

THE CORPORATION OF THE
CITY OF WHITE ROCK
CORPORATE REPORT



DATE: January 16, 2023

TO: Finance and Audit Committee

FROM: Candice Gartry, Director, Financial Services

SUBJECT: Water Utility 2023 Budget and Water Utility Rates

RECOMMENDATIONS

1. THAT the Finance and Audit Committee:
 - (a) Receive the corporate report from the Director of Financial Services, titled "Water Utility 2023 Budget and Water Utility Rates;" and
 - (b) Endorse Water Services Bylaw 2015, No. 2117, Amendment No. 12, 2023 No. 2453
 2. THAT Council give Water Services Bylaw 2015, No. 2117, Amendment No. 12, 2023 No. 2453 first, second and third readings.
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EXECUTIVE SUMMARY

Section 194 of the *Community Charter* authorizes Council, by bylaw, to establish municipal fees for services, for the use of municipal property or to exercise the authority to regulate, prohibit or impose requirements.

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 bylaw rates are set to ensure that fees charged recover the cost of providing the services.

In 2022, the city implemented the first phase of a new four-phase water rate structure. Once all phases have been implemented, water consumption will be aligned with water utility costs and will promote water conservation. 2023 will be the second phase of the four-phase plan to implement the new rate structure. 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 2023, the annual cost to a single-family residential property (average of 2,107 cubic feet of water annually) is proposed to increase by approximately \$11 per quarter to \$731 annually. For an average consumption multi-family home (average of 934 cubic feet of water annually) the annual cost is proposed to increase by \$8 per quarter to \$278 annually. It should be noted that these are averages and customers' actual bills will vary based on actual water usage. The proposed rates for 2023 would be effective retroactively to January 1, 2023.

PREVIOUS COUNCIL DIRECTION

Motion # & Meeting Date	Motion Details
2021-243 June 28, 2021	<p>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).</p> <p style="text-align: right;">CARRIED</p>

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 2023 proposed budget balances \$6.9M of revenues with \$6.9M 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 \$6.36M or an increase of 6.5% from 2023.

The 2023 revenue increase is needed for:

Water Operations (\$129,200)	2.2%
Transfer to Asset Improvement Program Reserves (\$258,800)	4.3%
Total	<u>6.5%</u>

The city is phasing in a new water rate structure that once complete (in 2025) will align water consumption with water utility costs, promote water conservation, and be more comparable to the metered water rate structures of our neighboring municipalities. With the new structure 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.

The previous rate structure had a higher fixed fee which included a certain portion of water consumption (scaled by meter size), when customers did not use the included consumption, they were paying for water they did not consume. The rate structure didn't align with the actual water consumption and the amount being charged to customers. For example, multi-family dwellings were being subsidized by single family dwellings. The new structure will create greater equity amongst the different types of customers as customers will pay all the water they consume once phasing is complete. The phasing out of the included consumption is as follows:

Service Charge	2021		2022		2023		2024		2025	
	Base Charge	Consumption included in the Base Charge	Base Charge	Consumption included in the Base Charge	Base Charge	Consumption included in the Base Charge	Base Charge	Consumption included in the Base Charge	Base Charge	Consumption included in the Base Charge
MULTI FAMILY WATER *	51.30	750	41.00	600	30.80	450	20.50	300	By meter size	N/A
NON RESIDENTIAL WATER 5/8"	115.70	1,500	92.60	1,200	69.40	900	46.30	600	52.40	N/A
NON RESIDENTIAL WATER 1"	289.10	3,900	231.30	3,120	173.50	2,340	115.60	1,560	57.60	N/A
NON RESIDENTIAL WATER 1 1/2"	578.30	7,500	462.60	6,000	347.00	4,500	231.30	3,000	89.10	N/A
NON RESIDENTIAL WATER 2"	925.40	12,000	740.30	9,600	555.20	7,200	370.20	4,800	120.50	N/A
NON RESIDENTIAL WATER 3"	1,735.10	22,500	1,388.10	18,000	1,041.10	13,500	694.00	9,000	277.70	N/A
NON RESIDENTIAL WATER 4"	2,891.90	37,500	2,313.50	30,000	1,735.10	22,500	1,156.80	15,000	366.80	N/A
SINGLE FAMILY WATER 5/8"	143.90	1,500	115.10	1,200	86.30	900	57.60	600	52.40	N/A
SINGLE FAMILY WATER 1"	289.10	3,900	231.30	3,120	173.50	2,340	115.60	1,560	57.60	N/A
SINGLE FAMILY WATER 1 1/2"	578.30	7,500	462.60	6,000	347.00	4,500	231.30	3,000	89.10	N/A
SINGLE FAMILY WATER 2"	925.40	12,000	740.30	9,600	555.20	7,200	370.20	4,800	120.50	N/A
SINGLE FAMILY WATER 6"	5,714.50	75,000	4,571.60	60,000	3,428.70	45,000	2,285.80	30,000	623.60	N/A

* For multi family the base charge is per unit until phasing is complete, then the base charge will be by meter size like all other customers

Phase two of the rate structure implementation in 2023 will reduce both the base charge by meter size and the consumption included in the base as shown above (60% of the 2021 rates). Any water consumption above what is included in the minimum fee will be charged at \$7.99 per 100 cubic feet.

