pay for the existing service level would have to come from taxation otherwise the service would have to be cut.

Allocating specific dollars from one fund to another does not change the total funding envelope; it just changes the spending priority pattern.

Saving the Money Annually Using A Special Tax Levy
(Based on current residential and commercial assessment)

$55 Million
10 years - $5.5M
$2,138,141R + $2,603,014C
R 5.16-> 7.23
C 17.25->24.17

20 years - $2.75M
$1,069,071R + $1,301,507C
R 5.16-> 6.20
C 17.25->20.71

$75 Million
10 years - $7.5M
$2,915,647R + $3,549,565C
R 5.16-> 7.98
C 17.25->26.69

20 years - $3.75M
$1,457,823R + $1,774,782C
R 5.16-> 6.57
C 17.25->21.97

$100Million

10 years - $10M
$2,915,647R + $3,549,565C
R 5.16-> 8.93
C 17.25->29.84

20 years - $5M
$1,457,823R + $1,774,782C
R 5.16-> 7.04
C 17.25->23.54

Special Tax Levy

Alternatively, Council could decide to hold services at their present cost level and impose a special annual tax levy to save the money. Again, the time frame decided upon would determine how much the annual levy would be. For example, an annual residential tax levy of $2.07 and a commercial levy of $6.92 would be required over 10 years to raise $55M based on the current tax ratio model. The current tax rates and the new rates are shown in the illustration box to the left. If the timeframe was over 20 years then the residential levy would be $1.04 compared to a commercial levy of $3.46. This illustration shows the magnitude of raising the money through taxation and the impact it places on the taxpayer for 10 – 20 years. If the project cost increased to $100M then the residential levy could range from $1.88 to $3.77 and the commercial tax levy could range from $6.29 to $12.59

Impact on Average Residential Property

Average Residential - Single Family Dwelling - Taxes Paid			
After Home Owner Grant			
Sure Water Costing Analysis - Impact - Special Tax Levy			
Updated September 17, 2013			
Estimate 2	$75M		
Annual Savings Needed over 20 years (Residential)	$ 2,915,647		
Increase to Rate	$1.41	**	***
Dawson Creek	2013	2013	2012
Average assessment	233,735	233,735	219,817
Tax rate per $ 1000	6.57	5.16	5.16
Municipal Tax dollars	1,535.63	1,206.07	1,134.26
Other Government Taxes*	1,052.95	1,052.95	1,032.30
Flat tax	300.00	300.00	300.00
Property Taxes taxes paid	2,888.58	2,559.02	2,466.56
Less Home Owner Grant	(770.00)	(770.00)	(770.00)
Total Property Taxes paid after grant	2,118.58	1,789.02	1,696.56
Increase (Decrease)includes taxes from other governme	329.56	92.46	55.03

Impact on Commercial Property

The City of Dawson Creek									
B7 - Average Commercial Property - Historical Summary - Taxes Paid									
Sure Water Costing Analysis - Special Tax Levy								Current	$75M 20 years
	*	*	*	*	*	*	*	**	**
Dawson Creek	2006	2007	2008	2009	2010	2011	2012	2013	2013
Average assessment	138,997	176,644	250,593	251,204	296,898	310,588	352,242	388,397	388,397
Tax rate per $ 1000	25.35	22.97	21.15	21.15	19.15	18.50	17.50	17.25	21.97
Municipal taxes paid	3,523.57	4,057.51	5,300.04	5,312.96	5,685.60	5,745.88	6,164.24	6,699.85	8,533.08
Variance from previous year	260.52	533.94	1,242.53	12.92	372.63	60.28	418.36	535.61	1,833.23

Impact Analysis

City of Dawson Creek				
Water Funding Analysis - Special Tax Levy				
December 31, 2013				
	Estimate 1	Estimate 2	Estimate 3	Current Tax Rate
	$55Million	$75Million	$100Million	
Tax Rate	per $1000 of assessment	per $1000 of assessment	per $1000 of assessment	
Save money over 10 years - annual residential tax rate	$ 2.07	$ 2.82	$ 3.77	$ 5.16
Save money over 10 years - annual commercial tax rate	$ 6.92	$ 9.44	$ 12.59	$ 17.25
Save money over 20 years - annual residential tax rate	$ 1.04	$ 1.41	$ 1.88	$ 5.16
Save money over 20 years - annual commercial tax rate	$ 3.46	$ 4.72	$ 6.29	$ 17.25
Save money over 30 years - annual residential tax rate	$ 0.69	$ 0.94	$ 1.26	$ 5.16
Save money over 30 years - annual commercial tax rate	$ 2.31	$ 3.15	$ 4.20	17.25

Conclusion: It would take an annual residential tax rate increase between $.69 - $3.77 depending on how quickly Council decided to raise the money.

