

2023 Capital Budget Amendment – Bremner Water Supply**Report Purpose**

To amend the 2023 Capital Budget to construct the Bremner Stage 1 water reservoir, pumphouse and supply.

Recommendation

THAT an amendment to the 2023 Capital Budget to construct the Bremner Stage 1 water reservoir, pumphouse and supply in the amount of \$26,000,000, to be funded \$13,000,000 from Utilities Reserves and \$13,000,000 from utility rate-supported debenture, be approved.

Our Strategic Goals

Goal 2 - Healthy and Safe Community

Goal 3 - Responsible Development

Goal 2 Priority - A diversity of housing options that addresses affordability, aligns with community needs and responds to changing demographics

Goal 3 Priority - Investment in our infrastructure that supports development and complete communities

Report**Policy and proposed servicing solutions**

Under the general principles presented in the Offsite Development Levies for New Growth Areas Policy SER-009-044, the County will finance the design and construction of leviable underground utility infrastructure (water and wastewater), while developers finance the design and construction of leviable transportation and stormwater management infrastructure. Since the costs for these leviable infrastructure projects (including associated debt costs) are ultimately paid by developers through the recovery of levies, the financing consideration largely amounts to a timing risk in terms of when levies would be charged and recovered, which is contingent on the rate of development.

Under the same policy, the County is responsible for funding water reservoirs and pumphouses, as well as their associated supply lines through water utility rates.

The Sub-Area Structure Plans for Bremner Communities 1 and 4 were approved by Council in July of 2021. Since that time, administration has been working with the developer on various scenarios and strategies for water and wastewater servicing that will enable development in Bremner to proceed. The developer feels market conditions are favourable and is looking for development for the initial stages of Bremner to proceed as quickly as possible. As such, the developer is willing to finance the infrastructure necessary for a gravity-based wastewater servicing solution (i.e., they will take on the finance risk) if the County is able to provide the water infrastructure, which includes a new reservoir and pumphouse and the associated fill line (for which it is obligated) now, so that they can avoid throw-away costs associated with an interim water supply servicing strategy.

The currently contemplated wastewater servicing solution is a gravity sewer from Bremner to a tie-in point on the recently installed North of Yellowhead gravity main on Township Road 234 west of Range Road 231. Gravity wastewater solutions are often more expensive up-front but generally are preferential to alternatives that include lift stations due to the (often significantly) lower overall operating costs of gravity systems. The proposed solution is

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expected to provide wastewater servicing for Bremner for the next 15 to 20 years, depending on growth rates.

The currently contemplated water solution is a new 7,500 m³ reservoir and pump house, with an associated supply line running from an existing waterline just west of the CP railway along Township Road 534. A new reservoir for Bremner is the preferable water servicing solution as it provides flexibility to maintain service levels in the case of supply line or upstream network outages and certainty with respect to provision of fire flows. The *Bremner and LEA Utilities Master Plan* (2019) contemplates three large reservoirs for Bremner, including one in this area. The proposed reservoir and pump house will have features to allow for expansion as required but is expected to be sufficient for the next 15 to 20 years, depending on growth rates.

Rate implications and reserve considerations

The requested Capital Budget amendment is based on engineering estimates for similar water projects in the greater Edmonton region and currently includes a 50% contingency because there has been limited design work completed. Utilities has developed rate impact estimates based on the full requested Capital Budget and believes these would represent a likely worst-case impact; these impacts are discussed further below.

Overall, the cost of the new water infrastructure, including estimated operational costs, would translate to an increase of approximately 30 cents per cubic meter of water or \$4.35 per month (\$52.20 per year) for a typical residential account using 14.5 m³ per month. Recognizing that a 30-cent increase is a significant increase relative to the current water rate of \$2.78/m³ (10.8%), Utilities would recommend phasing the increase in over the next five years by incorporating a dedicated rate increase of six cents each year, starting in 2024, until the full 30 cents has been incorporated into the base rate.

Utilities' current uncommitted reserve balance (overall) is approximately \$55 million. Utilities does not expect that there will be significant renewal and replacement capital requirements outside of typical annual capital programs until 10 to 15 years from now, when older neighbourhoods in Sherwood Park may require significant renewal or rehabilitation. The proposed approach of utilizing reserves to fund 50% of the water infrastructure in Bremner, would minimize impacts to corporate debt, while still leaving significant reserves available for unforeseen utility-related capital requirements that may come up, as well as to service utility-related debt for leviable infrastructure. From a cashflow perspective, Utilities expects the utilized funds from the Utilities Reserve to be recovered in approximately 12 to 14 years, assuming a phased increase and a 25-year loan at current Loans to Local Authorities rate of 4.84% (March 15, 2023), though this is largely dependent on growth rate, overall sales volumes, actual interest rate at the time of borrowing and actual project costs.

Expected expenditure timelines are presented below.

Year	2023	2024	2025	Total
Expenditure by Year	\$1,000,000	\$12,500,000	\$12,500,000	\$26,000,000

Council and Committee History

November 24, 2022 Council approved the 2023 Capital Budget

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Other Impacts

Policy: FIN-001-024: Financial Reserves; FIN-001-027: Tangible Capital Assets Financial Reporting Policy; SER-009-044: Offside Development Levies for New Growth Areas

Legislative/Legal: Should Council support Administration's recommendation, a borrowing bylaw would be required.

Financial/Budget: The use of Utilities reserves will reduce the available balance to around \$42 million, and will take approximately 14 years to replenish through rate modelling recovery. Assuming no significant, unexpected events requiring a major utility repair/replacement, a \$40-plus million balance should be adequate to cover ongoing operational needs and should not impact our ability to fund the current utility capital plan.

The use of utility rate supported debentures does have an impact on the County's overall debt capacity projections and will impact the funding/timing of the Corporate 10-year capital plan. Currently planned projects requiring debenture funding may require re-prioritization or an alternative funding solution found.

Interdepartmental: N/A

Master Plan/Framework: The proposed water servicing solution is consistent is a staged approach consistent with the *Bremner and LEA Utilities Master Plan* (2019).

Enclosure

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Bremner area servicing presentation