

ITEM	2
MANAGER'S REPORT NO.	73
COUNCIL MEETING	88/11/14

RE: SANITARY SEWER SYSTEM 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: S19-3

SUBJECT: SANITARY SEWER SYSTEM RATES FOR 1989

PURPOSE: To obtain Council approval for a 5% rate increase in sanitary sewer system rates and charges for 1989.

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RECOMMENDATIONS

1. THAT bylaws to amend Bylaws Nos. 6232 and 4231, being Burnaby Sewerage System Parcel Tax Bylaw 1973, and Burnaby Sewer Charge Bylaw 1961, 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 sanitary sewer utility through 1990 and recommends a 5% increase in rates for 1989 (see Schedule A attached). If approved, the annual sewer rate tax would increase the charge for a single family home in 1989 by \$4.60 from the present \$91.95 to \$96.55.

It is Council's objective that the sanitary sewer system be financially self-supporting, and with that objective annual reviews of rates are made. There was a 2 1/2% increase in rates in 1988, and increases in every previous year since 1979, except for 1984 and 1985.

BACKGROUND

On 1987 November 30 Council adopted the following recommendations:

1. THAT a 2 1/2% increase in sanitary sewer system 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 decrease as the volume increases. 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 sanitary sewerage revenues and expenditures for 1989 and 1990 and review the charge rates with Council's objective in mind, that the sanitary sewer system be financially self-supporting.

The Reserves Policy for the sanitary sewer system 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

On 1987 November 30 Council adopted a motion to implement a 2 1/2% rate increase in sanitary sewer rates for 1988 as a revenue source to finance 1988 expenditures and to help moderate increases that would be required in subsequent years. At that time the Director Engineering identified a continuing need for increased capital expenditures to renew and maintain an aging and deteriorating utility infrastructure. Also, the Provincial Sewerage Facilities Assistance grant, which is based on debt charges from the Sewerage District and on Burnaby's assessment base, was expected to diminish at a gradual rate, thereby reducing the revenues.

With the 2 1/2% rate increase in 1988, utility operating surplus was still needed in 1988 to finance expenditures. The surplus was projected to decline to about \$1,965,000 by the end of 1988, and to about \$1,442,000 by the end of 1989, if a further 5% increase were implemented in 1989.

CURRENT SITUATION

Since the expenditure and revenue projections were made last year, there was some improvement in working capital for 1988 as reflected in the current 1988 recast estimates (see Schedule B attached). All expenditure projections for 1988 are now lower than anticipated a year ago and metered revenues are higher. In addition, there was also a slight improvement for the completed year 1987 vs. that portrayed in the 1987 recast estimate. As a result, the estimated operating surplus projected for year end 1988 is now \$2,396,470, compared to the prior year's estimate of \$1,965,000. However, there is still a need to utilize \$192,013 of surplus in 1988 to fund the projected 1988 expenditures.

For 1989 the current expenditure projections are similar to the estimates prepared last year, but the Sewerage Facilities Assistance grant is no longer available as the assessment growth has exceeded the limits for the grant. The Sewerage Facilities Assistance grant was declining each year because the grant is based on the older debt charges from the Sewerage District which are being repaid, and on Burnaby's increasing assessment base, which decreases the grant base. 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 5% rate increase for 1989, and a 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.

ITEM 2  
MANAGER'S REPORT NO. 73  
COUNCIL MEETING 88/11/14

<u>Alternative</u>	<u>Year</u>	<u>Rate Increase</u>	<u>(Draw) on Surplus to Balance</u>	<u>Operating Surplus at Year End</u>	
				<u>Expenditures</u>	<u>\$</u>
(1)	1989	Nil	(859,888)		1,536,582
	1990	Nil	(880,000)		656,582
(2)	1989	2.5%	(709,888)		1,686,582
	1990	5%	(430,000)		1,256,582
Recommended Alternative	1989	5%	(559,888)		1,836,582
	1990	5%	(280,000)		1,556,582

Under Alternative (1), if no rate increase is implemented in 1989 nor in 1990, the operating surplus is projected to decline by \$859,888 to \$1,536,582 by the end of 1989. A further surplus depletion of \$880,000 would occur in 1990, reducing the surplus by year end 1990 to only \$656,582, compared to the minimum level of \$1,500,000. To bring the surplus up to the minimum level in 1990 would require about a 15% increase in rates in 1990. It is considered more appropriate to moderate large increases over several years.

Under Alternative (2), a general rate increase of 2.5% is applied in 1989 and 5% in 1990. While the projected surplus at the end of 1989 is acceptable, it is below the \$1.5 million minimum level by the end of 1990. It would require a 10% rather than a 5% rate increase in 1990 to restore the surplus to an acceptable level. Therefore this Alternative is rejected.

