

FINANCE COMMITTEE

TO: **Mayor & Council** DATE: **November 16, 2015**

FROM: **City Manager and
General Manager, Finance & Technology** FILE: **1705-05**

SUBJECT: **2016 Five Year (2016-2020) Financial Plan – Utilities and Other Self-Funded
Programs**

1.0 RECOMMENDATION

It is recommended that the Finance Committee recommend that Council:

- a) Approve the recommendations outlined in Section 2.0 of this report; and
- b) Direct staff to prepare the 2016 Five-Year (2016–2020) Financial Plan for each of the Water, Sewer, Drainage, Solid Waste, Parking and District Energy self-funded programs, respectively, incorporating the recommendations as contained in this report.

2.0 DISCUSSION

Self-funded programs, also known as utilities, follow the “user pay” approach that the City has applied consistently in previous budgets. Introducing the Financial Plan for these programs allows the City to adopt the necessary fee adjustments, effective January 1, 2016. The following sections of this report discuss each of the self-funded programs separately.

2.1 2016 Water Utility Rates

The City adopted the Residential Water Metering Program over fifteen years ago and now provides service to more than 61,500 metered utility accounts. Approximately 68% of all single family dwellings, 57% of all multi-family dwellings and all commercial and industrial customers in the City are now serviced with water meters. In 2015, these metered accounts were charged \$0.895 per cubic metre of water consumed. Due to increases in the GVWD water rates and system operating cost increases, an increase in the water rate is necessary for 2016.

In 2016, the GVWD bulk water charge will increase by \$0.0122 per cubic metre to \$0.6522 per cubic metre. The ‘average metered single family residence’ now consumes approximately 360 cubic meters per year; these residents will see an approximate increase of \$0.37 per month or \$4.39 per year. An increase of \$0.0228 per cubic metre is also required to support the City’s general operating, maintenance costs and capital program. In order to maintain the water meter maintenance program, the water meter base rate will also need to be increased by \$1.00 per billing period or \$3.00 per year for ‘average metered single family residence’.

Based on the above, it is recommended for 2016 that the water utility rate be increased from \$0.8950 per cubic metre to \$0.930 per cubic metre and the average base rate be increased from \$21.00 per billing period to \$22.00 per billing period. This recommendation will equate to a total increase of \$1.30 per month or \$15.60 per year for the 'average metered single family residence' and \$5.92 per month or \$71.00 per year for a business that consumes 2,000 cubic metres of water per year and that has a 50 mm water connection.

The flat water rate (i.e., the rate charged to customers that do not have a water meter) will be increased based on the 'average' consumption of water by non-metered accounts and will reflect the proposed rate of \$0.930 per cubic metre. The average consumption by non-metered accounts is 800 m³ per year. Any "flat rate" (non-metered) customer may choose at any time to have a meter installed at their property and thus move from a "flat rate" charge to paying for water on an "actual usage" basis. All business properties in the City have water meters and therefore pay based on actual usage.

The GVWD bulk water rate for the remaining years of the Five-Year Plan is projected to increase in the range of 5% to 6% per cubic metre per year.

2.2 2016 Sewer Utility Rates

In 2015, metered utility customers were charged \$0.90625 per cubic metre of sewer discharge. Due to increases in the GVS&DD sewerage rates, an increase in the sewer rate is necessary for 2016.

In 2016 the GVS&DD sewer charges will increase by 3.9%. It is expected that this will impact the 'average metered single family residence' in the City of Surrey by approximately \$0.74 per month or \$8.88 per year.

As such, it is recommended that the sewer utility rate be increased for 2016 from \$0.90625 per cubic metre of discharge volume to \$0.9371 per cubic metre of discharge volume. This equates to a total increase of \$.074 per month or \$8.88 per year for the 'average metered single family residence' and \$4.11 per month or \$49.36 per year for a business that discharges 1,600 cubic metres of sewage per year.

