

ITEM 14
MANAGER'S REPORT NO. 75
COUNCIL MEETING 87/11/30

RE: WATERWORKS UTILITY RATES

MUNICIPAL MANAGER'S RECOMMENDATION:

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

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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 1988 January 01"; and
2. THAT a further report be placed before Council in the Fall of 1988 regarding rates for 1989.

1987 November 24
File: W5-4

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 10% increase in 1986. This report projects the revenues and expenditures through 1989 and recommends a 10% increase in rates for 1988 (Schedule A attached). The recommended increase in the rates for 1988 (excluding connections) is only the third increase since 1974. If approved, the water rate for a single family home in 1988 would increase by \$4.85 from the present \$48.50 to \$53.35.

BACKGROUND

On 1986 October 27 Council adopted the following recommendations:

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1. THAT a 10% increase in the water utility rates be implemented in 1987; and
2. THAT a further report be placed before Council in the Fall of 1987 concerning the rates for 1988.

Now that the 1988 provisional budget is prepared, it is timely to estimate the waterworks utility revenues and expenditures for 1988 and 1989 and review the charge rates with Council's objective in mind, that the waterworks utility be financially self-supporting.

In addition, the updated Reserve Policy adopted by Council on 1987 October 05 for the waterworks utility states that a minimum of \$1.5 million should be kept in operating surplus to absorb sudden large fluctuations in charges and expenditures, and still provide for an adequate level of working capital.

PREVIOUS SITUATION

In the 1986 October report to Council it was concluded that a 10% rate increase was needed in 1987 and a further 10% in 1988. These increases were necessary because of the needed higher level of capital expenditures to maintain an aging utility infrastructure as well as to replace water mains prior to road construction projects.

In spite of these rate increases, utility operating surplus was needed as a revenue source to make the utility financially self sustaining. The surplus was projected to decline to about \$1,373,000 by the end of 1988. This level was still above the minimum \$1 million level as the policy reflected in 1986. The minimum level was subsequently increased to \$1.5 million in the updated Reserves policy as described above.

CURRENT SITUATION

Since the estimates last year, there have been increases in the cost of water and in the operating and maintenance costs. Water rates charged by the regional district are estimated to increase by 13.9% per unit volume in 1988. However, the last several years were extraordinarily dry and if 1988 is a normal weather year, water usage should decrease to more normal usage. Overall we anticipate that water costs will rise by about 8% in 1988, and by 3% in 1989.

Operating and maintenance costs are also expected to be higher due to the additional maintenance on the aging infrastructure and equipment. The capital program of \$1,180,000 per year is needed to renew and maintain the aging, deteriorating utility infrastructure as well as to replace water mains prior to road construction projects.

EFFECT OF PROJECTED EXPENDITURES AND REVENUES ON OPERATING SURPLUS

Schedule B attached reflects the updated estimates of expenditures and revenues to the end of 1989, and their effect on the operating surplus at year end at the recommended rate increases that are required to maintain the working capital close to the minimum \$1.5 million requirement by the end of 1989.

A 10% rate increase is needed in 1988 to fund the projected operating and maintenance costs and charges and to moderate the use of operating surplus as revenue. In spite of this increase, the operating surplus is projected to deplete by \$195,875 to a balance of \$1,423,139 at the end of 1988, close to the minimum working capital level. It is proposed to increase water rates and charges by 10% for 1988.

A further 10% rate increase is needed in 1989 to further moderate the depletion of the surplus and to fund the normal inflationary costs and required operating and maintenance expenditures for the utilities. With this increase, it is anticipated that a small surplus of \$59,800 will be generated which will increase the overall surplus to \$1,482,939 by year-end 1989. Growth in flat rate users and metered volume is expected to be nominal and not significantly affect the projected rate increases.

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 1988 January 01".

It is also recommended that a further report be placed before Council in the Fall of 1988 regarding rates for 1989.

The rate increase bylaws for utilities no longer require the approval of the Minister of Municipal Affairs.

COMPARISON TO SURROUNDING MUNICIPALITIES

A survey was made to determine how Burnaby's water rate for a detached single family residence compared with eleven surrounding municipalities. In all cases but one, Burnaby's proposed rate of \$53.35 for 1988 is less than the flat rate per year being charged by others now (1987).

ALTERNATIVE FINANCING

An alternative to funding the \$2.36 million of capital expenditures over the two year period 1988-1989 from rate increases, is to borrow the funds from our own reserves (Capital Works Financing Fund), or from the Municipal Finance Authority and moderate the rate increases now. For example, borrowing the \$2.36 million from the Municipal Finance Authority for 20 years at an estimated interest rate of 11% would cost about \$296,000 per year, and thus there would be no need to increase rates in 1988 or 1989.

In keeping with our policy of pay as you go, funds for waterworks construction have not been borrowed since 1966. Any capital construction needed was financed out of revenue. Water rates have remained unchanged from 1974 to 1986. Rates were increased as a result of the increased need for capital expenditures required to renew the aging infrastructure as discussed earlier. 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.

PUBLICITY

The Ministry of Municipal Affairs requires 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 1988 February.

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 at least 30 years.

