

BACKGROUND INFORMATION ON EAST ROCKY VIEW WATER / WASTE WATER INFRASTRUCTURE

Key points

- The actual original cost of the east Rocky View water / waste water infrastructure is \$135.1 million, not the \$100 million as is usually stated by the County
- The amount still to be recovered from developers for the system is not only the County's associated long term debt of \$56.0 million (as of September 30, 2016). The total owing is still more than \$86 million.
- Taxpayers have been subsidizing the annual operating costs of the infrastructure by approximately \$2 million per year – a total subsidy of at least \$20 million over the 11 years the infrastructure has been in place.
- With the exception of the Langdon waste water treatment plant, none of the infrastructure is being used close to capacity.

Actual construction and financing costs

The County invested heavily in a water / waste water infrastructure in east Rocky View in the early – mid 2000s. The County usually describes the total infrastructure system as costing \$100 million, with the amount remaining to be collected as the outstanding County long term debt. Neither of these statements is accurate.

The actual amount recoverable from developers under the levy is the full cost of the infrastructure. Long term County debt is only one funding source that was used to pay for the infrastructure.

According to the 2013 County bylaw that revised the related offsite levies, the original cost of the system was \$135.1 million. At that point, there was \$94.1 million still outstanding to be collected under the levies. These numbers have been confirmed by RV Financial Services.

According to information provided by RV Financial Services, as of the end of 2012, the total amount still outstanding was \$94.1 million, broken down as follows:

- RVC long term debt associated with infrastructure \$63.8 million
- Developer recoverable debt \$14.7 million
- Amount transferred from Tax Stabilization Reserve \$15.6 million

Again, according to RV Financial Services, the difference between the original cost of \$135.1 million and the \$94.1 million still outstanding at the end of 2012 is accounted for as follows:

- Original capital cost \$135.1 million
- Less: levies/contributions collected \$ 32.2 million
- Less: grants applied to project \$ 22.9 million
- Plus: accumulated recoverable interest \$10.6 million
- Plus: water oversize recoverable \$ 3.6 million
- o Total amount paid to Dec 31, 2012 \$40.9 million
- Total outstanding at December 31, 2012 \$94.1 million

The amount borrowed/transferred from the Tax Stabilization Reserve fund has not been repaid.

The \$14.7 million in “developer recoverable debt”, to the best of my knowledge, has also not been repaid. It represents money to be repaid to CN and other developers. They paid costs up front on an agreement that they would be repaid from levies collected on future development.

Discrepancy in how much was collected from levies before 2013

When the new bylaw was passed, County staff said that less than \$11 million was collected under the old bylaw. This was presented as a major reason why the bylaw needed to be revised. (See Rocky View Weekly, July 30, 2013 and County News Online, Sept. 17, 2013.)

Rocky View Financial Services is now saying the County collected \$32.2 million before the new bylaw came into effect.

I have asked for an explanation of this discrepancy, but so far have not received a clear answer. The only response has been a suggestion that the difference may be contribution agreements with specific developers. No explanation has been provided as to why or how developers would have paid this much more than they were required to pay under the old bylaw.

Ongoing taxpayer subsidization of the infrastructure’s operations

County taxpayers have been subsidizing developers in east Rocky View by carrying the debt from building the infrastructure. General tax revenues are being used to pay down the debt -- \$1 million per year since 2013 with a “promise” that it will be collected in levies and put back into the Tax Stabilization Reserve fund. However, the original \$15.6 million of Tax Stabilization Reserve funds used to construct the infrastructure has not yet been paid back.

General tax revenues are also subsidizing operating cost shortfalls for the system. This was clear in the 2015 and 2016 operating budgets. The description of the funding sources for the East Balzac water system and the East Rocky View waste water system was “Funded mainly through user fees or rates charged to users of the system. Partially subsidized through taxes.”

The 2015 and 2016 operating budgets indicated that the net cost of County utility services was \$2.3 million and \$2.0 million, respectively. These amounts are not exclusively subsidies to the east Rocky View infrastructure, but those systems are the major components in each year.

Over the 11 years the system has been operating, the subsidy to the system’s operating costs appears to be somewhere in excess of \$20 million.

Capacity Utilization of East Rocky View Water / Waste Water Infrastructure

According to the MPE engineering study prepared as part of the 2013 bylaw, the Langdon WWTP was the only bottleneck in the system at that point. At the end of 2012, it was operating at 60 – 70% capacity. The rest of the system was operating between 10% - 25% of capacity.

In January 2015, Council approved \$3 million for an upgrade to the Langdon WWTP to give it sufficient capacity to handle at least another 5 years’ growth. This should provide enough capacity to deal with growth until at least 2020. Given the current stagnant economy, the 2015 upgrade may well last even longer.

Although I do not have current capacity utilization rates for the entire system, it is highly unlikely that there has been enough development in the area to push existing capacity utilization rates for the rest of the system to high enough levels to justify any expansion of other components in the system. This seems particularly likely given that existing users' utility rates have not been sufficient to cover annual operating costs.

January 10, 2016 Council Meeting

It is not clear exactly what will be brought forward for Council's consideration on January 10th. If Council only considers financing the next phase of expansion for the Langdon WWTP, there may be some justification. If Council is being asked to look at financing a broader expansion, it is much more difficult to understand the reasoning. As pointed out above, the rest of the system was operating at very low capacity utilization rates at the end of 2012.

It is troubling that County staff frequently refer to "committed" volumes not "actual" volumes when they discuss the system's utilization. This obscures the actual situation. This is of concern because County staff have repeatedly emphasized that expansion of the entire system is needed to accommodate all the development that will take place under the already approved ASPs in east Rocky View.

That statement is true, but it misses an important point. This development **may** occur, not **will** occur. Approving an ASP that allows a certain amount of development does not mean that the development will occur and says nothing about when it might occur.

Expansion only makes sense once incremental development that is known to be going ahead will require additional capacity. Even then, it is expansion of specific components of the system, not the entire system.

Ability to repay existing debt

The County has not demonstrated an ability to recoup its original investment in the infrastructure. They started in 2006 with an original cost of \$135.1 million. At the end of 2012, \$94.1 million was still owing. According to RV Financial Services, only \$7.9 million has been collected in levies between 2013 and June 30, 2016.

That leaves \$86 million still owing, before including the interest that has accumulated since 2013. (I have asked for this amount and been told they have not calculated it.) At past rates of repayment, it will take at least another 20 years to repay the original cost of the infrastructure.

Prepared by Janet Ballantyne, Rocky View Forward, December 15, 2016

Sources:

Email exchange with Manager, RV Financial Services; various dates, October – December 2016
MPE Engineering, Rocky View County Off-Site Levy Study, May 17, 2013
RVC Bylaw C-7273-2013 – offsite levy bylaw for water and waste water infrastructure
RVC Operating and Capital Budgets, 2015 & 2016