The sewer utility rate for non-metered customers will be increased based on the 'average' discharge of a non-metered residence of 640 m³ and the per cubic metre rate of \$0.9371. Any "flat rate" customer may choose at any time to have a water meter installed and move from paying "flat rate" sewer charges to paying based on the actual usage. Actual usage is calculated as being 80% of the volume of water that is consumed by the residence as registered on the water meter. All business properties in the City have water meters.

The GVS&DD sewer rates are projected to increase between 3.7% and 4.3% per year for each of the remaining four years of the Five Year Plan.

2.3 2016 Drainage/Dyking/Flood Protection Utility Parcel Tax

The Drainage Parcel Tax is currently \$213 per lot. An increase of \$3.00 per lot is proposed to support increased maintenance and capital costs in relation to the City's drainage infrastructure. This Utility also includes the dyking and flood control responsibilities of the former Surrey Dyking District. With this proposed increase, the Drainage Parcel Tax for 2016 will be \$216 for residential and agricultural properties and \$268 for commercial properties.

2.4 2016 Solid Waste Utility Rates

In September 2014, the GVS&DD Board approved the 2015 Tipping Fee to be set at \$109 per tonne which would take effect January 1, 2015. Subsequently, on October 17, 2014, the Minister of Environment rejected Metro Vancouver's Bylaw 280, a bylaw that would have required residential and commercial/institutional waste to be delivered to Metro Vancouver and City of Vancouver disposal facilities (Regional Facilities). Metro Vancouver advised its member municipalities that without regulatory controls on waste export, if large loads continue to be charged at a rate higher than the competitive market price for commercial waste, commercial haulers will exit the regional system at an increasing rate which would eventually result in deficit in their five year Solid Waste planning horizon and there will be a number of implications affecting the Integrated Solid Waste and Resource Management Plan (ISWRMP).

In response to this concern, in February 2015, the GVS&DD Board approved an interim "variable rate tipping fee structure" with rates based on load weight.

- Up to 1 tonne: \$133 per tonne, to a maximum of \$112 per load
- 1 tonne to 9 tonnes: \$112 per tonne, to a maximum of \$720 per load
- 9 tonnes and over: \$80 per tonne

Larger loads are charged at a lower rate per tonne than smaller loads and a \$5 per load transaction fee was applied to all loads. Since the change in the tipping fee structure implemented in April 2015, municipalities have been paying between \$84 and \$111 per tonne with an average rate of approximately \$94 per tonne.

Metro Vancouver has since reviewed a number of options to achieve a balanced budget which includes adjusting the tipping fee for municipalities to a fixed percent of the municipal tipping fee. In addition, prior to April 2015, the \$109/tonne tipping fee included contributions towards a "Regional Services Rate" of \$2.20 per tonne that was used for Zero Waste education, engagement, planning, and other non-disposal related activities. The Regional Services Rate was temporarily suspended when Metro Vancouver introduced its variable fee structure in February 2015.

In September 2015, the GVS&DD Board approved an interim solid waste system funding strategy with the following key elements:

1. That the municipal tipping fee for local government single family and public works waste be set at \$100 per tonne for 2016; and
2. That the Regional Services Rate be set at a fixed percentage of the municipal tipping fee for local government single family and public works waste.

With these new rate changes, along with the City's current solid waste collection contract, that include the organics waste collection component, and the continuation of the multi-material recycling program throughout the Province, the City's solid waste collection rates will not need to increase for 2016. The solid waste rate is proposed to remain at \$283 per single family residence in 2016.

The GVRD plans to continue to review its solid waste operation for further efficiencies and economies of scale in anticipation of being able to maintain nominal rate increases over the remaining four years of the Five Year Plan. Any increase that may transpire will result in further increases each year to the solid waste rate that the City must charge its solid waste rate payers. The City does not collect solid waste from businesses in the City and therefore does not charge businesses for solid waste collection.

