

## Request for Recommendation

### Skead Heritage Homes Inc., Financing Options

Presented To:	Priorities Committee
Presented:	Wednesday, Oct 08, 2008
Report Date	Monday, Sep 29, 2008
Type:	Managers' Reports

#### Recommendations

That the City of Greater Sudbury provide twenty-five percent (25%) relief for Skead Heritage Homes Inc. for the current and future outstanding invoices for the operation and maintenance of their water supply system until the new system is commissioned; and

That the City of Greater Sudbury agree to upfront the capital costs for this project and that all capital costs including interest be repaid by Skead Heritage Homes Inc. over a term to be negotiated with Skead Heritage Homes Inc. once the final option and cost estimate are available; and

That operating costs once the new water supply system is commissioned be the responsibility of Skead Heritage Homes Inc.; and

That an agreement be registered on the title of Skead Heritage Homes Inc. and all outstanding debt be paid off in full at the time of either registration of the...

#### Signed By

**Report Prepared By**

Greg Clausen, P.Eng  
General Manager of Infrastructure  
Services

*Digitally Signed Oct 2, 08*

**Recommended by the Department**

Greg Clausen, P.Eng  
General Manager of Infrastructure  
Services

*Digitally Signed Oct 2, 08*

**Recommended by the C.A.O.**

Mark Mieto  
Chief Administrative Officer  
*Digitally Signed Oct 2, 08*

[recommendation continued...](#)

#### Finance Implications

If approved, the City would write-off 25% of the current and future invoices related to the operating costs until the new system is in place for an estimated value of \$40,000 to be treated as an un...

[finance implications continued...](#)

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(Financial Implications continued from cover)

...unbudgeted expenditure in the 2008 budget.

(Recommendations continued from cover)

...subdivision or when the individual created lots and/or Skead Heritage Homes Inc. are sold.

## **Background**

On June 2, 2006, the Ministry of the Environment (MOE) under a Director's Order, Section 114 of the Safe Drinking Water Act (Act) ordered the City of Greater Sudbury (City) to assume all responsibility for the regulated non-municipal drinking water system operated by Skead Heritage Homes Inc. and take all necessary steps to ensure that the system was in compliance with the requirements of the Act. Since that date, the City has been operating this system and it has been in full compliance with the Act.

To the end of August 2008, the total costs for operating and maintaining their private system total \$107,421.16. Regular invoices have been sent to Skead Heritage Homes Inc. and to date they have paid only \$15,608.89, leaving an outstanding balance of \$91,812.27. To date, the City has not charged interest on any outstanding invoices.

Since the very beginning of discussions on this particular project, the residents of Skead Heritage Homes have been insistent that they can only afford to pay approximately \$1,000 per residence on an annual basis for the upkeep for their water system.

### **CAPITAL COSTS**

As reported to Council on September 24, 2008, the capital costs for Option 1, a new Point of Entry System for all fourteen (14) residences is estimated to cost \$62,000 which includes \$12,000 spent by the City to rehabilitate the existing well to put it in compliance with the Act.

It is further estimated that the ongoing annual maintenance and operating expenses for the fourteen (14) Point of Entry Systems and the well will be \$20,000.

With this option the City will remain responsible by the MOE for the safe operation of the system. The maintenance and operation costs would increase annually and would exist in perpetuity.

This option is not the preferred option for either the City or Skead Heritage Homes Inc.

Option 2, the fragmented water supply system which is the preferred option for both the residents of Skead Heritage Homes and the City will have an initial capital cost estimated at \$150,000. This option will see the development of four (4) new wells and distribution systems. With this option, the fourteen (14) residences would be provided water from five (5) wells. The advantage of this option is that the fragmented system will be exempt from having to meet the requirements of the Act. Correspondingly, the City will not be required to maintain and operate the system and would be absolved from future responsibility and liability for the fragmented system based on the current MOE regulations.

The immediate issue at hand for the residents of Skead Heritage Homes is the method of payment for the invoices for both the current operating and maintenance costs and for the capital expenditures needed to install the new drinking water system to be compliant with the Act. Both the City and Skead Heritage Homes' residents agree that Option 2 is the preferred option from both an operational and long term point of view.

Recent discussions with the residents of Skead Heritage Homes indicate that they are agreeable to paying the full capital costs for the new water supply and distribution system. However, they are requesting that the

City upfront the initial capital costs and that the City recover the costs over a multi year period. The specific financing details will have to be developed with Skead Heritage Homes Inc. once the final option is selected and costed.

## **OPERATING AND MAINTENANCE COSTS**

Skead Heritage Homes Inc. are requesting some financial relief from the City for the accumulated operating invoices with an outstanding balance in the amount of \$91,812.27 excluding interest which could increase to approximately \$150,000 depending on which system is selected by the time the new capital system is installed and commissioned. Their rationale for requesting relief from some of the costs for maintenance of their system is the extent/length of time that it has taken to develop the various options to resolve the issue. It should be noted that there have been regular ongoing discussions with all parties including the City, Skead Heritage Homes Inc., and the MOE in the development of these options.

Staff have been of the opinion since the start of this project that as this system is a private system, all costs for both the maintenance and operation and capital costs should be the full responsibility of Skead Heritage Homes Inc.

Staff are emphatic to their request because their situation is currently one of only a few in the Province and the first for the City and for the local MOE office since the new Safe Drinking Water Act regulations have come into effect. This project has been a work in progress for all parties.

Staff agree that Council could consider providing some relief to Skead Heritage Homes Inc. for the operating expenses incurred to date and that it would have a minimal risk of setting precedent for future similar requests from other existing private systems owners. Therefore, staff are recommending that Council consider providing financial relief of twenty-five percent (25%) for the operating and maintenance expenses. This amounts to approximately \$40,000 and will be absorbed as an unbudgeted expenditure in the Water/Wastewater budget. The full capital costs and annual operating costs when the system is commissioned should remain the responsibility of Skead Heritage Homes Inc.

Councillor Russ Thompson has participated extensively on this project since its inception and will speak in favour of Council providing some financial relief to Skead Heritage Homes Inc. for a portion of the maintenance and operating expenses.

Once the final design option is selected and costed, staff will report back to Council for approval.

Staff will be available at the meeting to answer any questions which Council may have.

## **RECOMMENDATION**

Therefore, the following recommendation is put forward to Council for their consideration.

“That the City of Greater Sudbury provide twenty-five percent (25%) relief for Skead Heritage Homes Inc. for the current and future outstanding invoices for the operation and maintenance of their water supply system until the new system is commissioned; and

That the City of Greater Sudbury agree to upfront the capital costs for this project and that all capital costs including interest be repaid by Skead Heritage Homes Inc. over a term to be negotiated with Skead Heritage Homes Inc. once the final option and cost estimate are available; and

That operating costs once the new water supply system is commissioned be the responsibility of Skead Heritage Homes Inc.; and

That an agreement be registered on the title of Skead Heritage Homes Inc. and all outstanding debt be paid off in full at the time of either registration of the subdivision or when the individual created lots and/or Skead Heritage Homes Inc. are sold.”