Saving the Money Annually Using Growth to Generate the Annual Savings
(Based on current residential and commercial assessment)

$55 Million
10 years - $5.5M
$2,138,141R + $2,603,014C
40% increase

20 years - $2.75M
$1,069,071R + $1,301,507C
20% increase

$75 Million
10 years - $7.5M
$2,915,647R + $3,549,565C
55% increase

20 years - $3.75M
$1,457,823R + $1,774,782C
27% increase

$100Million

10 years - $10M
$2,915,647R + $3,549,565C
73% increase

20 years - $5M
$1,457,823R + $1,774,782C
36% increase

Average annual Residential Assessment value growth (1999-2013)

10.38%

Average annual Commercial Assessment Value growth (1999-2013)

13.76%

Taxing Growth

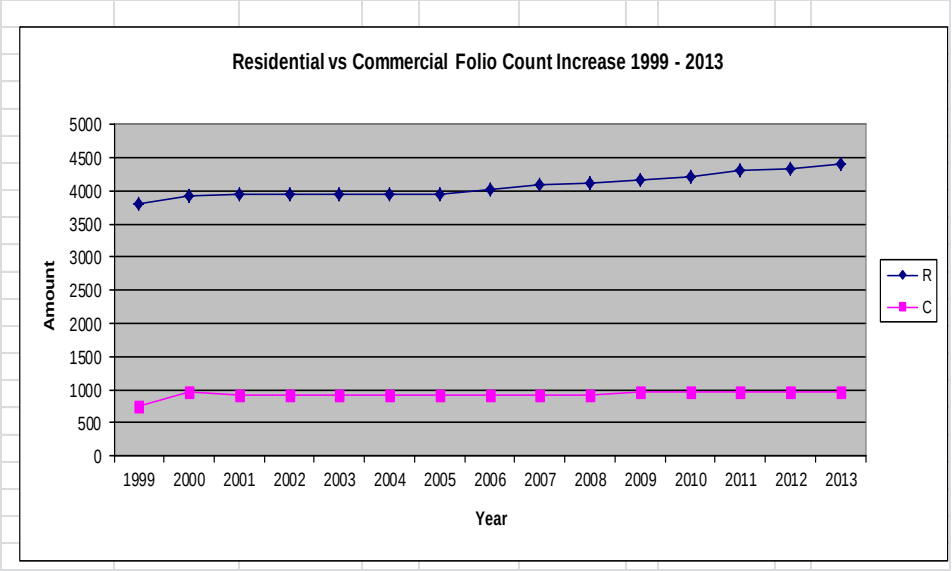
One of the reasons people believe that this pipeline is needed is to accommodate growth, so looking at an example of how much growth is needed to raise the annual amount without affecting the current budget model provides Council with some useful information.

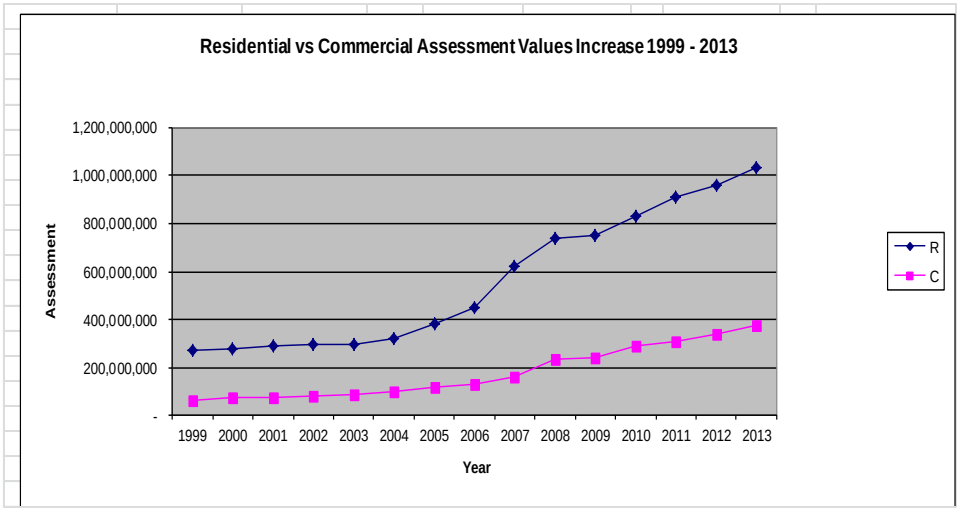
If we use the 10 year savings model, the current residential and commercial assessment bases would need to increase 40% to raise the annual savings to fund a $55M project compared to a 73% increase to generate the annual savings on a $100M project.

