



Debt Amortization Options for the North Shore Wastewater Treatment Plant

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Workshop September 2, 2021

<https://orbit.gvrd.bc.ca/orbit/lisapi.dll/link/47540093>

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BACKGROUND

- During 2021 budget cycle, staff proposed an option to move to 30 year debt amortization to soften the impact during the pandemic
- At the Board Budget Workshop on October 21st, 2020 the Board voted to maintain 15 year debt amortization as per the *Financial Management Policy*
- At the Board Budget Workshop on April 8th, 2021 a proposed measure for the 2022 cycle was to evaluate 30 year amortization for the NSWWTP

BOARD DIRECTION

The following resolution was passed at the May 28th, 2021 meeting:

That the GVS&DD Board:

- a) direct staff to consider an option to look at a 30-year amortization term for the North Shore's share of the North Shore Wastewater Treatment Plant Project only; and*
- b) direct staff to organize a Board workshop on the amortization terms.*

OBJECTIVE

Consider options for debt amortization for the North Shore Wastewater Treatment Plant for calculation through the 2022 Financial Planning Cycle

BEST PRACTICES REVIEW

- The current international trend is to use a debt amortization period of 15 to 20 years for public sector entities and 20 to 30 years for utilities.
- Debt service levels for an organization should be defined within a financial management policy, and managed through appropriate performance measures.

METRO VANCOUVER BORROWING IN PRACTICE

- Metro Vancouver has been amortizing utility debt issues over a 15 year term since 1995
- 15 year amortization term and 40% debt ratio cap formalized in the *Financial Management Policy* in 2018
- Given forecast expenditures at that time, 15 year amortization and focusing on Contribution to Capital projected lowest HHI over the *long term*

METRO VANCOUVER BORROWING IN PRACTICE

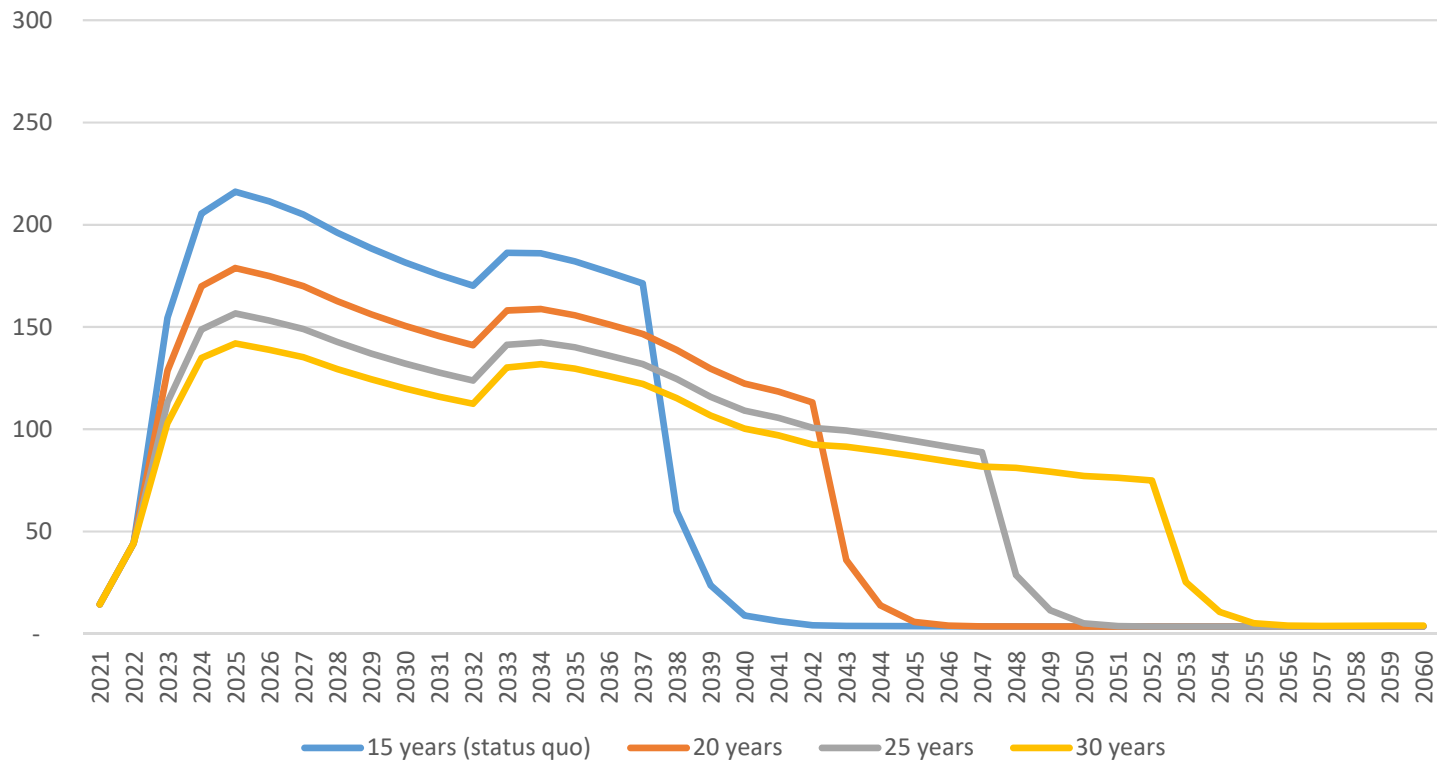
- Capital expenditures are funded mainly by debt financing and contribution to capital (pay-as-you-go)
 - Debt issued based on requirements after other funding sources have been applied.
- When a bond is matured, budget previously set aside for debt servicing is rolled into the Contribution to Capital to reduce future borrowing needs.

