

ITEM 9  
MANAGER'S REPORT NO. 72  
COUNCIL MEETING 1983 11 28

RE: WATERWORKS UTILITY RATES

MUNICIPAL MANAGER'S RECOMMENDATION:

1. THAT the recommendations of the Director Finance be adopted.

\* \* \* \* \*

1983 November 16  
File: W5-4

TO: MUNICIPAL MANAGER  
FROM: DIRECTOR FINANCE  
RE: WATERWORKS UTILITY RATES

RECOMMENDATIONS

1. THAT the water utility rates in effect in 1983 remain unchanged for 1984; and
2. THAT a further report be placed before Council in the Fall of 1984 concerning rates for 1985.

SUMMARY

In 1958 the waterworks utility of the Municipality was certified by the Inspector of Municipalities as being a self-liquidating (i.e. financially self-sustaining) utility. Annual reviews in the past have indicated that no rate increases were needed since 1974, except for connections. This report projects the operating expenditures and revenues through 1987. This report recommends that the rates in effect in 1983 remain unchanged for 1984.

BACKGROUND

By a certificate issued by the Inspector of Municipalities dated 1958 October 30, the waterworks utility of the Municipality was certified as being a self-liquidating (i.e. financially self-sustaining) project under Section 334 of the Municipal Act. Thus the utility qualified for a guarantee of principal and interest by the Province on approved debenture issues.

Under the conditions of the guarantee, the utility must produce enough revenue to repay the annual principal and interest charges of the guaranteed debt; to repay the Corporation for monies spent in each year for principal and interest payments on debt created for water purposes prior to 1958 October 20; and to meet the cost of administration, management and operation of the water system.

In 1979 and 1980 the operating surplus was around \$1.5 million. In 1981 this surplus increased to \$2.5 million, primarily as a result of curtailed capital spending due to the civic strike in 1981. In 1982 and 1983, however, capital spending returned to normal levels and it was necessary to use part of the unexpended prior years' surplus to make the utility self-sustaining in these years.

The key element in maintenance of financial balance is adjustment of water rates. Schedule A attached shows that rates have not been increased since 1973, except for the connection fee. Annually the rate structure was reviewed to determine if rate increases were necessary in order for the utility to remain self-sustaining. No rate increases were needed, except for connection fees. This report looks ahead to 1987, because rate increases probably will be needed in the near future, and makes a recommendation for 1984.

CURRENT PROJECTIONS

- Projected Operating Costs

Schedule B attached is a revenue and expenditure statement of the waterworks utility projected through 1987. It is based on the same estimates as in the 1984 provisional budget plus an outlook for the next three years, incorporating the same cost escalations as experienced over the past three years.

The main reason for the change from an operating deficit in 1983 to a projected surplus in 1984 is the reduced capital spending amount. However, by 1986, it is expected that capital spending will rise back to its normal level of approximately \$1.1 million per year.

The Schedule B projection is based on no rate increase for 1984, a 10% increase in each of the years 1985 and 1986, and no increase in 1987. Under this proposed scheme, the projected operating surplus of \$1,685,764 at the end of 1984 will decrease to \$1,196,764 by the end of 1987.

The projected surplus position by year from Schedule B is compared with other combinations of rate increases to the end of 1987 as follows:

	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
1. % rate increase (Schedule B)	Nil	10%	10%	Nil
Surplus at year end, \$	1,685,764	1,706,764	1,561,764	1,196,764
2. % rate increase	Nil	10%	10%	10%
Surplus at year end, \$	1,685,764	1,706,764	1,561,764	1,561,764
3. % rate increase	Nil	10%	Nil	10%
Surplus at year end, \$	1,685,764	1,706,764	1,237,764	872,764
4. % rate increase	Nil	Nil	10%	10%
Surplus at year end, \$	1,685,764	1,410,764	1,055,764	820,764
5. % rate increase	Nil	Nil	Nil	Nil
Surplus/(deficit) at year end, \$	1,685,764	1,410,764	645,764	(309,236)

Based on the foregoing projections, there is no need to adjust rates in 1984. After 1984, if rates are not adjusted in any of the following years (Alternative 5), then the utility operations will fall into a deficit position by 1987. It is apparent that increases of approximately 10% per year in each of two years out of three (i.e. Alternatives 1, 3 or 4) will be required to maintain the surplus between \$800,000 and \$1.2 million. Internal studies have indicated that a surplus level of this magnitude is desirable for working capital and for smoothing out revenue and expenditure fluctuations. However, it will not be necessary now to make a firm decision about 1985 rates. A review next year will be more appropriate, as the projections at that time will be more relevant.