Alternatively, a 20 year savings model needs a 20% increase on a $55M project compared to a 36% increase on a $100M project.

It should be noted though that the lift needs to occur at the front end of the funding model and must remain stable for the entire 10 to 20 year savings period.

If we look at the City's annual historical growth since 1999, it has averaged 10.38% on the residential base and 13.76% on the commercial base over the last 14 years. These increases are significantly less than those needed to support this scenario. Also, no one can predict with any amount of certainty whether these levels of growth will continue. The oil and gas industry is dependent on commodity pricing which is dependent on global supply and demand markets and although they affect the community they are beyond the City's control.




Residential vs Commercial Assessment Values Increase 1999 - 2013
Assessment
1,200,000,000
1,000,000,000
800,000,000
600,000,000
400,000,000
200,000,000
-
1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013
Year
R
C

Saving the Money Annually Using Increased Water Infrastructure Revenue -annual charge comparison -current to new pipeline

$55 Million
10 years - $5.5M
$222 -> $786

20 years - $2.75M
$222-> $393

$75 Million
10 years - $7.5M
$222-> $1,072

20 years - $3.75M
$222 -> $536

$100Million
10 years - $10M
$222 -> $1,439

20 years - $5M
$222 -> $ 715

Increasing Infrastructure Water Rates

Presently, the City uses a funding model that allocates revenue from the water infrastructure charge to borrowing costs and/or capital upgrades whereas the variable water charges fund operational costs. In 2012 approximately $1.5M was raised from the infrastructure charge. This allocation would have to remain in place to pay for existing commitments.

If the same savings model is used as in the other examples then the impacts are still significant. The charges to the left are based on a typical 5/8″ home connection. To save $5.5M over 10 years the annual infrastructure charge would increase from $222 to $786 on top of consumption charges; to save the same amount over 20 years the charge would go from $222 to $393.

Alternatively, if the project cost $100M then the charge would change from $222 to $715 or $1,439 depending if the 10 or 20 year model were chosen.

The City has many users with different size meters; the bigger the meter size the higher the annual charge. For example there is one property with a 6″ meter; the infrastructure annual charge on this connection will go from $20,466 to $72,484 annually for a $55M, 10 year model or to $36,242 annually on a $55M, 20 year model. If the cost increased to $100M the annual levy on this size meter could go as high as $131K on a 10 year model and $66K on a 20 year model.

The current billing base is close to 5,000 customers. Sharing the cost between more customers reduces the impact of any increase; this would be the case in a regional cost sharing model.

The funding models above show how significant the impacts could be if services were cut, a special tax levy was used and/or water infrastructure charges were increased. It wasn't that long ago (2011) that the first water infrastructure charge and increased rates were applied. The implementation of this change created much conflict and anger for some residents, especially from low and fixed income residents. Funding a new pipeline using these sources would undoubtedly create further conflict and anger, but more importantly it could create an environment of enormous financial stress for many businesses and residents. People have limited amounts of disposable income to pay all their bills. If taxes or fees go up for water as shown in the analysis, people will have to reduce spending in other areas. Choices will be made individually or collectively at the community level. In an extreme case, if the cost gets too high, people or business will move to an area that they believe is affordable.

Borrowing the Money

Current Debt
$ 29.1M – 2012 Total
$ 8.2M – 2012 Water fund

Debt Payments
$ 4.3M – 2013 Total
$ 1.1M – 2013 Water fund

$ 55 Million
$ 4.6M-20 yr annual pmt
$ 37M - interest cost

$ 75 Million
$ 6.6M-20 yr annual pmt
$ 50M - interest cost

$100Million
$ 8.4M-20 yr annual pmt
$ 67M – interest cost

Borrowing The Money

An alternative to saving is borrowing. Borrowing is used when savings or other funding sources are not available or in combination with other sources. This option is more costly because of attached interest costs.

In 2012, the City owed $29M in outstanding debt including general fund debt of $19M (65.5%), sewer fund debt of $475K (6.1%) and water fund debt of $8.2M (28.4%).

The annual principal and interest payments on this debt are approximately $4M.

In 2013, Council committed to borrowing an additional $11.29M for road upgrades, the Loran reservoir and the sewer trunk line. This brings the committed outstanding balance to $40M before the 2013 principal payments are applied.

Based on the committed balance the annual principal and interest payments will increase to approximately $5.2M.

The chart below shows the continuity of debt commitments made since 2009.

