

FINANCE COMMITTEE REPORT

Report Date	May 24, 2019
Meeting Date	May 29, 2019

Chairman Councillor Merrithew and Members of Finance Committee

SUBJECT: 2020 -2021 Proposed Draft Utility Fund Capital Budget

OPEN OR CLOSED SESSION

This matter is to be discussed in open session of Finance Committee.

AUTHORIZATION

Primary Author	Commissioner/Dept. Head	City Manager
<i>Craig Lavigne</i>	<i>Brent McGovern</i>	<i>John Collin</i>

RECOMMENDATION

It is recommended that Finance Committee reflect upon the attached document and make any and all inquiries and recommendations to staff; and receive and file this report.

EXECUTIVE SUMMARY

The Utility is proposing a very limited multi-year capital budget for 2020 - 2021 that focuses on leveraging monies from other levels of government for investments being made by the Utility. Debt associated with the Safe, Clean Drinking Water Project (SCDWP) and Harbour Clean-up, limited growth, a large infrastructure deficit and rates that have increased are challenges facing the Utility for both the medium and long term. A new rate structure to be completed in 2019, along with the Long Term Financial plan to be completed in 2019 will provide the road map for the Utility to deal with these challenges.

PREVIOUS RESOLUTION

N/A

STRATEGIC ALIGNMENT

The proposed 2020 - 2021 Utility Fund Capital Budget is aligned with Councils' priorities, Asset Management Plan, Capital Budget Policy the Central Peninsula Neighbourhood Plan and in addition the budget prepares the Utility for challenges associated with climate change.

REPORT

The proposed 2020 - 2021 (2 year) Draft Utility Capital Budget is a total of \$26,215,000. Funding from other sources, (Gas tax and other government funding) is \$15,931,500 over two years and Saint John Water's share is \$10,283,450 over two years and will be funded from pay as you go (no borrowing).

The completion of the Safe, Clean Drinking Water Project and Harbour Clean-up has caused the Utility's long term debt to peak at just over \$107 million at the end of 2017 (2018 - \$101 million). The Utility will continue to focus on debt reduction and in order to achieve this the Utility will not borrow any money for its 2020 or 2021 capital program, focusing instead on stretching every ratepayer dollar invested by seeking funding support from others for essentially all projects.

This significant debt coupled with escalated rates and stagnant growth will be challenging for the Utility as it tackles the infrastructure deficit. The deficit as reported to Council as part of the State of the Infrastructure report is approximately \$313.6M which represents over 75% of the City's infrastructure deficit.

The Utility received funding recently as part of the Federal Government's Disaster Mitigation Adaptation Fund (DMAF) and National Disaster Mitigation Program (NDMP). The Utility will spend approximately \$10.2 million over the next 5-6 years raising and rebuilding critical infrastructure that was prone to flooding. The cost will now be split \$4.084M Federal Share and \$6.126M utility share.

The completion of the rate study in 2019, along with the Asset Management Plan and Long Term Financial plan will guide the Utility's decision making around asset replacement and how to fund the infrastructure deficit to ensure services are reliably provided to rate payers while balancing the ability to fund more investments in infrastructure renewal.

Infrastructure Renewal – Water and Sanitary

The proposed budget focuses on assets that are well past their useful life, subject to risk of failure and in some cases extreme risk of failure with severe consequences such as the One Mile Life Station.

There are several proposed street rebuild projects that are included in the budget and most of these projects involve the general fund. These projects have assets underground and are at a high risk of failure due to their age and material type. Numerous streets within the draft program have terra cotta sanitary

sewers, much of which were installed between 1876 and 1895 and cast iron watermain installed in the early 1900s.

The total capital for the Utility on street rebuilds is approximately \$7.8 million over two years and some of these street sections include; Wentworth Street, Germain Street, Lower Cove Loop, Waterloo Street, Celebration Street, Princess Street, Peters Street, Brittain Street, Pitt Street, Rodney Street and St. James Street. These street reconstructions are located in the primary development area (PDA).

St. James Street, Germain Street and Charlotte Street are prime examples of leveraging assets that need to be replaced and aligning with the City's priority of growth. St. James Street for example was listed on the Central Peninsula Neighborhood Plan as key corridor and this transformational project will be coordinated between; Transportation, Water, Growth and Community Development and Develop SJ.

Additional projects that benefit both the Utility and supports the growth and development of Saint John are the Lakewood Heights and Millidgeville Sanitary Systems projects. These projects are geared towards asset improvements to allow for more growth and development while maximizing the use of existing infrastructure and lowering costs for all. These projects create capacity on the system for growth initiatives without having to build new infrastructure – a best use of assets.

The budget also includes phase seventeen and eighteen of watermain cleaning and lining that will continue to extend the life of these assets and improve water quality for citizens serviced by them while minimizing the need for investment by lining as opposed to replacing. There is also structural lining of sewers in both years and this will also extend the life of these assets.

There is a major investment being made at the One Mile Lift Station in 2020. The existing lift station is at the end of its life and needs to ensure there is reliability around the collection of wastewater.

There are two other wastewater lift stations at Greenhead Road and Beach Crescent that not only need to be rebuilt, these stations will also be raised to ensure they can withstand future flood events and these projects have received funding under the DMAF program.

The other major project under the DMAF program in this multi-year budget is the complete upgrade and reconstruction of the Musquash Water Pump Station. This asset will also be rebuilt to ensure flood proofing.

The budget also includes a fleet replacement program for any vehicles and equipment past its useful life or with extraordinary operating costs. In previous

years the Utility funded its fleet reserve directly to the General fund fleet reserve and all vehicles and equipment were funded from that reserve. These reserves have now been separated to ensure each entity is properly segregating its reserves.

The budget only includes one new asset which is a wastewater pumping station at Prospect Street West and this is to ensure all residential wastewater is properly being directed for treatment at the Lancaster Lagoon treatment plant.

Conclusion

The 2020-2021 budgets are focused on leveraging as much additional funding the Utility can secure with its smaller capital from operating program. Projects identified are long past their useful life and have a high risk of failure. There are several projects that are asset renewal that are being done to replace or extend the life of the asset but also have a positive impact on growth.

The 2020 - 2021 Draft Utility Capital budget will continue to focus on ensuring assets can provide reliable services to all customers, meet environmental regulations and mitigate against future climate change events.

SERVICE AND FINANCIAL OUTCOMES

The 2020 - 2021 Utility Fund Capital budget will be funded from the operations (pay as you go) and from other sources of funding with no new borrowing proposed.

INPUT FROM OTHER SERVICE AREAS AND STAKEHOLDERS

Input and coordination was received from Engineering, Senior Leadership Team, Growth and Community Development, Finance, Transportation and Environment and Develop SJ.

ATTACHMENTS

Exhibit 1 - 2020 - 2021 Proposed Draft Utility Capital Budget