



UTILITY SERVICES

TO: Council
DATE: May 11, 2021
FILE: 5050-350
SUBJECT: Borrowing Bylaw C-8165-2021 – Blazer Water System Acquisition

DIVISION: 8
APPLICATION: N/A

EXECUTIVE SUMMARY:

In accordance with Council's request, Administration is providing additional information for the report submitted for March 23, 2021, regarding Borrowing Bylaw C-8165-2021 – Blazer Water System Acquisition.

The borrowing bylaw has been advertised as per the *Municipal Government Act* (MGA) s. 251, Therefore, Administration is bringing forward Bylaw C-8165-2021 for consideration of second and third reading, with minor administrative amendments to remove redundancy.

ADMINISTRATION RECOMMENDATION:

Administration recommends approval in accordance with Option #1.

SUPPORTING INFORMATION:

Council discussed the following at the time of granting first reading to the bylaw:

- *How many existing customers are connected to the blazer water system?*
 - Administration has confirmed that the Blazer Water System has 623 customers currently being serviced.
- *What is the existing franchise boundary?*
 - Administration has provided a map of the existing franchise boundary (Attachment 'A').
- *How was the proforma determined?*
 - During the analysis process, Administration looked at historical financial results, the 5-year capital plan, both current operational and customer data, and projected development/customer growth per community for the Blazer Water System.

Financial projections included:

- A 5-year capital plan (provided by the current owner);
- Estimates for annual capital replacement expenditures and comparison vs. annual asset depreciation;
- High vs. low customer growth scenarios leveraging Blazer's previous estimates and RVC's assessment on current growth opportunities;
- Assessment of fixed vs. variable operating costs (i.e.: which costs are driven by water production):
 - Fixed costs increase with annual inflation rates and an estimated 15 percent increase vs. the given capital plant production expansion investments.
 - Variable costs increase based on estimated customer usage scenarios and inflationary factors. Per customer usage is estimated based on historical consumption habits from existing customer base.
- Assumption: customer rates increase approximately 6% once every 3 years (or close to 2% annually).

Administration Resources

Steve Seroya, Utility Services



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Analysis projections included the following:

- Alternative utility system purchase price, financing arrangements, and developer contributions were analyzed and compared to system growth scenarios;
- RVC cost of debt and equity used to inform projected financing costs and discount rate;
- Projected cash flows were analyzed to determine annual results, cumulative results, payback period (or number of years RVC required to carry the investment before customer revenues exceed cash outflows), and net present value;
- Break-even analysis performed to identify a minimum annual number of new customers required to ensure a positive net present value (i.e.: worse-case growth scenario).

5 year Financial Projections

Projected Revenues:

2021	2022	2023	2024	2025	2026
\$988,024	\$971,743	\$1,348,667	\$1,660,160	\$1,829,123	\$2,011,529

Projected Operating Expenses:

2021	2022	2023	2024	2025	2026
\$633,771	\$654,013	\$678,656	\$678,480	\$749,492	\$843,563

Capital Reinvestment:

2021	2022	2023	2024	2025	2026
\$325,000	\$530,000	\$222,500	\$150,000	\$273,130	\$273,130

Acquisition & Financing Cost:

2021	2022	2023	2024	2025	2026
\$550,080	\$542,160	\$534,240	\$526,320	\$518,400	\$510,480

Utility Cash Flow:

2021	2022	2023	2024	2025	2026
\$ (520,827)	\$ (754,430)	\$ (86,729)	\$ 296,360	\$ 288,101	\$ 384,356

BACKGROUND:

Administration completed negotiations with Blazer Water Systems Ltd. (Blazer), and they have agreed to a \$9,000,000 sale price for water subject to Council approval. Based on information provided by Blazer, and a review of the rate submissions to the Alberta Utilities Commission, the Blazer water system showed a net income of \$216,000 in 2020, and has projected a net income of \$290,000 for 2021. Administration completed a cash flow analysis using growth probability, operating expenses, as well as acquisition and financing costs to determine potential payback of the County's investment. Administration estimates that the first three years of operating the utility may run a deficit of \$1,600,000, which will require County reserve assistance. Depending on the Council approved repayment options, the acquired asset could be cash flow positive as soon as 2024 and potentially debt serviced by 2029.

Administration has determined that any, or a combination, of the following repayment options would be appropriate:

- Full Rate Recovery;



- Levy/Connection Fee;
- Rate and Connection Fee.

If Council were to give second and third reading of the borrowing bylaw (Attachment 'B'), the following would be the next steps:

- budget approval would be requested;
- Administration will return with amendments to the Master Rates Bylaw.

The purchase of this utility would better assist the County with service delivery, increased customer service, potential cost savings, and profitability, and would encourage growth.

The bylaw has been amended slightly since first reading to remove two superfluous clauses; clauses numbered 7 and 8 were already captured in clauses 3 and 6 respectively. Additionally, reference to public hearing in the signature block has been removed.

HISTORY:

- | | |
|----------------|---|
| May 21, 2020 | Blazer Water Systems Ltd. approached the County regarding an interest in selling the water system. In accordance with the Franchise Agreement between the County and Blazer, the County has the first right of refusal for the purchase of the water system from Blazer Water System Ltd. |
| July 28, 2020 | Administration provided Council with a number of updates, including Blazer's intent to sell, their customer base, and current capacities and licenses. |
| March 23, 2021 | Council directed Administration to begin the process that will facilitate the purchase of the Blazer Water System and gave first reading to Borrowing Bylaw C-8165-2021. |

BUDGET IMPLICATIONS:

Administration has prepared a budget adjustment for \$9,000,000.00 for Council's consideration, as presented in Attachment 'B'.

OPTIONS:

- | | |
|-----------|--|
| Option #1 | <p>Motion #1 THAT Borrowing Bylaw C-8165-2021 be amended as per Attachment 'B'.</p> <p>Motion #2 THAT Borrowing Bylaw C-8165-2021 be given second reading, as amended.</p> <p>Motion #3 THAT Borrowing Bylaw C-8165-2021 be given third and final reading, as amended.</p> <p>Motion #4 THAT the related budget adjustment be approved as per Attachment 'C'.</p> <p>Motion #5 THAT Administration be directed to prepare and return to Council with cost recovery fee amendments to the Master Rates Bylaw.</p> |
| Option #2 | THAT alternative direction be provided. |



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Respectfully submitted,

Concurrence,

“Byron Riemann”

“Kent Robinson”

Executive Director
Operations

Interim Chief Administrative Officer

SS/bg

ATTACHMENTS

ATTACHMENT ‘A’ – Existing Franchise Boundary Map

ATTACHMENT ‘B’ – Borrowing Bylaw C-8165-2021, as amended

ATTACHMENT ‘C’ – Budget Adjustment – Blazer Water System