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In view of a long period of not reviewing the sliding scale, and in view of the increased revenue demands on the utility, the sliding scale charge relationship should be reviewed now to determine if high volume users should continue to enjoy the low rates to the same extent as in the past. This study is currently underway and is scheduled to be completed early in 1988, at which time a report will be presented to Council.

Any revenue increases from large volume users resulting from this study will be taken into consideration when the water rates are adjusted in the future.

DIRECTOR ENGINEERING CONCURRENCE

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



Howard Karras
DIRECTOR FINANCE

PWT:tm
Attach.

cc: Director Engineering
Municipal Solicitor
Municipal Clerk
Asst. Director Finance

- Revenue

ENGINEERING - WATERWORKS

WATER RATES

Flat Rates	Metered Rates									
	1977	1978	1979	1980	1981	1982 Through	1985	1986	1987	1988
Detached single family	42.00	42.00	42.00	42.00	42.00	42.00	42.00	44.10	48.50	53.35
Single family within duplex	35.00	31.50	31.50	31.50	31.50	31.50	31.50	33.10	36.40	40.05
Single family within multiple	16.00	24.00	24.00	24.00	24.00	24.00	24.00	25.20	27.70	30.50
Commercial not more than 3 stores/offices	84.00	84.00	84.00	84.00	84.00	84.00	84.00	88.20	97.00	106.70
Commercial and living quarters 1 family	84.00	84.00	84.00	84.00	84.00	84.00	84.00	84.00	97.00	106.70
Commercial and no living quarters	42.00	42.00	42.00	42.00	42.00	42.00	42.00	44.10	48.50	53.35
Monthly	0.127	0.127	0.127	0.127	0.127	0.127	0.127	0.134	0.147	0.162
First 300 cubic meters	.09	.09	.09	.09	.09	.09	.09	.095	0.105	0.116
Next 550 cubic meters	.07	.07	.07	.07	.07	.07	.07	.074	0.081	0.090
Next 1,400 cubic meters	.06	.06	.06	.06	.06	.06	.06	.063	0.069	0.076
Next 12,000 cubic meters	.053	.053	.053	.053	.053	.053	.053	.056	0.062	0.069
Over 14,250 cubic meters	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.70	4.07	4.48
Quarterly	0.127	0.127	0.127	0.127	0.127	0.127	0.127	0.134	0.147	0.162
First 900 cubic meters	.09	.09	.09	.09	.09	.09	.09	.095	0.105	0.116
Next 1,650 cubic meters	.07	.07	.07	.07	.07	.07	.07	.074	0.081	0.090
Next 4,200 cubic meters	.06	.06	.06	.06	.06	.06	.06	.063	0.069	0.076
Next 36,000 cubic meters	.053	.053	.053	.053	.053	.053	.053	.056	0.062	0.069
Over 42,750 cubic meters	10.50	10.50	10.50	10.50	10.50	10.50	10.50	11.05	12.20	13.44
Minimum quarterly	350.00	350.00	400.00	400.00	400.00	550.00	550.00	550.00	550.00	550.00
Connection fee 19 mm and less	Mar. 21	May 28	Dec. 21	Dec. 21	Dec. 21	Dec. 21	Dec. 21	Dec. 21	Dec. 21	Dec. 21
Rate Increase	-	-	-	-	-	-	-	5%	10%	10%

SCHEDULE A

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ENGINEERING - WATERWORKS

SCHEDULE B

Rate Increase	10% in 1988, 10% in 1989	1988 Estimate	1989 Estimate	1983 Actual	1984 Actual	1985 Actual	1986 Actual	1987 Recast	1988 Estimate	1989 Estimate
Expenditure										
Cost of water		971,157	1,101,030	1,238,124	1,245,412	1,347,000	1,453,000	1,500,000	1,670,000	1,500,000
Water Operating & Maintenance		1,175,282	1,139,774	1,316,653	1,330,065	1,443,980	1,546,885	1,670,000	1,670,000	1,670,000
Long term debt		232,079	134,451	134,335	133,876	268,150	266,790	230,000	230,000	230,000
Contribution to capital		1,100,215	221,581	397,147	1,201,329	1,207,407	1,180,000	1,180,000	1,180,000	1,180,000
Surplus generated		93,148	605,729	221,586	237,436	-	-	59,800	59,800	59,800
Revenue/Transfers		3,571,881	3,202,565	3,307,845	4,148,118	4,266,537	4,446,675	4,639,800	4,639,800	4,639,800
Fee Increase (cumulative)		1,847,171	1,870,001	1,891,573	2,012,343	2,247,000	2,258,000	2,258,000	2,258,000	2,258,000
Flat rates		963,341	1,023,801	1,094,254	1,127,149	1,283,800	1,283,800	1,283,800	1,283,800	1,283,800
Metered rates		175,020	183,763	197,018	233,790	230,000	230,000	230,000	230,000	230,000
Connection fees		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	380,737	195,875	-	-	-
Surplus used as Revenue		3,571,881	3,202,565	3,307,845	4,148,118	4,266,537	4,446,675	4,639,800	4,639,800	4,639,800
Operating surplus - year end		1,584,835	2,190,564	2,412,150	1,999,751	1,619,014	1,423,139	1,482,939	1,482,939	1,482,939
Rate Increase		-	-	-	5%	10%	10%	10%	10%	10%

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