2.5 2016 Parking

Revenue generated from parking rates will cover the on-going operating and maintenance costs of the below-ground parkade located at City Hall as well as contribute to the debt financing costs.

The parking rates will remain unchanged for 2016 at \$75.00 per month for general staff parking, \$130 per month for reserved staff parking and \$1.50 per hour for public use.

2.6 2016 District Energy

In December 2013 Council adopted the recommendations of Corporate Report No. R246:2013 District Energy System Utility - Policy on Utility Rate Setting and Regulation, that authorized the principles and a related methodology to regulate the rates and the rate structure that will be used by Surrey City Energy (SCE), the City's district energy utility; one of these customers is a residential tower with 235 residences and the other is a commercial tower with 160,000 square feet of office space and 25,000 square feet of retail space. There are also two customers scheduled to connect to the system in 2016.

In July 2014, Council approved the establishment of a third-party Expert External Rate Review Panel to assist staff and Council in the oversight of SCE's rates and rate structure. The Panel has conducted a full review of the long-term financial plan, rate structure and 2016 rates and has provided a letter of endorsement in support of the 2016 rates.

The 2016 rates consist of an energy charge of \$49.92/MWh of energy consumed. In addition, daily demand charges of \$0.0169/m²/day and \$0.2421/kW/day will be applied to Class 1 and Class 2 customers, respectively. These costs are designed to be equivalent to the cost of heating a typical residential high-rise with electricity based on 50% of the energy being drawn at the step 1 electricity rate and 50% at the step 2 rate.

2.7 Proposed 2016–2020 Financial Plans

Based on the above discussed adjustments, a draft Five-Year Financial Plan for each of the Water Utility (see Appendix I), the Sewer Utility (see Appendix II), the Drainage Utility (see Appendix III), the Solid Waste Utility (see Appendix IV), the Parking Utility (see Appendix V) and the District Energy Utility (see Appendix VI) has been prepared.

3.0 **SUMMARY**

Based on the above discussion, it is recommended that the Finance Committee recommend that Council:

- a) Approve the recommendations outlined in Section 2.0 of this report; and
- b) Direct staff to prepare the 2016 Five-Year (2016–2020) Financial Plan for each of the Water, Sewer, Drainage, Solid Waste, Parking and District Energy self-funded programs, respectively, incorporating the recommendations as contained in this report.

Vincent Lalonde, P.Eng
City Manager

Vivienne Wilke, CGA
General Manager,
Finance & Technology

Attachments:

- Appendix I: 2016 – 2020 Financial Plan – Water Utility
- Appendix II: 2016 – 2020 Financial Plan – Sewer Utility
- Appendix III: 2016 – 2020 Financial Plan – Drainage Utility
- Appendix IV: 2016 – 2020 Financial Plan – Solid Waste Utility
- Appendix V: 2016 – 2020 Financial Plan – Parking Utility
- Appendix VI: 2016 – 2020 Financial Plan – District Energy Utility

Appendix I

5 YEAR WATER OPERATING FINANCIAL PLAN
2016 - 2020
(In thousands)

	2016 BUDGET	2017 PLAN	2018 PLAN	2019 PLAN	2020 PLAN
REVENUE SUMMARY					
Taxation	\$ 92	\$ 66	\$ 72	\$ 52	\$ 51
Investment Income	727	722	683	659	626
Penalties and Interest on Taxes	679	720	773	831	891
	<u>1,406</u>	<u>1,442</u>	<u>1,456</u>	<u>1,490</u>	<u>1,517</u>
Departmental Revenues	68,635	72,812	78,049	83,894	90,013
	<u>\$ 70,133</u>	<u>\$ 74,320</u>	<u>\$ 79,577</u>	<u>\$ 85,436</u>	<u>\$ 91,581</u>
EXPENDITURE SUMMARY					
Departmental Expenditures	\$ 60,453	\$ 63,820	\$ 67,332	\$ 71,101	\$ 75,143
	<u>\$ 60,453</u>	<u>\$ 63,820</u>	<u>\$ 67,332</u>	<u>\$ 71,101</u>	<u>\$ 75,143</u>
Interest Allocated to Approp. Surplus	214	169	130	106	72
Contrib'n to General Operating	4,624	4,623	4,687	5,037	5,404
Contribution to Capital	8,815	9,044	9,219	12,016	12,021
Net Tsfr To/(From) Surplus/Reserve	(3,973)	(3,336)	(1,791)	(2,824)	(1,059)
	<u>\$ 9,680</u>	<u>\$ 10,500</u>	<u>\$ 12,245</u>	<u>\$ 14,335</u>	<u>\$ 16,438</u>
Surplus/(Deficit)	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers (To)/From Surplus	-	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Appendix II

