



**Corporation of the Municipality of Temagami**

**Memo No.**  
2020-M-089

**Memorandum to Council**

**Subject:** Water Capital Project

**Agenda Date:** August 6, 2020

**Attachments:**

**RECOMMENDATION**

BE IT RESOLVED THAT Council directs Staff to start the procedure to apply for a long-term loan through Infrastructure Ontario in support of Water and Sewer Projects with a total budget of \$1,650,000.

**INFORMATION**

As noted at our last meeting when discussing the OCWA Capital proposals, in the absence of external funding or the acquisition of long-term debt, some projects are beyond the ability of our water and wastewater systems to pay.

With the Amended ECA being approved by the Ministry of Environment Conservation and Parks, we are required to have the UV Filtration system operational by April 30, 2025.

Also recommended to be a priority is the repair work for the water towers. While it is true that the towers will be in need of repair until that project is done, in the south there is the unknown leak that could pose problems moving forward and with the rust inside the towers we are actually consuming more chemicals than we normally would.

There are many pieces that Council needs to know when determining if long-term debt is an option. The first is ensuring the after the debt has been acquired that the Municipality is still within the annual repayment limit. The annual repayment limit is a function of municipal revenue excluding any grants received. Attached to this report is the 2019 annual repayment limit as reported in our Financial Information Return. As of December 31, 2019, our debt repayment limit was \$1,109,473. This is not what we can borrow but what our annual payments can be. The actual amount that can be borrowed depends on interest rate, length of loan and the ability to acquire debt.

Since the end of 2019, our repayment limit would have increased by approximately \$26,000 since our debt payments in 2020 have reduced with our last grinder pump debt payment being made in May. As well, assuming that the proposed agreement with Temagami First Nation is approved by their funding agency as well as both Councils, our repayment limit would also increase slightly.

Given that the annual repayment of the loan as noted at the last meeting is between \$120,000 and \$180,000 annually, the Municipality would remain well within our annual repayment limit.

Another consideration when acquiring debt is the length of time, or term of the debt. In the municipal world, long-term debt can only be acquired for capital purposes. The limit to the term of the debt is the useful life of the asset. Both the work at the water towers and the installation of the UV Filtration System should have a useful life exceeding 25 years. The water tower repair useful life would be calculated based on what the increase in useful life would be. The construction of the UV Filtration and associated buildings should have a useful life of between 35 and 60 years, depending on which asset we are discussing. Therefore, if the term of the proposed debt was either 10 or 15 years we would be within the restrictions placed on long-term borrowing.

Another important factor when considering acquiring long term debt is the interest rate. As noted at the last meeting when the budget was being prepared this year, Infrastructure Ontario was contacted for interest rates on long term borrowing. At that time, the rates supplied were 1.65% for a 10 year loan and 1.91% for a 15 year loan. Since that time there has been no significant changes in the Bank of Canada Rate which would alter these rates significantly.

For comparison, we did receive the interest rates from our local bank. They offer loans similar to mortgages in that they need to be renegotiated every 5 years. At present, their 15 year fixed rate is between 2.6 and 2.7%.

The last piece that should be considered (sometimes it is not) is what the effect of acquiring the debt would have on future rates. With both water and sewer, 77.2% of the annual budget is represented by payments made to OCWA. The agreement that the municipality has with OCWA has a 2% increase annually until the agreement is completed in 2028. With the largest component increasing by 2%, the assumption has been made that moving forward, the rates charged would also increase by 2% per year.

What has not been estimated in the rates above is the effect the increased testing now required by MECP with the new amended ECA. This estimate has not yet been received from OCWA.

Including the 10% 'premium' for capital works/reserves, the present water rate is \$1,198.86 and the present sewer rate is \$363.11. Assuming the 2% annual increase, this would translate into water rates of \$1,247.29 and sewer rates of \$377.78 in the year 2022. This year has been selected as it is the best estimate of when the debt would be finalized.

Again, as noted at the last meeting, the total debt used in the calculations is \$1,650,000 and is split equally between water and sewer. It is believed that this should be the worst case scenario. The actual amount would be the cost of the projects (after HST Rebates) to a maximum of the amount of the application. It is also assumed that this would be recovered through user rates although Council can decide when the loan is finalized how the funds are to be paid back.

If the loan was over 10 years, the 2022 water rate estimated above would increase by \$262.55 to \$1,509.84 and the 2022 sewer rate estimated above would increase by \$240.52 to \$618.13. This would be a 30% increase for the 10 years that we had the loan, assuming there was no other debt and other variables remain constant.

If the loan was for 15 years, the increase in the 2022 estimated rates would be \$186.30 for water (rate to \$1,433.59) and \$170.00 for sewer (rate to \$547.78). This represents a 22% increase for the 15 years the loan was in place with the same assumptions as noted above.

After investigating, and assuming Council agrees that the water tower repairs and the UV Filtration should be completed through the acquisition of debt, direction should be provided for the Treasurer/Administrator to start the application process with Infrastructure Ontario. If this is done, there will be further by-laws and/or resolutions required before we can access the debt.

**Respectfully Submitted:**  
**Craig Davidson**  
**Treasurer/Administrator**