



Corporation of the Municipality of Temagami

Memo No.
2023-M-159

Memorandum to Council

Subject:	ICIP Green Program – Temagami North
Agenda Date:	August 10, 2023
Attachments:	ARL2023 – Temagami M

RECOMMENDATION

BE IT RESOLVED THAT Council directs Staff to authorize the Ontario Clean Water Agency to commence rehabilitation work on the Temagami North Standpipe;

AND FURTHER THAT Council directs Staff to start the procedure to apply for a long-term loan through Infrastructure Ontario in support of the ICIP Green Water and Wastewater Projects in the amount of \$1,150,000.

INFORMATION

Earlier, the Municipality received approval for projects under the ICIP- Green Program. The approval is summarized as:

Total Project Costs	\$4,153,100.00
Federal Government Share	\$1,661,240.00
Provincial Government Share	\$1,384,228.23
Municipal Share	\$1,107,631.77

With the recent amendment to the transfer payment agreement, the projects included are the Temagami North Lagoon Disinfection project (UV Filtration), updating the chemical pump panels at the water treatment plant in Temagami North and rehabilitation of the standpipe (water tower) also in Temagami North.

At the Special Council meeting of July 27, 2023, Council approved the tender for the Lagoon project at a tender cost of \$1,423,800. With allowances for any additional engineering, contract administration and contingencies, from a budget perspective, \$2 million of the total project costs is being earmarked for this project.

Both the system in the North and the South have similar systems. Originally the plan was to escalate the chemical pump replacement schedule in the South Plant and maintain the schedule of one panel every other year in the North. With the amendment to the transfer payment agreement the plans have been switched (escalated replacement in the North Plant a panel every other year in the South. It is estimated that the cost of the panel replacement will be \$453,100. When panel replacements started, the Ontario Clean Water Agency (OCWA), using their procurement policies, searched for a contractor that could work on these panels. With the age of our system there is only one supplier and the cost of the panels is about \$40,000 each.

This leaves \$1,700,000 for rehabilitation of the standpipe.

Initially, when ICIP approval was received, Staff met with representatives of Tulloch and OCWA. It was felt that OCWA has more experience and expertise related to water towers. Water tower work was put on hold, until other parts of the funding were known. Now that we have a sense of the budget available for the work on the tower in the North, the plan is to give OCWA the approval to proceed. Our understanding of this is OCWA would first review the work that was identified in the Landmark inspection report from 2019 and augment this with other items that may require attention over time. The work would

then be engineered by OCWA and tender documents compiled and administered by OCWA. While approval for this work has not yet been given, the earlier we can provide this approval, the earlier the project can be completed.

As noted, the municipal share of the approved project cost is \$1,107,631.77. Especially as this cost would be funded through water and wastewater rates, it is not feasible to presume that these rates could reasonably increased to absorb these costs. In order to complete these projects, the recommendation is that Council consider acquiring long-term debt.

Actually, this was approved in 2020 but due to the length of time the Lagoon project has taken to get to this point, any approvals received have lapsed and there is the need to reapply.

There are a couple of limitations to the acquisition of debt other than, for municipalities, debt can only be incurred to finance capital assets. First, the amount repaid in one year (principal and interest) must not exceed the Annual Repayment Limit (ARL), and second, the term of the borrowing cannot exceed the expected useful life of the asset being financed.

Ontario Regulation 403/02 requires an updated ARL be presented to Council by the Treasurer.