Municipality	L/A By-Law Numbe	Temporary Borrowing Bylaw Number	Purpose	FP Bylaw	Amount of borrowing authorized
#1	#2		#3		#4
DC - 2009 Final		Failed	Referendum Failed	3,993,200	-
DC					
DC - 2010 Final			No proposed borrowing	-	-
DC - 2011					
DC	4080		Calvin Kruk Centre for the Arts	4,000,000	4,000,000
DC	4107		Asphalt/Overlay/gutter/sidewalk - LAS	2,630,000	114,395
DC	4108		Capital Improvements - Roadwork - LAS		804,005
DC	4109		Capital Improvements - Roadwork		1,711,600
DC	4121	4128	Truck Filling Station*	1,000,000	1,000,000
DC 2011 Final				7,630,000	7,630,000
DC - 2012					
DC	4140	4148	Capital Improvements - various	2,925,000	2,925,000
DC	4141	Failed	Road reconstruction**	481,632	-
DC	4142	Failed	Capital Improvement - Roadwork**	518,368	-
DC 2012 Final				3,925,000	2,925,000
DC	4166	4167	2013 Capital Improvements - Roadwork (Road, sidewalk & storm)	2,790,000	2,790,000
DC	4168	4169	2013 Capital Improvements - Waterworks (Loran Treated Water Reservoir)	3,500,000	3,500,000
DC	4170	4171	2013 Capital Improvements - Sewerworks (Trunkline)**** not yet authorized**	5,000,000	5,000,000
DC 2013 WIP				11,290,000	11,290,000
Accumulated Total amount of Issue				26,838,200	21,845,000

2013 Committed Debt
$40M
2013 Committed Payments
$5.2M

Borrowing Capacity

2012 Limit
$10 Million

2013 Committed
$5.2M

2013 Available
$4.8M

$55 Million
$9.8M
$ 182K

$75 Million
$11.5M
$(1.5M) Over Limit

$100Million
$13.6M
$(3.6M) Over Limit

Borrowing Capacity Limit of the City

The City's borrowing capacity is determined in accordance with Ministry regulation 245 - Municipal Liabilities Regulation. In simple terms, the City is allowed to increase its debt servicing costs up to 25% of its annual calculation revenue (ACR) from the previous year. (The formula is a bit more complicated but this simple definition works for the analysis.) Annual calculation revenue includes ongoing and recurring revenue including Fair Share.

The Borrowing Capacity Limit does not limit total outstanding debt, it limits the annual principal and interest payments. The limit changes every year as revenue increases or decreases. A $1M change in revenues affects the City's borrowing capacity by $250K.

2012 Borrowing Capacity Limit = 25% x $40,104,318 = $10,026,080

With an interest rate of 5% and a 20 year payback, the City could borrow up to approximately $120M. This would use all of the City's debt servicing capacity, with annual debt payments at $10M.

Important Note:
If fees and/or taxes are increased, the City is allowed to borrow more.
If fees and/or taxes are decreased, the City is allowed to borrow less.

If Fair Share revenue increases, the City is allowed to borrow more.
If Fair Share revenue decreases, the City is allowed to borrow less.

Because debt payments are fixed for the term of the borrowing (20 years) there is significant risk if revenues decline. Taxes and/or user fees would have to increase to pay for the difference if no other sourcing were available.

Comparing the three estimates to the borrowing capacity limit shows that Estimate 1 can be accommodated however estimate 2 and 3 would put the City in an "over the limit" position.

These scenarios are based on funding the entire project with borrowing. Most often other sources of revenue are combined as part of the total funding envelope.

If the City borrowed to its maximum capacity for this project and future revenues declined then the City could be in an "over the limit" position. This would mean that the City would be unable to borrow until such time that revenues increased or existing borrowings matured. It is unlikely that the Ministry or public would give their approval the borrowing because of this risk, unless it was absolutely necessary to do so.

Debt Management Policy

City Council approved a debt management policy in August, 2011. This policy sets an internal limit on annual debt costs to 15% of annual revenues; but unlike the Provincial limit it applies to individual funds first and then on a consolidated basis. The policy provides a type of "early warning indicator" that says, if debt servicing costs reach the 15% threshold in any given fund and/or on a consolidated basis, then the City should slow how much it borrows and/or stop borrowing for a while and wait for some of its existing debt to mature. This provides a flexibility contingency for declining revenues. The City has already reached the 15% internal limit in its water fund and fees may need to be increased in the near future depending on other sources of revenue.

Water Fund

Presently, the City operates under the policy that the water fund is a self-sustaining fund. This means that revenues within the fund must pay for all the expenditures in the fund. Fees and charges are set at a rate that combined with other revenues will pay for operating costs, debt servicing and future capital.