For 2023, the annual cost to an average consumption single family residential property (2,107 cubic feet annually) is proposed to increase by \$45 from \$686 to \$731 annually. For an average consumption multi-family home (934 cubic feet) the annual cost is proposed to increase by \$31 per unit from \$247 to \$278 annually. The rate increase are in-line with the structure approved by Council. Actual amounts billed will vary depending on actual consumption. Costs to commercial and institutional property owners will also vary by actual consumption. The proposed rates for 2023 would be effective retroactively to January 1, 2023.

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 2023:

- Engineering administrative costs are forecast to decrease by 8.5% due to a reallocation of Engineering Administrative staff time.
- Corporate support costs have increased 10.0% due to inflation, increased property insurance costs (no change in coverage), and from an increase to the corporate support fee charged to the water fund which is gradually being increased to 100% of actual costs.
- Waterworks costs decreased over last year mainly due to the removal of the contingency in 2022 for the \$471,000 cost of the Bayoxide media replacement at the Treatment plant, which was funded by the operations reserve. This decrease was partially offset by increased supplies, increased wages due to increasing employee benefits, and other cost increases.
- Contingency costs have increased 25.8% to allow funding for potential collective agreement settlements and to allow for additional funding for unexpected cost increases.
- Transfers to the Capital Reserves are forecast to increase by \$258,800, consistent with the long-term plan to increase funding for infrastructure replacement. This is equivalent to 4.3% of the user fee increase.

Transfer to Reserves

Transfers to the asset improvement capital reserve are forecast to increase by \$258,800 (\$296,300 in 2022) to \$1,910,400, consistent with the City's long-term plan to increase funding for infrastructure replacement. This is equivalent to 4.3% (5.3% in 2022) of the 6.5% user fee revenue increase for 2023.

Debt

No new debt is required. The outstanding long-term debt balance was \$21M at the end of 2022. This amount is projected to reduce to \$17M by the end of 2027 as principal payments are made.

Operating Reserves have been established for three functions:

- Working Capital Reserve – providing a foundation for operations
- Water Operating Reserve – providing a buffer for year-over-year water rate fluctuations
- Water Treatment Reserve – smooths out the costs of media replacement at the treatment plant

Reserves

Capital Reserves are established for the replacement of infrastructure with the goal of maintaining balances equivalent to between 5% and 10% of the water asset replacement value. The current asset replacement value is estimated to be \$138M, which would require a reserve balance of between \$6.9 and \$13.8M to be maintained. Capital Reserves are projected to remain between \$5.4M (4%) and \$4.1M (3%). This is well below optimum levels forecast to cover the next five years, and why water rate increases for future infrastructure replacement are required.

Asset Improvement Program

Over the next five years, the Water Utility plans to spend \$14.8M to replace water mains, wells, valves and equipment. This is primarily funded from Water Infrastructure and Equipment Replacement Reserves. Annual spending ranges between \$1.78M and \$3.97M 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.

FINANCIAL IMPLICATIONS

The proposed Water Utility Financial Plan will increase the annual cost of water for single family homeowners by \$45 from \$686 to \$731 per year and for multi residential homeowners by \$31 per unit from \$247 to \$278 unit per year. The proposed rates for 2023 would be effective retroactively to January 1, 2023.

The proposed amounts in this corporate and attached amended bylaw remain in line with the plan previously outlined with Council to increase transfers to reserves for infrastructure replacement by approximately \$300,000 per year and with implement Phase II 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 2023.

COMMUNICATION AND COMMUNITY ENGAGEMENT IMPLICATIONS

The background material is available on the municipal website and will be incorporated into the Consolidated Financial Plan document when it presented in spring 2023.

ALIGNMENT WITH STRATEGIC PRIORITIES

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

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

1. Decline to endorse the proposed Water Services Bylaw, 2015, No. 2117, Amendment No. 12, Bylaw, 2022, No. 2453. 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. 12, Bylaw, 2022, No. 2453.

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

CONCLUSION

The city's Water Utility rates are established annually through bylaw. 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 2023, a water user fee revenue increase of 6.5%, along with the second phase of the water user fee restructuring, will, for the average customer, result in an annual increase of \$45 for single family residential homes and \$31 for multi-family homes.

Operating costs have been minimized for 2023 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.

It is recommended that Water Services Bylaw, 2015, No. 2117, Amendment No. 12, Bylaw, 2022, No. 2453 be given first, second and third readings.

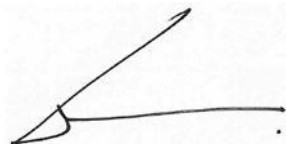
Respectfully submitted,



Candice Gartry
Director, Financial Services

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. 12, 2023 No. 2453

Appendix B: Water Fund Draft Financial Plan 2023