

ITEM 9  
MANAGER'S REPORT NO. 75  
COUNCIL MEETING 84/11/26

RE: WATERWORKS UTILITY RATES

MUNICIPAL MANAGER'S RECOMMENDATION:

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

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TO: MUNICIPAL MANAGER  
1984 November 19  
File: W5-4

FROM: DIRECTOR FINANCE

RE: WATERWORKS UTILITY RATES

RECOMMENDATIONS

1. THAT the water utility rates in effect in 1984, other than the connection fee, remain unchanged for 1985; and
2. THAT the connection fee for water services 19 mm and less be changed to a firm estimate basis, effective 1985 January 01; and
3. THAT a further report be placed before Council in the Fall of 1985 concerning rates for 1986.

SUMMARY

The waterworks utility of the Municipality is operated on a self-liquidating (i.e. financially self-sustaining) basis. Annual reviews in the past have indicated that no rate increases were needed since 1973, except for connections. This report projects the operating expenditures and revenues through 1987. This report recommends that the rates in effect in 1984 remain unchanged for 1985.

The Director Engineering recommends that the connection fee for installation of water services 19 mm or less be changed from a flat fee to a firm estimate basis, effective 1985 January 01.

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 those 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 is reviewed to determine if rate increases are 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 1985.

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 will be included in the 1985 provisional budget, plus an outlook for the next two years, incorporating estimated cost escalations and revenues.

The main reason for the change from an operating surplus in 1984, which had curtailed capital spending, to a projected operating deficit in 1985 is the restoration to normal levels of capital spending amounts, which are expected to continue in 1986 and 1987.

The Schedule B projection is based on no rate increase for 1985, 1986 and 1987. Under this proposed scheme, the projected operating surplus of \$2,093,427 at the end of 1984 will decrease to \$1,875,954 at the end of 1985 and \$677,954 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>1985</u>	<u>1986</u>	<u>1987</u>
1. % rate increase (Schedule B)	Nil	Nil	Nil
Surplus at year end - \$	1,875,954	1,320,954	677,954
2. % rate increase	Nil	10%	Nil
Surplus at year end - \$	1,875,954	1,615,954	1,367,954
3. % rate increase	Nil	Nil	10%
Surplus at year end - \$	1,875,954	1,320,954	982,954

Internal studies have indicated that a minimum surplus level of about \$1.0 million is desirable for working capital and for smoothing out revenue and expenditure fluctuations.

Based on the current projections, there is no need to adjust rates, other than connection fees, in 1985. After 1985, if rates are not adjusted in 1986 nor in 1987 (Schedule B), then the projected utility surplus will decline to a lower than desired level by 1987. It is apparent that an increase of approximately 10% will be required in 1986 (Alternative 2), or more than 10% in 1987, to maintain the surplus above the required minimum in 1987. However, it will not be appropriate now to make a firm decision about 1986 rates. A review next year will be more appropriate, as the projections at that time will be more relevant.

The Director Engineering advises that it is now opportune to change the flat rate connection fee for water services 19 mm or less to a firm estimate basis in order to promote greater equity in charges and to be consistent with the manner in which charges are made for all services greater than 19 mm (i.e. the cost of each connection is estimated individually).

CURRENT PROJECTIONS (cont'd)

- Comparison to the 1983 Study

The projections in the report presented to Council in 1983 indicated that with no rate increases, the projected surplus would be completely exhausted in 1987. The current projections indicate that with no rate increases, the balance in the operating surplus account will be reduced to \$677,954 by the end of 1987. The improvement over the previous study is due in part to a more favourable surplus position projected at the end of 1984 because of lower than anticipated capital expenditures, and lower estimated drawdowns of the unexpended surplus for the next three years.

- Future Capital Expenditures

Included in the projection are capital projects of \$823,000 for 1985, and \$1,100,000 each for 1986 and 1987. The variation is due mainly to variable demand for construction and updating of waterworks facilities. 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 1985.

CONCLUSION

Based on the projected operating estimates as portrayed in Schedule B, there is no need for a rate increase in 1985. The projections should be updated and reviewed again next year to determine if the rates should be adjusted for 1986.

It is recommended that the water utility rates in effect in 1984, other than the connection fee, remain unchanged for 1985; and

That the connection fee for water services 19 mm and less be changed to a firm estimate basis, effective 1985 January 01; and

That a further report be placed before Council in the Fall of 1985 concerning rates for 1986.



Howard Karras  
DIRECTOR FINANCE

Attach.

cc: Director Engineering

ENGINEERING - WATERWORKS

WATER RATES

Year	1974-	1976	1977	1978	1979	1980	1981	1982	1983	1984
Flat Rates	42.00	42.00	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	42.00	42.00
Single family within duplex	42.00	35.00	31.50	31.50	31.50	31.50	31.50	31.50	31.50	31.50
Single family within multiple	-	16.00	24.00	24.00	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	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	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	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	0.127	0.127
Next 550 cubic meters	.09	.09	.09	.09	.09	.09	.09	.09	.09	.09
Next 1,400 cubic meters	.07	.07	.07	.07	.07	.07	.07	.07	.07	.07
Next 12,000 cubic meters	.06	.06	.06	.06	.06	.06	.06	.06	.06	.06
Over 14,250 cubic meters	.053	.053	.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	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	0.127	0.127
Next 1,650 cubic meters	.09	.09	.09	.09	.09	.09	.09	.09	.09	.09
Next 4,200 cubic meters	.07	.07	.07	.07	.07	.07	.07	.07	.07	.07
Next 36,000 cubic meters	.06	.06	.06	.06	.06	.06	.06	.06	.06	.06
Over 42,750 cubic meters	.053	.053	.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	10.50	10.50
Connection fee 19 mm and less	160.00	350.00	350.00	400.00	400.00	400.00	550.00	550.00	550.00	550.00

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