The 2013 water fund budget is approximately $5.5M including $2.5M for operations, $1.1M for annual debt payments and $1.9M for annual capital and reserves.

The outstanding water fund debt is $8.3M with annual payments of $1.1M. The balance will be paid off in 2027 (14 years). They mature as follows:

Next 5 years (2013 – 2017) $ 330,271 (4%)
Next 5 years (2018 – 2023) $2,497,491 (30%)
Next 4 years (2024 – 2027) $5,422,062 (66%)

Council could choose to defer any borrowing for new infrastructure until the debt from previous upgrades is paid off.

In the last few years the water fund has been supported by the sale of potable water for non-potable use. This revenue source is dependent on fraccing activity which can be unpredictable. New regulation and new technologies are being put in place to change this industry use, so it is likely that this source cannot be used in a funding model because it is not stable or secure.

Water Fund Operating Costs

2013 budgeted operating costs for the water fund are approximately $2.5M including $506K for treatment, $1.4M for distribution and $643K for supply. Building a pipeline will significantly increase supply costs, however the impacts to distribution and treatment are not as determinable.

The biggest increase will be to cover power for pumping. Currently, the City pays approximately $965K for all its electricity. Based on current hydro rates, power costs for the new line are estimated from $1M - $1.7M. Historically, annual Hydro rates have increased on average, 2.05%. Future increases are unknown until final approvals are given but speculation is that in the next 5 years increases could be as high as 26%. These increases would add significant cost pressures not only to the water fund but to all City services. Also, to consider are the additional cost increases from added maintenance and staffing to manage a bigger system.

Other Sources of Funding

Other Levels of Government

Other levels of government often cost share projects with local government. Dawson Creek has been quite successful in the past in this regard, securing funding for the Multiplex Project and the Calvin Kruk Arts Centre as well as numerous other water projects. More currently, however because of a slower economy both federal and provincial levels of government are more selective in choosing where project money will go, as well as in the amount available. No costing analysis is provided using other levels of government as a source of funding because the uncertainty of getting it from them is too high.

The City partners with the Regional District on many services such as fire protection, 911 dispatch, recreation and waste management. Investigating a regional partnership is an option.

Private

Sector Partnerships

Another source of funding to consider is from private sector partnerships. This is often done for large projects in large communities. They are often very complex to administer and ownership of the asset often remains with the private entity.

Funding for the Water Reclamation Facility was carried out in a private sector partnership with Shell Canada. The difference however with that project was that the City retained ownership and operations of the Facility. In exchange for the funding, they were allowed to connect a pipeline to the facility the City is committed to the future delivery of

effluent for 10 years. This was a very unique project because there was very little impact to the residents of Dawson Creek. The major cost of the facility is being paid back by the delivery of a product we didn't have before.

If we apply a similar funding model to the pipeline project then some sort of exchange would be required because private companies do not give money away; there must be value in the exchange.

Conclusion

Presently, the Community and the Corporation of Dawson Creek are experiencing enormous change. The pace of development is stressing existing infrastructure and the businesses and people who manage it. All levels of government are under increased scrutiny to keep costs low and affordable for taxpayers but cost pressures of maintaining failing infrastructure keep rising. The uncertainty of climate change and future market volatility further stresses current systems. Increased regulation often makes every day managing much more complex and finding and keeping qualified people to manage business operations in this environment is getting harder and further exasperates the situation.

The above analysis provides some exploration into different funding models for a new pipeline. Many more are available and may have to be considered and explored if Council and the Community decide to proceed. Regardless which model is chosen there are probable impacts. Some are listed below:

- Increase to fixed water charges
- Increase to variable water charges
- Increase to taxes
- Reduction in operational service spending
- Reduced capital spending in all other areas
- Decrease in growth
- Increase in financial stress
- Increase in corporate and community risk

ALTERNATIVES As reported above

IMPLICATIONS As reported above.

GUIDING PRINCIPLES As reported above.

STRATEGIC PRIORITIES

Council's Strategic Priorities Chart includes Water Security Public Meetings as Priority #1. This report is provided as a follow up to that Priority with additional funding analysis information to assist Council in their future decision making regarding water security.

IMPLEMENTATION/COMMUNICATION N/A

RECOMMENDATION

That Report No. 13-203 from the Chief Financial Officer re: Water Pipeline Funding Analysis be received for information.

Respectfully submitted,

ORIGINAL SIGNED BY

Shelly Woolf
Chief Financial Officer

APPROVED FOR AGENDA BY CAO