

ITEM	1
MANAGER'S REPORT NO.	73
COUNCIL MEETING	88/11/14

RE: WATERWORKS UTILITY RATES FOR 1989

MUNICIPAL MANAGER'S RECOMMENDATION:

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

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TO: MUNICIPAL MANAGER 1988 November 09
FROM: DIRECTOR FINANCE File: W5-4

SUBJECT: WATERWORKS UTILITY RATES FOR 1989

PURPOSE: To obtain Council approval for a 10% rate increase in water rates and charges for 1989.

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RECOMMENDATIONS

1. THAT a bylaw to amend Bylaw No. 3325, being Burnaby Waterworks Regulation Bylaw 1953, be brought down to incorporate the taxes and rates shown under the column in Schedule A attached headed "Effective 1989 January 01"; and
2. THAT a further report be placed before Council in the Fall of 1989 regarding rates for 1990.

SUMMARY

REPORT

This report projects the revenues and expenditures of the waterworks utility through 1990 and recommends a 10% increase in rates for 1989 (see Schedule A attached). If approved, the annual water rate for a single family home in 1989 would increase by \$5.35 from the present \$53.35 to \$58.70.

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 rates in 1988, a 10% increase in 1987 and a 5% increase in 1986.

BACKGROUND

On 1987 November 30 Council adopted the following recommendations:

1. THAT a 10% increase in water utility rates be implemented in 1988; and
2. THAT a further report be placed before Council in the Fall of 1988 concerning the rates for 1989.

Council was also advised that the sliding scale relationship for high volume metered users would be reviewed to determine if they should enjoy the low rates to the same extent as in the past. Sliding scale means that the rates charged for metered users decrease as volume of water used increases (see Schedule A). We intend to carry out a survey of 1988 rates of surrounding municipalities, do our own research, and have a report to Council in time to implement rate changes, if any, starting 1989 July 01.

Now that the 1989 provisional estimates are available for the utility, it is timely to estimate the waterworks utility revenues and expenditures for 1989 and 1990 and review the charge rates with Council's objective in mind, that the waterworks utility be financially self-supporting.

The Reserves Policy for the waterworks utility states that a minimum of \$1.5 million should be kept in surplus to absorb sudden large fluctuations in charges and expenditures and still provide for an adequate level of working capital.

PREVIOUS SITUATION

In the 1987 November 30 report to Council it was concluded that a 10% rate increase was needed in 1988 to provide additional revenues to cover 1988 expenditures and to help moderate increases that would be required in subsequent years. These increases were necessary because of the needed higher level of capital expenditures to maintain an aging utility infrastructure, as well as to replace watermains prior to road construction projects.

In spite of these rate increases, utility operating surplus was still needed in 1988 as a revenue source to finance expenditures. The surplus was projected to decline to about \$1,423,139 by the end of 1988, and be maintained at that level if a further 10% increase were implemented in 1989. This projected level at each year end is just below the minimum \$1.5 million working capital level.

CURRENT SITUATION

Since the estimates last year there were some favourable variances for the completed year 1987 which improved the 1987 year end operating surplus by \$150,000 to \$1,769,632 (see Schedule B attached). However, there were some unfavourable factors in the 1988 recast estimates that make it necessary to utilize \$445,792 of operating surplus as revenue to balance the budget in 1988. Last year's estimate for 1988 surplus requirement was \$195,875. The cost of water is now expected to be greater, due to higher usage because of hot weather in the summer of 1988, and the capital estimate is higher by \$175,000. The year end working capital balance is now projected to be \$1,323,840, which is below the minimum \$1.5 million level. Therefore a rate increase is necessary to restore the working capital to the minimum level required.

Operating and maintenance cost estimates for 1989 are expected to be similar to those projected a year earlier; however, water cost is now projected to be higher. The capital program of \$1,180,000 for 1989 is needed to renew and maintain the aging, deteriorating utility infrastructure as well as to replace watermains prior to road construction projects. 1990 estimates reflect anticipated normal inflationary costs.

EFFECT OF PROJECTED EXPENDITURES AND REVENUES ON OPERATING SURPLUS

Schedule B attached reflects the updated estimates of expenditures and revenues to the end of 1990, with a 10% rate increase for 1989 and a 2.5% rate increase for 1990, and their effect on the operating surplus at year end. This alternative was selected after examination and rejection of other alternatives described next.

