

ITEM 8
MANAGER'S REPORT NO. 69
COUNCIL MEETING 85/11/04

RE: WATERWORKS UTILITY RATES

MUNICIPAL MANAGER'S RECOMMENDATION:

1. THAT the recommendation of Director Finance be adopted.

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1985 October 31
File: W5-4

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

RECOMMENDATIONS

1. THAT a by-law to amend By-law No. 3325, being Burnaby Waterworks Regulation By-law 1953, be brought down to incorporate the taxes and rates shown under the column in Schedule A attached headed "Effective 1986 January 01"; and
2. THAT a further report be placed before Council in the Fall of 1986 regarding rates for 1987.

SUMMARY
REPORT

It is Council's objective that the waterworks utility be financially self-supporting, and with that objective annual reviews of rates are made. This report projects the revenues and expenditures through 1987 and recommends a 5% increase in rates for 1986 (see Schedule A attached). The recommended increase in the rates (excluding connections) is the first since 1974. In 1986 the water rate for a single family home would increase by \$2.10 from the present \$42.00 to \$44.10.

BACKGROUND

On 1985 April 15 Council adopted the following recommendations:

1. THAT the water utility rates currently in effect remain unchanged for the balance of 1985; and
2. THAT a further report be placed before Council in the Fall of 1985 concerning the rates for 1986.

Now that the 1986 provisional budget is being prepared, it is timely to estimate the waterworks utility revenues and expenditures for 1986 and 1987 and review the charge rates with Council's objective in mind, that the waterworks utility be financially self-supporting.

In addition, the Reserve Policy adopted by Council for the waterworks utility states that a minimum of \$1 million should be kept in operating surplus to absorb large fluctuations in capital spending, and still provide for an adequate level of working capital.

PREVIOUS SITUATION

In the April report to Council it was concluded that no rate increase was needed in 1986 because the operating surplus projected for year end 1986 was well above the minimum and could be drawn down for revenue purposes, notwithstanding the higher capital expenditures in 1986 as compared to 1984 and 1985. In 1987, however, although the operating funds were projected to be above the minimum level by year end 1987, the rate of drawdown of these funds was significant and probably would have required a rate increase of 5% in 1987 to maintain the operating surplus above the minimum level in the following year.

CURRENT SITUATION

Although the estimated non-capital expenditure projections now are similar to those projected in April, there has been a significant change in the outlook for capital spending since the estimates in April.

CAPITAL PROGRAM

The previous capital estimate included \$850,000 in each of 1986 and 1987 for miscellaneous main renewals and upgrading of the water system in general, to be financed by revenue funds. Additional specific works have now been identified by the Director Engineering, consisting of a need to revise and upgrade distribution and pumping facilities on the west face of Burnaby Mountain, water main on Deer Lake Drive, and further general improvements called for in the Water District study. Therefore, the current estimate now has an additional \$580,000 of capital in 1986 to be financed by the utility. In a separate report, the Director Engineering will soon be providing Council with further information on the increased capital program.

EFFECT OF PROJECTED EXPENDITURES
AND REVENUES ON OPERATING SURPLUS

In view of these increases in capital spending, and other updated changes to expenditures and revenues, the operating surplus is projected to fall to \$664,239 by the end of 1987, which is below the minimum desirable \$1 million requirement, if no rate increases were implemented in 1986 nor in 1987 (see Schedule B attached). A 5% increase in each year would result in the operating surplus remaining above the minimum level.

There is no other source of funding the capital program proposed other than the rate increase discussed above or borrowing, which is discussed next.

ALTERNATIVE FINANCING

An alternative to funding the \$2.28 million of capital expenditures over the two year period 1986-1987 from rate increases, is to borrow the funds from the Municipal Finance Authority, repayable over a 20 year period and moderate the rate increase. For example, borrowing the \$2.28 million for 20 years at an estimated interest rate of 12% would cost about \$305,000 per year, and thus there would be no need to increase rates.

In keeping with our policy of pay as you go, funds for waterworks construction have not been borrowed externally since 1966. Any capital construction needed was financed out of revenue. Water rates have remained unchanged since 1974. It is considered that a rate increase would be more appropriate than borrowing the funds needed. Financing the proposed capital works out of revenue gives us greater flexibility in planning our programs. The cost is less because interest payments need not be made. This option also leaves open the potential of borrowing in the future, should the necessity for larger scale capital projects become evident.

- 3 -

DIRECTOR ENGINEERING CONCURRENCE

The Director Engineering concurs with the expenditure and revenue projections and the conclusions and recommendations.

PUBLICITY

The Ministry of Municipal Affairs has requested that municipalities seeking increases in utility rates publicize their intent by way of local newspaper advertising or a press release. To meet this requirement, it is intended that a display ad be placed as soon as possible and that an article be prepared for the next issue of the Information Burnaby newsletter scheduled for 1986 February.

CONCLUSION

Based on the projected operating estimates portrayed in the attached Schedule B, there is a need for a 5% rate increase in 1986 to maintain the waterworks utility financially self-sustaining. These projections will be updated and reviewed again in 1986 to determine if rates should be adjusted in 1987.

It is recommended that a by-law to amend By-law No. 3325, being Burnaby Waterworks Regulation By-law 1953, be brought down to incorporate the taxes and rates shown under the column in Schedule A attached headed "Effective 1986 January 01".

It is also recommended that a further report be placed before Council in the Fall of 1986 regarding rates for 1987.



Howard Karras
DIRECTOR FINANCE

Attach.

cc: Director Engineering
Municipal Solicitor
Municipal Clerk

	1983	1984	1985	1986	1987	1986	1987
	Actual	Actual	Recast	Provisional	Estimate	Estimate	Estimate
	\$	\$	\$	\$	\$	\$	\$
Expenditure							
Cost of water transmission, distribution and pumping	971,157	1,101,030	1,239,000	1,201,000	1,300,000	1,201,000	1,300,000
Long term debt - existing	232,079	134,451	134,334	133,877	118,000	133,877	118,000
- new mains (Note 1)							
Contribution to capital	1,100,215	221,581	397,147	1,430,000	250,000	1,430,000	250,000
Surplus generated	93,148	605,729	176,159	-	850,000	-	850,000
Revenue/Transfers							
Fee increase (cumulative)	1,847,171	1,870,001	1,886,000	1,895,000	1,950,000	1,895,000	1,950,000
Flat rates	963,341	1,023,801	1,075,000	1,086,000	1,110,000	1,086,000	1,110,000
Metered rates	175,020	183,763	183,000	183,000	200,000	183,000	200,000
Connection fees	125,000	125,000	125,000	125,000	125,000	125,000	125,000
Water charge to Fire Department	461,349	-	-	1,069,484	633,000	909,484	303,000
Unexpended prior year's utility surplus	3,571,881	3,202,565	3,269,000	4,358,484	4,018,000	4,358,484	4,018,000
Operating surplus - year end	1,584,835	2,190,564	2,366,723	1,297,239	664,239	1,457,239	1,154,239
Rate increase	-	-	-	-	-	58	58

Note 1 For new water main construction by Greater Vancouver Water District in South Burnaby.