Annual Repayment Limit	2021	2022	2023
Total Revenue	\$7,301,138	\$7,819,490	\$7,459,954
Ontario Grant	\$1,275,770	\$1,438,739	\$1,105,176
Canada Grant	\$111,748	\$151,530	\$473,881
Other Municipalities	\$728,408	\$788,225	
Gain/Loss in Sale of Assets	(\$5,201)	\$4,600	
Subtotal	\$2,110,725	\$2,383,094	\$1,579,057
Share of Au Chateau Revenue	\$2,285,004	\$2,285,004	\$2,285,004
Net Revenues	\$7,475,417	\$7,721,400	\$8,165,901
25% of Net Revenue	\$1,868,854	\$1,930,350	\$2,041,475
Less current Debt Payments	\$76,290	\$79,598	\$77,692
Annual Repayment Limit	\$1,792,564	\$1,850,752	\$1,963,783

For the purposes of the above chart, the 2021 amounts are based on the 2021 ARL report received from the Ministry of Municipal Affairs and Housing and previously reported to Council. The 2022 amounts are based on the Financial Information Return although the share of Au Chateau Revenue was maintained at the 2021 level as these amounts are based on the reporting completed by Au Chateau to the province. The 2023 amounts, as well as maintaining share of Au Chateau revenue at the 2021 reported level, are based on the 2023 budget. The decrease in revenue and revenue from other municipalities is due to the change in the Land Ambulance where the District of Nipissing Social Services Administration Board is now delivering these services directly.

Council may recall that the ARL represents the amount that can be repaid in one year, not the amount that can be borrowed. For the 2022 year, and based on the ARL without the Au Chateau share of revenue, using a 7% rate of interest, we could borrow \$8,986,680 if borrowed over 10 years, \$11,653,585 if borrowed over 15 years and \$13,555,052 if borrowed over 20 years.

The second part is how long to borrow for, or what the term of the loan should be. As this loan is to be repaid through the water and wastewater rates, how the future rates would be altered by the amount of the repayment is important. The expectation is that there will be increased water and wastewater rates during the period of repayment. This is similar to most of the 2010's when the Grinder Rate included a repayment for the loan received to renew all of the grinder pumps. Once the loan has been repaid then the rates will decrease.

Another point that should be remembered is the practice of charging a 10% premium for future capital needs. This is expected to continue although would not be applied to the loan repayment amounts.

In 2023, the total water rate is \$1,288.19 and the wastewater rate is \$397.25 which together total \$1,685.44 for each residential unit. Considering 2024, rates have been estimated with a 2% estimated increase plus an additional \$10,000 for the wastewater budget to pay for operating expenses for the upgrades being completed. This takes the 2024 estimated rates prior to considering debt repayment to \$1,313.96 for water and \$536.77 for wastewater for a total rate of \$1,850.73. This is an increase of 9.8% due mainly to the increase operating costs for the Temagami North Lagoon.

Council could determine to borrow for 10, 15 or 20 years. Any of these terms are within the life expectancy of the assets being added and result in repayments well below our remaining ARL. For this illustration, the allocation between the water and wastewater portion of the loan is equal to the percentage of each type of project compared to the total project. Interest rate of 7% has been used in all cases.

Years	Total Interest Paid	Annual Repayment	Combined Rate
10	\$505,130	\$165,600	\$2,318.87
15	\$785,041	\$129,050	\$2,215.55
20	\$1,088,254	\$112,000	\$2,167.40

So, in addition to the 9.8% increase due to expected increase in the North lagoon operating cost, there would be amounts added to repay the loans. This takes the percentage increase from 9.8% to either 37.6%, 31.5% or 28.6%, depending on the term of the loan. Again, once the loan has been repaid, any of the amounts that have been added due to the repayment would be removed.

While we are suggesting working with Infrastructure Ontario and their financing department, we will also reach out to Scotiabank to confirm the rates they offer. The last time we considered debt (and yes interest rates were much lower, a 10 year loan through Infrastructure Ontario was 1.65% while the rate at Scotiabank was 2.6%.

What this report has been designed to do is to approve OCWA's start on the North water standpipe project and to commence the work to apply for debt. This application will take the form of a by-law.

The way the debt works is, in essence, a construction loan while the projects are ongoing and then, once they are completed, the debenture can be finalized. While projections are based with the best known information, there could be minor variances between the numbers contained in this report and the final outcome. What would be set is the maximum interest rate, once the application has been made and approved.

Respectfully Submitted:
Craig Davidson
Treasurer/Administrator