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CURRENT PROJECTIONS (cont'd)

- Future Capital Expenditures

Included in the projection are capital projects of \$420,000 for 1984, \$800,000 for 1985, and \$1,100,000 each for 1986 and 1987. The variation is due mainly to variable demand for construction of mains, pumping stations, etc. The capital requirements will be financed from utility revenues as shown.

- Director Engineering's Concurrence

The Director Engineering concurs with the operating and capital projections and that no rate increase is needed in 1984.

CONCLUSION

Based on the projected operating estimates as portrayed in Schedule B, there is no need for a rate increase in 1984. The projections should be updated and reviewed again next year to determine if the rates should be adjusted for 1985.

It is recommended that the water utility rates in effect in 1983 remain unchanged for 1984; and

That a further report be placed before Council in the Fall of 1984 concerning rates for 1985.

*HW Jarras*

Howard Karras  
DIRECTOR FINANCE

Attach.

cc: Director Engineering

ENGINEERING - WATERWORKS

WATER RATES

Year	1974-1976	1977	1978	1979	1980	1981	1982	1983
Flat Rates	42.00	42.00	42.00	42.00	42.00	42.00	42.00	42.00
Detached single family	42.00	42.00	42.00	42.00	42.00	42.00	42.00	42.00
Single family within duplex	42.00	35.00	31.50	31.50	31.50	31.50	31.50	31.50
Single family within multiple	-	May 01 16.00	24.00	24.00	24.00	24.00	24.00	24.00
Commercial of not more than 3 stores/offices	84.00	84.00	84.00	84.00	84.00	84.00	84.00	84.00
Commercial and living quarters 1 family	84.00	84.00	84.00	84.00	84.00	84.00	84.00	84.00
Commercial and no living quarters	42.00	42.00	42.00	42.00	42.00	42.00	42.00	42.00
Metered Rates								
Monthly								
First 300 cubic meters	0.127	0.127	0.127	0.127	0.127	0.127	0.127	0.127
Next 550 cubic meters	.09	.09	.09	.09	.09	.09	.09	.09
Next 1,400 cubic meters	.07	.07	.07	.07	.07	.07	.07	.07
Next 12,000 cubic meters	.06	.06	.06	.06	.06	.06	.06	.06
Over 14,250 cubic meters	.053	.053	.053	.053	.053	.053	.053	.053
Minimum monthly	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Quarterly								
First 900 cubic meters	0.127	0.127	0.127	0.127	0.127	0.127	0.127	0.127
Next 1,650 cubic meters	.09	.09	.09	.09	.09	.09	.09	.09
Next 4,200 cubic meters	.07	.07	.07	.07	.07	.07	.07	.07
Next 36,000 cubic meters	.06	.06	.06	.06	.06	.06	.06	.06
Over 42,750 cubic meters	.053	.053	.053	.053	.053	.053	.053	.053
Minimum quarterly	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50
Connection fee 19 mm and less	160.00	350.00	350.00	350.00	400.00	400.00	550.00	550.00

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## SCHEDULE B

## ENGINEERING - WATERWORKS

	1982	1983	1984	1985	1986	1987
	Actual	Recast	Provisional			
	\$	\$	\$	\$	\$	\$
<b>Expenditure</b>						
Cost of water	960,293	1,019,800	1,073,400	1,130,000	1,190,000	1,250,000
Transmission, distribution and pumping	1,183,812	1,144,055	1,154,516	1,310,000	1,480,000	1,680,000
Long term debt	232,537	232,079	134,451	130,000	130,000	130,000
Contribution to capital	1,373,879	1,100,215	420,000	800,000	1,100,000	1,100,000
Utility surplus	58,345		280,333	21,000		
<b>Revenue/Transfers</b>						
Flat rates	1,801,189	1,840,300	1,858,700	2,080,000	2,330,000	2,370,000
Metered rates	939,990	949,400	958,900	1,056,000	1,160,000	1,160,000
Connection fees	187,095	120,100	120,100	130,000	140,000	140,000
Water charge to fire department	125,000	125,000	125,000	125,000	125,000	125,000
Unexpended prior years' utility surplus	755,592	461,349			145,000	365,000
<b>Operating surplus at end of year</b>	<b>3,808,866</b>	<b>3,496,149</b>	<b>3,062,700</b>	<b>3,391,000</b>	<b>3,900,000</b>	<b>4,160,000</b>
Rate increase						
	N:1	N:1	N:1	10%	10%	N:1
	1,873,402	1,423,581	1,685,764	1,706,764	1,561,764	1,196,764

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