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<u>Alternative</u>	<u>Year</u>	<u>Rate Increase</u>	<u>Addition to/</u> <u>(Draw) on</u>	
			<u>Surplus to Balance</u>	<u>Operating Surplus at Year End</u>
			<u>Expenditures</u>	<u>\$</u>
(1)	1989	Nil	(296,562)	1,027,278
	1990	Nil	(320,000)	707,278
(2)	1989	5%	(96,562)	1,227,278
	1990	10%	280,000	1,507,278
(3)	1989	7.5%	3,438	1,327,278
	1990	5%	180,000	1,507,278
Recommended Alternative	1989	10%	103,438	1,427,278
	1990	2.5%	180,000	1,607,278

Under Alternative (1), if no rate increase is implemented in 1989 nor in 1990, the operating surplus is projected to decline by \$296,562 to \$1,027,278 by the end of 1989 and a further \$320,000 to \$707,278 by the end of 1990. These projected year end surplus levels are well below the minimum level and are not acceptable.

Under Alternative (2), a general rate increase of 5% is applied in 1989, plus a further 10% rate increase in 1990. These rate increases are sufficient to restore the working capital level by the end of 1990, but the projected working capital level of \$1,227,278 at the end of 1989 is below the minimum level.

Under Alternative (3), a general rate increase of 7.5% is applied in 1989, plus a further 5% rate increase in 1990. These rate increases are sufficient to restore the working capital to the minimum level by the end of 1990, but the projected 1989 year end level of \$1,327,278 is still below the minimum.

Under the recommended Alternative, a 10% rate increase is applied in 1989, plus a further 2.5% rate increase in 1990. The higher rate increase in 1989 is needed to restore the working capital level by year end 1989 closer to the minimum level. It is fully restored by the end of 1990 with a moderate rate increase in 1990. Also, the rate increase for 1990 can be reviewed in one year's time and adjusted for other factors that may arise before or at that time. This Alternative appears to be the best in smoothing rate increases and in flexibility for 1990, and is the one being recommended.

After the survey of metered rates of surrounding municipalities is completed and our own research is completed in the Spring of 1989, we will report our findings to Council. If the result of those findings is that the sliding scale should be altered (i.e. higher volume users pay more) and Council approves a change, that change would further increase revenue for the last part of 1989 and 1990.

It is recommended that a bylaw to amend Bylaw No. 3325, being Burnaby Waterworks Regulation Bylaw 1953, be brought down to incorporate the taxes and rates shown under the column in Schedule A attached headed "Effective 1989 January 01".

It is also recommended that a further report be placed before Council in the Fall of 1989 regarding rates for 1990,

The bylaw amendment must be adopted by 1988 December 31 before the general rate increase can be implemented for 1989.

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ALTERNATIVE FINANCING

An alternative to funding the \$1.18 million of capital expenditures in 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 \$1.18 million from the Municipal Finance Authority for 20 years at an estimated interest rate of 11% would cost about \$148,000 per year, and thus there would be no need to increase rates in 1989. However, the principal and interest cost over the 20 year period would be \$2.96 million.

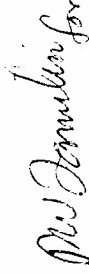
In keeping with our policy of pay as you go, funds for waterworks construction have not been borrowed since 1966. Any capital construction needed was financed out of utility revenue. Water rates remained unchanged from 1974 to 1986 and were increased by 5% in 1986, 10% in 1987, and 10% in 1988. Rates were increased as a result of the increased need for capital expenditures required to renew the aging infrastructure as discussed earlier, and for higher water charges. 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 of larger scale capital projects become evident.

PUBLICITY

As part of our normal process to make taxpayers and users aware of impending water rate increases, advertisements will be placed in a local newspaper. In addition, an article will be placed in the next issue of the Information Burnaby Newsletter scheduled for 1989 February.

DIRECTOR ENGINEERING CONCURRENCE

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



Howard Karras
DIRECTOR FINANCE

PWT:gw
Attach.

cc: Director Engineering
Municipal Solicitor
Municipal Clerk
Tax & Licence Director

