

ITEM 5
MANAGER'S REPORT NO. 65
COUNCIL MEETING 86/10/27

RE: WATERWORKS UTILITY RATES

MUNICIPAL MANAGER'S RECOMMENDATION:

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

* * * * *

TO: MUNICIPAL MANAGER 1986 October 22
FROM: DIRECTOR FINANCE File: W5-4
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 1987 January 01"; and
2. THAT a further report be placed before Council in the Fall of 1987 regarding rates for 1988.

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. There was a 5% increase in 1986. This report projects the revenues and expenditures through 1988 and recommends a 10% increase in rates for 1987 (Schedule A attached). The recommended increase in the rates (excluding connections) is the second since 1974. In 1987 the water rate for a single family home would increase by \$4.40 from the present \$44.10 to \$48.50.

BACKGROUND

On 1985 November 04 Council adopted the following recommendations:

1. THAT a 5% increase in the water utility rates be implemented in 1986; and
2. THAT a further report be placed before Council in the Fall of 1986 concerning the rates for 1987.

Now that the 1987 provisional budget is being prepared, it is timely to estimate the waterworks utility revenues and expenditures for 1987 and 1988 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 1985 November report to Council it was concluded that a 5% rate increase was needed in 1986, primarily because of the higher capital expenditures in 1986 and onward, compared to 1984 and 1985, and the continuation of the policy to finance waterworks capital expenditures on a pay as you go basis out of waterworks revenue. In spite of the 5% rate increase in 1986, the operating funds were projected to decrease by about \$900,000 and unless there was at least a 5% rate increase in 1987, the operating surplus by year end 1987 would have fallen below the \$1 million minimum needed for working capital.

CURRENT SITUATION

The estimated capital and non-capital expenditure projections to the end of 1988 are still similar to those projected last November, and there has only been a slight improvement in the projected operating surplus position at the end of 1986. The capital program of about \$1.1 million per year has been identified in the 5 year capital budget and reflects a resumption to spending levels required to meet municipal needs, after below normal expenditures in 1984 and 1985. If a 5% rate increase were implemented in each of 1987 and 1988, it would not be sufficient to maintain adequate working capital by the end of 1988, and it would fall below the desired minimum level of \$1 million. Therefore a higher rate of increase will have to be implemented.

EFFECT OF PROJECTED EXPENDITURES
AND REVENUES ON OPERATING SURPLUS

Schedule B attached reflects the updated estimates of expenditures and revenues to the end of 1988, and their effect on the operating surplus at year end at various rate increases that are required to maintain the working capital above the minimum desirable \$1 million requirement.

A 10% increase in rates in each year 1987 and 1988 would abate the reduction in operating surplus to a projected balance of about \$1,373,000 by the end of 1988, still a reduction of almost \$400,000 from the projected 1986 year end level, but above the minimum desirable level.

A higher rate of increase, 15% in 1987 and 10% in 1988, would be needed to maintain the projected operating surplus at the end of 1988 close to the currently projected 1986 year end level. However, a 15% increase in one year is considered to be excessive, whereas a 10% increase would be more tolerable and still result in an acceptable working capital 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 \$2.22 million of capital expenditures over the two year period 1987-1988 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 \$2.22 million for 20 years at an estimated interest rate of 12% would cost about \$297,000 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. Prior to 1986, 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 1987 February.

CONCLUSION

Based on the projected operating estimates portrayed in the attached Schedule B, there is a need for a 10% rate increase in 1987 to maintain the waterworks utility financially self-sustaining. The by-law requires the approval of the Minister of Municipal Affairs. These projections will be updated and reviewed again in the Fall of 1987 to determine if rates should be adjusted in 1988.

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 1987 January 01".

It is also recommended that a further report be placed before Council in the Fall of 1987 regarding rates for 1988.

FUTURE STUDIES

Schedule A shows that metered water rates are on a sliding scale basis, i.e. the greater the volume, the lower the per unit rate charged. This sliding scale has been in effect for a great number of years.

We consider it is appropriate to review the sliding scale charge relationship to determine if high volume users should continue to enjoy the low rates to the same extent as in the past. The study is scheduled to be completed in 1987, at which time a report will be presented to Council.



Howard Karras
DIRECTOR FINANCE

PWT:gw
Attach.

cc: Director Engineering
Municipal Solicitor
Municipal Clerk
Asst. Director Finance
- Revenue Collection

ITEM	5	MANAGER'S REPORT NO. 65	COUNCIL MEETING 86/10/27	10% Fee Increase		15% Fee Increase		10% Fee Increase		15% Fee Increase		Rate Increase
				1987	1988	1987	1988	1986	1987	1987	1988	
Expenditure				\$	\$	\$	\$	\$	\$	\$	\$	
Cost of water	1983	1984	1985	1986	1987	1988	1987	1988	1987	1988	1987	
Transmission, distribution and pumping	971,157	1,101,030	1,238,124	1,226,000	1,305,000	1,350,000	1,381,539	1,400,000	1,381,539	1,400,000	1,381,539	10%
Long term debt	1,175,282	1,139,774	1,316,653	1,338,079	1,381,539	1,400,000	270,816	260,000	270,816	260,000	270,816	10%
Contribution to capital	1,100,215	221,581	397,147	1,201,329	1,100,000	1,120,000	1,100,000	1,100,000	1,100,000	1,100,000	1,120,000	10%
Surplus generated	93,148	605,729	221,586	-	-	-	-	-	-	-	109,000	
Revenue/Transfers	3,571,881	3,202,565	3,307,845	4,059,136	4,057,355	4,130,000	4,057,355	4,057,355	4,057,355	4,057,355	4,239,000	
Fee increase (cumulative)	1,847,171	1,870,001	1,891,573	2,012,000	2,022,000	2,022,000	2,022,000	2,022,000	2,022,000	2,022,000	2,022,000	
Flat rates	963,341	1,023,801	1,094,254	1,105,000	1,105,000	1,105,000	1,105,000	1,105,000	1,105,000	1,105,000	1,105,000	
Metered rates	175,020	183,763	197,018	167,300	167,300	167,000	167,300	167,300	167,300	167,300	167,000	
Connection fees	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	
Water charge to Fire Department	461,349	-	-	649,836	328,055	61,000	168,055	168,055	168,055	168,055	168,055	
Utility surplus	3,571,881	3,202,565	3,307,845	4,059,136	4,057,355	4,130,000	4,057,355	4,057,355	4,057,355	4,057,355	4,239,000	
Operating surplus - year end	1,584,835	2,190,564	2,412,150	1,762,314	1,434,259	1,373,259	1,594,259	1,594,259	1,594,259	1,594,259	1,703,259	10%
	-	-	-	5%	10%	10%	15%	15%	15%	15%	15%	10%
Rate Increase	-	-	-	-	-	-	-	-	-	-	-	-

ITEM 5
MANAGER'S REPORT NO. 65
COUNCIL MEETING 86/10/27