METRO VANCOUVER BORROWING IN PRACTICE

Total Matured Debt Payments (2010 – 2020)	\$ 76.7 million
Total Contribution to Capital – Cumulative (2010 – 2020)	\$ 559.2 million
Total Estimated Interest Savings (2010 – 2035)	\$ 249.0 million

ALTERNATIVE CALCULATIONS

Northshore Wastewater Treatment Plant Household Impact (NSA)
Present Value



ALTERNATIVE CALCULATIONS

North Shore Wastewater Treatment Plant - North Shore Sewerage Area (Present Value)

Amortization Term	2021	2030	2040	2050	2060	Total Interest (2021-2060)
15 Year	\$14	\$182	\$9	-	-	\$114.8 million
20 Year	\$14	\$151	\$122	-	-	\$160.6 million
25 Year	\$14	\$132	\$109	\$5	-	\$208.8 million
30 Year	\$14	\$120	\$100	\$77	-	\$259.5 million

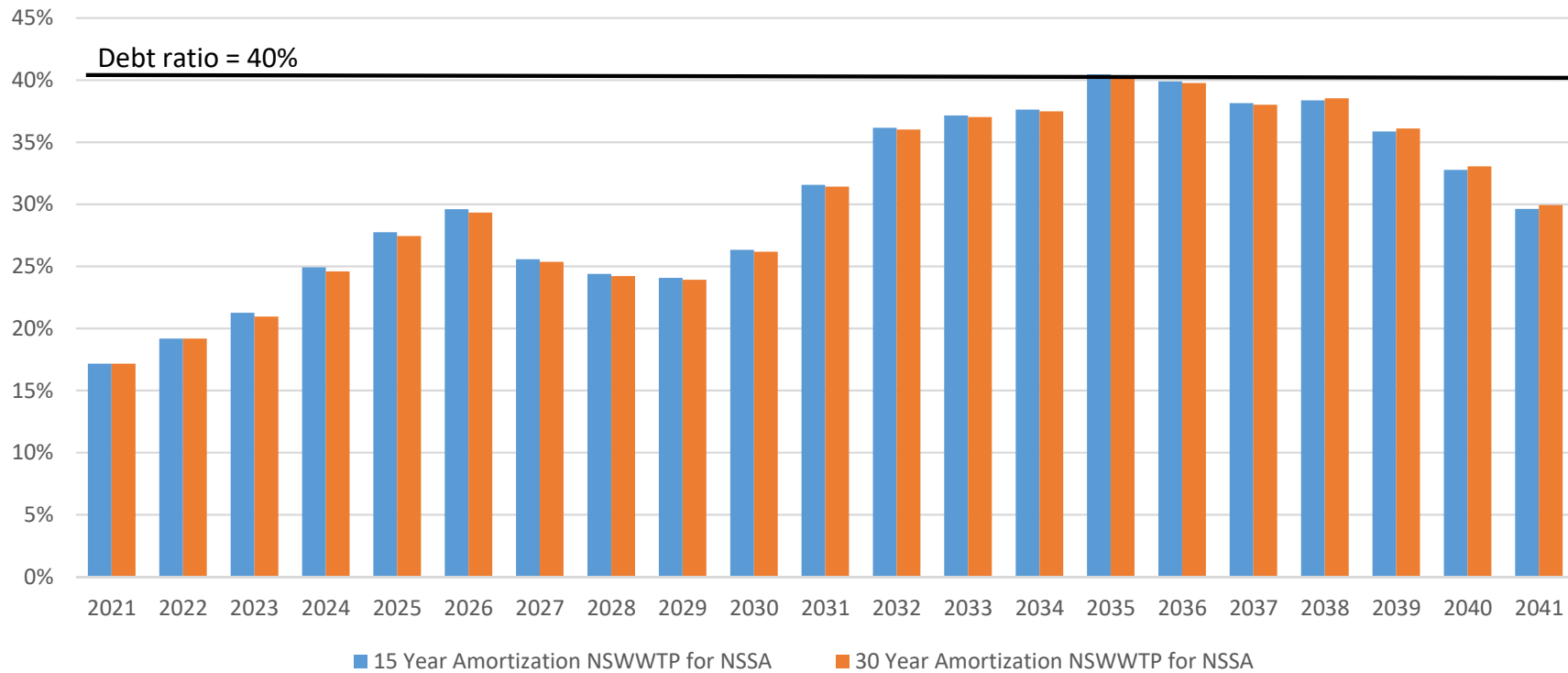
HOUSEHOLD IMPACTS – CURRENT FINANCIAL PLAN

NORTH SHORE SEWERAGE AREA (NSSA)

	2021	2022	2023	2024	2025
Water	\$ 174	\$ 182	\$ 191	\$ 207	\$ 226
Liquid Waste	368	435	518	607	702
Solid Waste	61	63	65	67	70
Regional District	70	73	77	81	82
Total	\$ 673	\$ 753	\$ 851	\$ 962	\$ 1,080

IMPACT ON FINANCIAL MANAGEMENT POLICY

Metro Vancouver Debt Servicing Ratio



OTHER CONSIDERATIONS

- Whole of the Capital Program
 - Financial consequences are in aggregate, not in isolation
- Cash flows are expected to be significant for the Iona Island Wastewater Treatment Plant Project
 - Short amortization periods with large cash flows challenge managing ratepayer impact and debt service levels

NEXT STEPS

- Consider Options
 - Maintain approach in current policy
 - For the North Shore Sewerage Area, amortize debt related to the NSWWTP over 30 years
- Offer Information Sessions to North Shore Councils



Thank You



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