ENGINEERING - WATERWORKS

WATER RATES

Effective	1982		1984		1985		1986		1987		1988		1989
	Jan. 01	1981	1981	1982	1982	1983	1984	1985	1986	1987	1988	1989	
Flat Rates	42.00	42.00	42.00	42.00	42.00	42.00	42.00	42.00	42.00	42.00	42.00	42.00	42.00
Detached single family	31.50	31.50	31.50	31.50	31.50	31.50	31.50	31.50	31.50	31.50	31.50	31.50	31.50
Single family within duplex	24.00	24.00	24.00	24.00	24.00	24.00	24.00	24.00	24.00	24.00	24.00	24.00	24.00
Single family within multiple	42.00	42.00	42.00	42.00	42.00	42.00	42.00	42.00	42.00	42.00	42.00	42.00	42.00
Commercial 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	84.00	84.00	84.00
Commercial and living quarters 1 family	42.00	42.00	42.00	42.00	42.00	42.00	42.00	42.00	42.00	42.00	42.00	42.00	42.00
Commercial and no living quarters	84.00	84.00	84.00	84.00	84.00	84.00	84.00	84.00	84.00	84.00	84.00	84.00	84.00
Metered Rates	42.00	42.00	42.00	42.00	42.00	42.00	42.00	42.00	42.00	42.00	42.00	42.00	42.00
Monthly	0.127	0.127	0.127	0.127	0.127	0.127	0.127	0.127	0.127	0.127	0.127	0.127	0.127
First 300 cubic meters	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09
Next 550 cubic meters	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07
Next 1,400 cubic meters	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06
Next 12,000 cubic meters	0.053	0.053	0.053	0.053	0.053	0.053	0.053	0.053	0.053	0.053	0.053	0.053	0.053
Over 14,250 cubic meters	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Minimum monthly	0.127	0.127	0.127	0.127	0.127	0.127	0.127	0.127	0.127	0.127	0.127	0.127	0.127
First 900 cubic meters	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09
Next 1,650 cubic meters	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07
Next 4,200 cubic meters	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06
Next 36,000 cubic meters	0.053	0.053	0.053	0.053	0.053	0.053	0.053	0.053	0.053	0.053	0.053	0.053	0.053
Over 42,750 cubic meters	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50
Minimum quarterly	0.127	0.127	0.127	0.127	0.127	0.127	0.127	0.127	0.127	0.127	0.127	0.127	0.127
First 900 cubic meters	0.179	0.179	0.179	0.179	0.179	0.179	0.179	0.179	0.179	0.179	0.179	0.179	0.179
Next 1,650 cubic meters	0.116	0.116	0.116	0.116	0.116	0.116	0.116	0.116	0.116	0.116	0.116	0.116	0.116
Next 4,200 cubic meters	0.099	0.099	0.099	0.099	0.099	0.099	0.099	0.099	0.099	0.099	0.099	0.099	0.099
Next 36,000 cubic meters	0.084	0.084	0.084	0.084	0.084	0.084	0.084	0.084	0.084	0.084	0.084	0.084	0.084
Over 42,750 cubic meters	0.076	0.076	0.076	0.076	0.076	0.076	0.076	0.076	0.076	0.076	0.076	0.076	0.076
Minimum quarterly	4.95	4.95	4.95	4.95	4.95	4.95	4.95	4.95	4.95	4.95	4.95	4.95	4.95
Connection fee 19 mm and less	400.00	400.00	400.00	400.00	400.00	400.00	400.00	400.00	400.00	400.00	400.00	400.00	400.00
Rate Increase	-	-	-	-	-	-	-	-	-	-	-	-	-
Cost of Connection	550.00	550.00	550.00	550.00	550.00	550.00	550.00	550.00	550.00	550.00	550.00	550.00	550.00
Cost of Connection	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50
Cost of Connection	11.05	11.05	11.05	11.05	11.05	11.05	11.05	11.05	11.05	11.05	11.05	11.05	11.05
Cost of Connection	12.20	12.20	12.20	12.20	12.20	12.20	12.20	12.20	12.20	12.20	12.20	12.20	12.20
Cost of Connection	13.44	13.44	13.44	13.44	13.44	13.44	13.44	13.44	13.44	13.44	13.44	13.44	13.44
Cost of Connection	14.85	14.85	14.85	14.85	14.85	14.85	14.85	14.85	14.85	14.85	14.85	14.85	14.85

SCHEDULE A

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ENGINEERING - WATERWORKS

OPERATING COSTS

	1986	1987	1988	1989	1990
	Actual	Actual	Recast	Estimate	Estimate
	\$	\$	\$	\$	\$
Expenditure					
Cost of water	1,245,412	1,290,567	1,572,000	1,637,000	1,650,000
Transmission, distribution and pumping	1,330,065	1,436,955	1,584,376	1,619,863	1,700,000
Long term debt	133,876	268,151	266,790	232,199	230,000
Contribution to capital	1,201,329	1,207,407	1,462,626	1,180,000	1,180,000
Surplus generated				103,438	180,000
Revenue/Transfers	3,910,682	4,203,080	4,885,792	4,772,500	4,940,000
Fee increase (cumulative)	2,012,343	2,252,731	2,495,000	2,507,500	2,550,000
Flat rates	1,127,149	1,354,142	1,520,000	1,490,000	1,500,000
Metered rates	233,790	241,089	300,000	250,000	265,000
Connection fees	125,000	125,000	125,000	125,000	125,000
Water charge to fire department	412,400	230,118	445,792	472,500	494,000
Unexpended prior year's utility surplus	3,910,682	4,203,080	4,885,792	4,772,500	4,940,000
Operating surplus - year end	1,999,752	1,769,632	1,323,840	1,427,278	1,607,278
Rate increase	5%	10%	10%	10%	2.5%