

THE CORPORATION OF THE
CITY OF WHITE ROCK
CORPORATE REPORT



DATE: December 13, 2021

TO: Finance and Audit Committee

FROM: Shannon Johnstone, Acting Director, Finance
Paul Murray, Consultant

SUBJECT: Water Utility 2022 Budget and Water Utility Rates

RECOMMENDATIONS

THAT the Finance and Audit Committee recommend that Council give Water Services Bylaw, 2015, No. 2117, Amendment No. 10, 2021, No. 2405 first, second and third readings.

EXECUTIVE SUMMARY

The City's water user fee rates are established each year through bylaw. The rates are based on the City's Five-Year Financial Plan for the water system which includes forecasted revenues and expenses, asset improvement capital requirements, reserves and debt financing.

The attached Water Utility Budget document is newly formatted to match the presentation of the consolidated budget when it is presented in spring 2022.

A new water user fee rate structure is planned for phase in over the next four years to align water consumption with water utility costs and promote water conservation. Once phasing is complete in year four, the City will be charging a smaller fixed fee related to the size of the meter and all water consumed will be charged at the same rate.

For 2022 (the first year of this restructure), the annual cost to a single family residential property (2238 cubic feet annually) is proposed to increase by 2%.

For an average consumption multi-family home (990 cubic feet) the annual cost is proposed to increase by 5.6% in accordance with the structure approved by Council previously.

PREVIOUS COUNCIL DIRECTION

Motion # & Meeting Date	Motion Details
2021-243 June 28, 2021	THAT Council direct staff to implement a new water use fee rate structure based on Option 2 as outlined in the June 28, 2021 corporate report titled "Water utility User Fee Rate Restructure - 2 Options" (whereby each account would be charged a fixed fee that would be related to the size of the meter. The larger the meter size, the higher the fixed fee which reflects the demands on the system. All water consumption would be charged at the same rate).

INTRODUCTION/BACKGROUND

The City owns, operates and maintains a Water Utility that was purchased in 2015. Infrastructure includes watermain, service connections, fire hydrants, reservoirs, a water treatment plant, and seven water wells. Revenues generated through water user rates fund the operation of the system and the asset improvement program.

The 2022 proposed budget balances \$6.93M of revenues with \$6.93M of costs.

Water user fee revenues are projected to continue increasing by an average of 6.5% annually over the next five years primarily to build capital reserves necessary to address future infrastructure replacement needs and funding for the Utility's asset improvement capital program. Operating costs driven by water treatment filtration expenses and paying for the purchase of the Utility through debt financing will continue to be minimized as much as possible. Billing is carried out quarterly.

Operating Revenues

Water user fee revenue is projected to be \$5.97M or an increase of 6.5% from 2021.

The 2022 revenue increase is needed for:

Water Operations (\$68,100)	1.2%
Transfer to Asset Improvement Program Reserves (\$296,300)	<u>5.3%</u>
Total	<u>6.5%</u>

A new water user fee rate structure will also be phased in over the next four years to align water consumption with water utility costs and promote water conservation. Once phasing is complete in year four, the City will be charging a smaller fixed fee related to the size of the meter and all water consumed will be charged at the same rate.

Phase one of the rate structure implementation in 2022 will reduce both the minimum charge by meter size and the consumption included in the minimum charge by 20%. Any water consumption above what is included in the minimum fee will be charged at \$6.21 per 100 cubic feet.

For 2022, the annual cost to an average consumption single family residential property (2238 cubic feet annually) is proposed to increase by 2% or from \$705 to \$719 as follows:

	<u>2021</u>	<u>2022</u>
Fixed Charge	\$576	\$460
User fee	<u>129</u>	<u>259</u>
Total	<u>\$705</u>	<u>\$719</u>

For an average consumption multi-family home (990 cubic feet) the annual cost is proposed to increase by \$14 per unit from \$247 to \$261 or 5.6% in accordance with the structure approved by Council previously. This will vary depending on actual consumption. Costs to commercial and institutional property owners will also vary by actual consumption.

Operating Reserves will be used to fund a \$471,000 contingency for bayoxide media replacement at the treatment plant which may be required in 2022.

Operating Expenses

The Water Utility's main operating expenses relate to staffing, materials and supplies, contract maintenance, interest on long-term debt and transfer to reserves for future infrastructure replacement. Increases in overall operating costs have been kept at a minimum for 2022:

- Engineering administrative costs are forecast to increase 5.7% which is from wage and benefit costs, inflation and the recent restructure.
- Corporate support costs have increased 7.4% from inflation but primarily from an increase to the corporate support fee charged to the water fund which is gradually being increased to 100% of the actual costs.
- Waterworks costs have increased for one year to provide the \$471,000 contingency for bayoxide media replacement at the Treatment Plant. This is funded from an operating reserve that is built up by \$167,000 each year to smooth that cost as the media is consumed every three years during the treatment process. Costs will revert to standard levels in 2023.

Transfer to Reserves

Transfers to asset improvement capital reserve are forecast to increase by \$296,300 to \$1,639,300, consistent with the Cities long term plan to increase funding for infrastructure replacement. This is equivalent to 5.3% of the 6.5% user fee revenue increase for 2022.

Debt and Reserves

No new debt is required, and existing debt levels of \$22.6M are projected to continue gradually reducing to \$18M in 2026 as principal payments are made.

