

UTILITY SERVICES

TO: Council
DATE: May 11, 2021 **DIVISION:** 9
FILE: 4060-275 / 5051-700 **APPLICATION:** N/A
SUBJECT: Borrowing Bylaw C-8166-2021 – Horse Creek Water & Waste Water Services Inc.

EXECUTIVE SUMMARY:

In accordance with Council's request on March 23, 2021, Administration is providing additional information regarding Borrowing Bylaw C-8166-2021: Horse Creek Water & Waste Water Services Inc.

The borrowing bylaw has been advertised as per the *Municipal Government Act* (MGA) s. 251, Therefore, Administration is bringing forward Bylaw C-8166-2021 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:

At the time of granting first reading to the bylaw, Council discussed the following and inquired as to how the performance was determined:

- During the analysis process, Administration leveraged stated financial and operational results per Alberta Utilities Commission; Horse Creek Water Services Inc. 2016 General Rate Application, dated October 20, 2017:
 - This included actual results for 2016 and forecasts for 2017 and 2018.
- Administration leveraged wastewater system operating cost estimates per the Developer Group proposal to RVC based on comparisons to similar systems and costs:

Financial projections included:

- Assessment of 2016 operating cost for fixed vs. variable operating characteristics (i.e.: which costs are driven by water production):
 - Each financial result was ascertained for its likely growth characteristic (i.e.: a) truly fixed and driven just by annual inflation; b) somewhat variable and will grow partially as a result of plant capacity expansion; or c) fully variable and will grow completely as plant production grows). Comparisons vs. other RVC water utilities were used as a basis to compare total costs vs. production levels to assess reasonableness of projections.
- Assessment of customer and capital expansion expenditure projections from the 2018 "Developer Group" proposal submitted to RVC with some modifications and sensitivity analysis.
- Estimated \$500,000 allowance for immediate one-time repairs / rehabilitation of assets at time of acquisition.

Administration Resources

Steve Seroya, Utility Services



ROCKY VIEW COUNTY

- Estimated \$60,000 net-new internal administration annual operating costs to recognize costs for RVC oversight and management.
- Estimated increasing capital reserve contributions / expenditures required as age of infrastructure increases (\$50,000/yr from 2027-2036 and \$100,000/yr from 2037+).

Analysis projections included:

- Alternative utility system purchase price, financing arrangements, and developer contributions were analyzed and compared to system growth scenarios;
- RVC cost of debt and equity were 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.
- Administration has attached the financial predictions that indicates when the systems will be cash flow.

5 Year Financial Projections – Water & Wastewater

Projected Revenues:

2021	2022	2023	2024	2025	2026
\$ 413,993	\$475,326	\$643,990	\$ 879,097	\$ 1,178,092	\$ 1,540,975

Projected Costs - Operating, Acquisition, Financing, Capital Replacement:

2021	2022	2023	2024	2025	2026
\$ 1,476,534	\$989,812	\$747,631	\$ 747,772	\$786,041	\$858,509

Projected Utility Cash Flow:

2021	2022	2023	2024	2025	2026
\$ (1,062,540)	\$ (514,486)	\$ (103,641)	\$ 131,325	\$ 392,052	\$ 682,467

BACKGROUND:

In accordance with Council's directive to provide safe, clean, and reliable potable water to Rocky View County residents, Administration completed negotiations with Horse Creek Water & Waste Water Services Inc. (Horse Creek). Under the evaluation suggested by Horse Creek, the following terms are considered appropriate:

Terms:

- The purchase price be split: \$4.5 million from the County and \$8.5 million from Macdonald Communities and Schickedanz.
- Payment terms to include a one-time bulk payment by all parties: \$4.5 million from the County and a bulk payment of 30% from Macdonald Communities and Schickedanz along with annual cost contribution or as development proceeds.



- The County to own and operate the water utility after acquisition.

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 four years of operating will run a deficit of \$1,700,000, which may require County reserve assistance. Depending on the Council-approved repayment options, the acquired assets could be cash flow positive as soon as 2025 and debt serviced by 2028. 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 'A'), the following would be the next steps:

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

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. The name of the acquisition has been amended to specify Horse Creek Water & Waste Water Services Inc., rather than Cochrane Lakes Area water and wastewater utility. Additionally the table detailing the contributions to the acquisitions has been amended to reflect a clearer indication of the amounts being applied by each party. Finally, the reference to public hearing in the signature block has been removed.

HISTORY:

February 5, 2019	Macdonald Communities Limited and Schickedanz West presented the Governance and Priorities Committee (GPC) with a potential strategy for the acquisition of the assets of Horse Creek Water Services Inc. and Horse Creek Sewer Services Inc. to resolve water and wastewater servicing issues impacting both current and future development in the Cochrane Lakes area. The purpose of the presentation was to provide relevant information and to discuss the merits of the strategy.
March 12, 2019	As recommended by the GPC, Council directed Administration to open up discussions with the current utility owner, assess future servicing strategies, and report back to Council on the results of the assessment.
April 10, 2019	Administration met with Horse Creek Water Services Inc. regarding the acquisition of the water and wastewater systems currently in operation at Cochrane Lakes. Horse Creek Water Services Inc. had responded with written confirmation that they are were willing to negotiate with the County for the sale of the water system only (including water licenses). The Chief Executive Officer of Horse Creek Water Services Inc. had suggested a \$9 million evaluation for the water system.
June 25, 2019	Council directed Administration to continue its negotiations with Horse Creek Water Services Inc. under the terms outlined in the in camera report.
August 12, 2020	The Chief Executive Officer of Horse Creek Water & Waste Water Services informed the County that he would like to sell both the water and waste water systems. The Chief Executive Officer of Horse Creek Water & Waste Water Services Inc. has suggested a \$13 million evaluation for the water and waste water systems.



September 1, 2020 Council directed Administration to continue its negotiations with Horse Creek Water & Waste Services Inc. under the terms outlined in the report.

March 23, 2021 Council directed Administration to begin the process that will facilitate the purchase of the Horse Creek Water & Waste Water Services Inc., and gave first reading to Borrowing Bylaw C-8166-2021.

BUDGET IMPLICATIONS:

Administration has prepared a budget adjustment for \$10,450,000.00 for Council's consideration, as presented in Attachment 'B'.

OPTIONS:

Option #1 Motion #1 THAT Borrowing Bylaw C-8166-2021 be amended as per Attachment 'A'

 Motion #2 THAT Borrowing Bylaw C-8166-2021 be given second reading, as amended.

 Motion #3 THAT Borrowing Bylaw C-8166-2021 be given third and final reading, as amended.

 Motion #4 THAT the related budget adjustment be approved as per Attachment 'B'.

 Motion #5 THAT Administration be directed to bring forward a request to amend the Master Rates Bylaw, C-8145-2021, to include the required fees for cost recovery.

Option #2 THAT alternative direction be provided.

Respectfully submitted,

Concurrence,

"Byron Riemann"

"Kent Robinson"

Executive Director
Operations

Interim Chief Administrative Officer

SS/bg

ATTACHMENTS

ATTACHMENT 'A' – Bylaw C-8166-2021, as amended
ATTACHMENT 'B' – Budget Adjustment - Horse Creek Water & Waste Water Services Inc.