Under the Alternative recommended, a general rate increase of 5% is applied in 1989 and a further 5% rate increase in 1990. Although the projected surplus level at the end of 1989 is above the minimum level, it is reduced to about the minimum level by the end of 1990. In 1990, the drawdown on surplus to finance expenditures is also moderated to around \$280,000. Also, the rate increase for 1990 can be reviewed in one year's time and adjusted for the foregoing and other factors that may arise before or at that time. This Alternative appears to be the best in moderating rate increases and in flexibility for 1990, and is the Alternative being recommended.

After the survey of metered rates of surrounding municipalities is completed and our 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 bylaws to amend Bylaws Nos. 6232 and 4231, being Burnaby Sewerage System Parcel Tax Bylaw 1973, and Burnaby Sewer Charge Bylaw 1961, 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 the rates for 1990.

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

ALTERNATIVE FINANCING

An alternative to funding the current projected \$0.885 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 \$0.885 million from the Municipal Finance Authority for 20 years at an estimated interest rate of 11% would cost about \$111,000 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 \$2,220,000.

In keeping with our policy of pay as you go, funds for sanitary sewer construction have not been borrowed externally since 1977. Any capital construction needed was financed out of utility revenue. Sewer rates remained unchanged in 1984 and 1985, and moderately increased in 1986, 1987 and 1988. 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 sewer 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 - SANITARY SEWER SYSTEM

SCHEDULE A

Effective Jan. 01 1989	RATE STRUCTURE								
	1984 Through								
	1980	1981	1982	1983	1985	1986	1987	1988	1989
Every owner of every real parcel	57.75	63.50	75.70	83.30	83.30	87.50	89.70	91.95	96.55
	28.90	31.80	37.85	41.65	41.65	43.75	44.85	46.00	48.30
Sewer use - owner of any - strata lot (not being part of a duplex) - owner of any - multiple family dwelling (except a duplex) each unit - owner of an apartment unit forming part of a duplex	31.20	34.30	40.90	45.00	45.00	47.25	48.45	49.70	52.20
	31.20	34.30	40.90	45.00	45.00	47.25	48.45	49.70	52.20
Monthly: First 38 cubic meters Next 250 cubic meters Next 300 cubic meters Next 850 cubic meters Excess	0.128	0.140	0.166	0.184	0.184	0.193	0.198	0.203	0.214
	0.104	0.114	0.136	0.150	0.150	0.158	0.162	0.166	0.175
Quarterly: First 114 cubic meters Next 750 cubic meters Next 900 cubic meters Next 2,550 cubic meters Excess	0.070	0.076	0.091	0.100	0.100	0.105	0.108	0.111	0.117
	0.082	0.090	0.107	0.118	0.118	0.124	0.127	0.130	0.137
Rate Increase	10%	10%	19.2%	10%	10%	5%	2.5%	2.5%	5%
	0.070	0.076	0.091	0.100	0.100	0.105	0.108	0.111	0.117

ITEM 2  
MANAGER'S REPORT NO. 73  
COUNCIL MEETING 88/11/14

ENGINEERING - SANITARY SEWER

SCHEDULE B

	1986	1987	1988	5% Increase	1989	5% Increase
	Actual	Actual	Recast	Estimate	Estimate	Estimate
	\$	\$	\$	\$	\$	\$
<u>Expenditure</u>						
Sewer maintenance	598,803	647,940	749,848	808,933	900,000	900,000
Long term debt	1,231,544	1,122,201	1,041,229	951,058	760,000	760,000
Contribution to capital	463,081	632,152	705,823	885,000	820,000	820,000
Greater Vancouver Sewerage and Drainage						
District Levy	3,775,117	3,722,106	3,934,759	4,098,097	4,300,000	4,300,000
Surplus generated		7,964				
<u>Revenue/Transfers</u>	6,068,545	6,132,363	6,743,659	6,678,088	6,780,000	6,780,000
Fee increase (cumulative)	2,723,391	2,806,767	2,891,300	2,898,800	2,900,000	2,900,000
Parcel tax	1,270,966	1,358,316	1,409,500	1,434,400	1,450,000	1,450,000
User charges - flat	437	1,306,142	1,468,536	1,550,000	1,550,000	1,550,000
S.G.A. Restaurants Mountain Ltd.	702,751	498,744	315,846	559,888	280,000	280,000
Sewerage Facilities Assistance grant	64,858		192,013			
Prior year's surplus	6,086,545	6,132,363	6,431,659	6,743,088	6,780,000	6,780,000
Operating surplus - year end	2,580,517	2,588,483	2,396,470	1,836,582	1,556,582	1,556,582
Rate increase	5%	2.5%	2.5%	5%	5%	5%

OPERATING COSTS

Sewer maintenance  
 Long term debt  
 Contribution to capital  
 Greater Vancouver Sewerage and Drainage  
 District Levy  
 Surplus generated  
Revenue/Transfers  
 Fee increase (cumulative)  
 Parcel tax  
 User charges - flat  
 - metered  
 S.G.A. Restaurants Mountain Ltd.  
 Sewerage Facilities Assistance grant  
 Prior year's surplus

2  
 MANAGER'S REPORT NO. 73  
 COUNCIL MEETING 88/11/14  
 ITEM