Operating Reserves are maintained for three functions: A Working Capital Reserve which is to provide a foundation for operations, a Water Operating Reserve which provides a buffer to smooth out fluctuations in water rates from year to year, and a Water Treatment Reserve which smooths out the costs of media replacement at the treatment plant. These reserves are projected to remain consistent at approximately \$5.4M over the next five years.

Asset Improvement Program

Over the next five years, the Water Utility plans to spend \$13.7M to replace water mains, wells, valves and equipment. This is primarily funded from Water Infrastructure and Equipment Replacement Reserves. Annual spending ranges between \$1.5M and \$3.4M per year.

The capital program is guided by the 2017 Water Master Plan and provides for replacements of end of life city water mains, associated trench restoration, new additions to meet future population growth and the replacement of equipment.

The capital program is primarily funded on a pay as you go basis through reserves which are set aside each year from water sales to the community, supplemented by a small amount of developer contributions and senior government grants as they become available.

The next five years of infrastructure replacement will continue to be focused on water mains coordinated with the replacement of other road, sewer and drain projects and a well replacement. Key projects include main replacements on Johnston Road, Russell Avenue and Prospect Avenue; construction of the Oxford Well in 2022 at a cost of \$1.8M to replace Well #3 and the Everall Street Pressure Reducing Valve Station in 2024 at a cost of \$600,000.

Details are provided in the attached budget report.

FINANCIAL IMPLICATIONS

The proposed Water Utility Financial Plan will increase the cost of water for single family homeowners by \$14 or 2.0% to \$719 per year and for multi residential homeowners by \$14 or 5.6% to \$261 unit per year.

This approach continues the plan previously outlined with Council to increase transfers to reserves for infrastructure replacement by approximately \$300,000 per year and Phase I of the water user fee restructuring plan.

LEGAL IMPLICATIONS

No specific legal implications to note. Bylaw approval required to implement rate increase and authorize budget for 2022.

COMMUNICATION AND COMMUNITY ENGAGEMENT IMPLICATIONS

The proposed Financial Plan has been reformatted and is presented using the GFOA Distinguished Budget Presentation method which is being used for the overall budget in 2022. The background material is available on the municipal website and will be incorporated into the Consolidated Financial Plan document when it presented in spring 2022.

INTERDEPARTMENTAL INVOLVEMENT/IMPLICATIONS

No specific interdepartmental capacity or other implications from the proposed 2022 budget. All departments have been involved in preparation of the proposed financial plan and rates.

CLIMATE CHANGE IMPLICATIONS

No specific climate implications resulting from this proposed financial plan.

ALIGNMENT WITH STRATEGIC PRIORITIES

The proposed budget is aligned with Council priorities. Specifically: “Implement new billing structure for Water by 31st Dec 2024.”

OPTIONS / RISKS / ALTERNATIVES

The following alternate options are available for Council’s consideration:

1. Decline to endorse the proposed Water Services Bylaw, 2015, No. 2117, Amendment No. 10, Bylaw, 2021, No. 2405. This would defer and delay implementation of the Council approved water user fee restructuring plan and not provide additional funds for asset improvement, or
2. Endorse Water Services Bylaw, 2015, No. 2117, Amendment No. 10, Bylaw, 2021, No. 2405, with a reduced water revenue increase that would result in a 0% increase for the average single family residence and 3.5% increase for multi-family homes. This would require a reduction in the transfer to reserves for asset improvements of \$133,000 per year beginning in 2022 and the deferral of some capital projects.

Staff note that moving away from the planned program of increased infrastructure funding (6.5% increase per year) will increase the risk of insufficient funding being available to draw upon in future for necessary maintenance or unexpected expenses. At a minimum, the cumulative

reduction in available funds by the end of 2026 would be \$656,000 plus any foregone planned increases. The infrastructure deficit would increase.

CONCLUSION

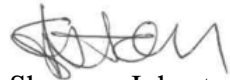
The City's Water Utility rates are established annually through bylaw prior to January 1 of the upcoming year. The rates are determined through the development of the City's Five-Year Financial Plan, which considers the Utility's projected revenues and expenses, capital requirements, reserves and long-term debt load. For 2022, a water user fee revenue increase of 6.5%, along with the first phase of the water user fee restructuring, will, for the average customer, result in a 2% increase for single family residential homes and 5.6% for multi-family homes.

Operating costs have been minimized for 2022 and most of the proposed increase is to continue the strategy to raise asset improvement funding to gradually reach sustainable levels by approximately \$300,000 per year over time.

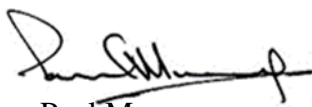
Maintaining a gradual increase in asset improvement funding is critically important as the City continues to build funding for infrastructure replacement and develop long term Asset Management Plans.

To implement this proposed budget for 2022, it is recommended that Water Services Bylaw, 2015, No. 2117, Amendment No. 10, Bylaw, 2021, No. 2405 be given first, second and third readings.

Respectfully submitted,



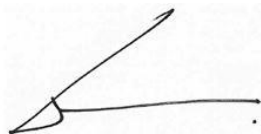
Shannon Johnston
Acting Director of Finance
Brief Summary



Paul Murray
Consultant

Comments from the Chief Administrative Officer

I concur with the recommendations of this corporate report.



Guillermo Ferrero
Chief Administrative Officer

Appendix A: Water Services Bylaw, 2015 No. 2117, Amendment No. 10, 2021, No. 2405
Appendix B: City of White Rock Water Utility Budget