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CITY OF PORTAGE LA PRAIRIE – WATER TREATMENT PLANT DEBT APPROVAL

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Purpose

To provide Public Utilities Board debenture debt funding approval for the expenditure and borrowing of funds for the purpose of upgrading and expanding the City’s Water Treatment Plant hereinafter called the “WTP Upgrade”.

WTP Upgrade Projected Cost & Funding

PROJECTED COST

Stantec has provided an updated Opinion of Probable Cost (Class C) dated September 24, 2024. Stantec’s current estimate of the WTP Upgrade project is \$96,600,000. The Stantec allowance includes 15% contingency allowance and 6% inflation allowance (3%/yr x 2 yrs).

Due to recent significant increases in infrastructure construction costs, the City has added an additional contingency allowance of 4% to the estimated project cost, bringing the estimated capital cost to \$100,464,000.

Engineering estimate	\$ 96,600,000
Contingency; 4%	3,864,000
Capital cost	<u>\$ 100,464,000</u>

FUNDING

The Manitoba Water Services Board has provided grant funding of \$40,250,000 for this project.

The MWSB grant was provided up front and interest estimated at \$3,260,000 will also be directed to fund this project. The City will provide \$1,750,000 in funding from the City’s Utility Reserve and the balance of funding required in the amount of \$55,204,000 will be provided by a General Borrowing By-law.

Funding breakdown for this project is therefore:

City Utility Reserve	\$ 1,750,000
City Debenture Debt	55,204,000
Total City funding	<u>56,954,000</u>
Provincial funding	40,250,000
Interest on Provincial Grant	3,260,000
Total project funding	<u>\$ 100,464,000</u>

DEBENTURE DEBT

The Province of Manitoba has indicated that the 30 year debt issue rate as at October 15, 2024 was 5.414%. With debt issuance likely 1 ½ years away, or more, the City is estimating the debt interest rate at 7% for the time being.

The City is optimistic that the MWSB will provide additional grant funding that will reduce the amount of debenture debt that has to be issued. In addition, actual debt issuance below 7% interest rate will reduce the annual payment amount and subsequently the impact on utility rates.

IMPACT ON UTILITY RATES

City of Portage la Prairie utility rates are based on a flat percentage increase equally to the four stepped water rates sufficient to fund operating, amortization and interest expenses. PUB Order #133/21 has approved this rate setting methodology for the City’s utility rate setting.

The City’s 2020 utility rate study forecast 2024 total water costs, net of capital grant amortization, at \$8,874,717. The 2024 forecast costs were used to establish utility rates approved by PUB Order #133/21. The Schedule of Rate Calculations from the 2020 Utility Rate Study is attached as an Appendix to this report.

The City subsequently applied to the PUB to review and vary rates as a result of construction of the Poplar Bluff treated water reservoir and due to significant increases in chemical costs. PUB Order #33/23 approved increases to water rates to fund increased costs related to the new reservoir and water treatment chemicals.

Debt issuance for the WTP Upgrade will result in an increase in water amortization and interest expense that will be funded by water rates for the next 30 years.

The following calculation details the increase in water rates required to fund amortization and interest expense for the WTP Upgrade using the City’s rate setting methodology:

Interest expense; \$55,204,000 debt @ 7%, year 1 interest	\$3,864,280.	
Net Amortization expense; Total City Funding \$56,954,000; 30 years	<u>1,898,467.</u>	
1 st year cost increase for WTP Upgrade interest and amortization		\$5,762,747.
Utility Rate Study 2024 forecast water total net costs	8,874,717.	
Add: adjustment for reservoir and chemical costs	<u>755,172.</u>	
Total water expenses current water rates are calculated on		<u>9,629,888.</u>
% increase in water rates required to fund WTP Upgrade interest & amortization		<u>60%</u>

Increasing existing stepped water rates approved by PUB Order #133/21 results in the following increases and new water rates as follows:

<u>Water Rate Steps</u>	<u>Volume per Quarter</u>	<u>2025 Rate per CM</u>	<u>60% Increase</u>	<u>Rate with WTP Upgrade</u>	<u>Increase per CM</u>
First step	0 to 227 CM	\$2.64	\$1.58	\$4.22	\$1.58
Second step	228 to 2,273	\$2.19	\$1.31	\$3.50	\$1.31
Third step	2,274 to 18,184	\$2.07	\$1.24	\$3.31	\$1.24
Fourth step	over 18,184	\$0.89	\$0.53	\$1.42	\$0.53

Recommendation

To proceed with PUB approval in principle to issue WTP Upgrade debt, a resolution will have to be passed by City of Portage la Prairie Council to initiate this request. Following is a draft resolution for the City’s consideration:

“Whereas the City of Portage la Prairie Water Treatment Plant requires upgrading and expansion estimated to cost \$100,464,000;

And Whereas the City intends to fund this project through grants, reserve transfer and debt issuance as follows:

City Utility Reserve	\$ 1,750,000
City Debenture Debt	<u>55,204,000</u>
Total City funding	56,954,000
Provincial funding	40,250,000
Interest on Provincial Grant	<u>3,260,000</u>
Total project funding	<u><u>\$ 100,464,000</u></u>

And Whereas costs attributable to capital amortization and interest expense for this project are estimated to require an increase of 60% in water utility rates based on the City's utility rate setting methodology;

Therefore Be It Resolved That the City of Portage la Prairie request approval in principle from the Public Utilities Board to issue debenture debt of up to \$55,204,000 repayable over 30 years at an interest rate estimated at 7%.