5 YEAR SEWER OPERATING FINANCIAL PLAN
2016 - 2020
(In thousands)

REVENUE SUMMARY	2016 BUDGET	2017 PLAN	2018 PLAN	2019 PLAN	2020 PLAN
Taxation	\$ 1,935	\$ 1,498	\$ 959	\$ 486	\$ 13
Collections for Other Authorities	-	-	-	-	-
	1,935	1,498	959	486	13
Investment Income	528	559	581	610	631
Penalties and Interest on Taxes	240	240	251	263	276
MFA Debt Refund	-	-	-	-	-
	768	799	832	873	907
Departmental Revenues	45,894	47,939	50,154	52,530	55,129
	\$ 48,597	\$ 50,236	\$ 51,945	\$ 53,889	\$ 56,049
EXPENDITURE SUMMARY					
Departmental Expenditures	\$ 45,048	\$ 46,476	\$ 48,023	\$ 49,698	\$ 51,513
	\$ 45,048	\$ 46,476	\$ 48,023	\$ 49,698	\$ 51,513
Interest Allocated to Approp. Surplus	\$ 156	\$ 170	\$ 192	\$ 221	\$ 242
Contrib'n to General Operating	3,070	3,166	3,267	3,381	3,509
Contribution to Capital	5,492	5,798	6,258	6,287	6,291
Net Tsf To/(From) Surplus/Reserve	(5,169)	(5,374)	(5,795)	(5,698)	(5,506)
	\$ 3,549	\$ 3,760	\$ 3,922	\$ 4,191	\$ 4,536
Surplus/(Deficit)	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers (To)/From Surplus	-	-	-	-	-
	\$ -	\$ -	\$ -	\$ -	\$ -

5 YEAR DRAINAGE OPERATING FINANCIAL PLAN
2016 - 2020
(in thousands)

REVENUE SUMMARY	2016 BUDGET	2017 PLAN	2018 PLAN	2019 PLAN	2020 PLAN
Taxation	\$ 33,993	\$ 35,752	\$ 37,558	\$ 39,397	\$ 41,269
Collections for Other Authorities	-	-	-	-	-
	33,993	35,752	37,558	39,397	41,269
Departmental Revenues	207	207	207	207	207
	\$ 34,200	\$ 35,959	\$ 37,765	\$ 39,604	\$ 41,476
 EXPENDITURE SUMMARY					
Departmental Expenditures	\$ 13,176	\$ 13,357	\$ 13,542	\$ 14,200	\$ 14,392
	\$ 13,176	\$ 13,357	\$ 13,542	\$ 14,200	\$ 14,392
Contrib'n to General Operating	\$ 2,052	\$ 2,158	\$ 2,266	\$ 2,376	\$ 2,489
Contribution to Capital	11,929	12,464	12,742	14,899	15,071
Net Tsf To/(From) Surplus/Reserve	7,043	7,980	9,215	8,129	9,524
	\$ 21,024	\$ 22,602	\$ 24,223	\$ 25,404	\$ 27,084
Surplus/(Deficit)	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers (To)/From Surplus	-	-	-	-	-
	\$ -	\$ -	\$ -	\$ -	\$ -

Appendix IV

5 YEAR SOLID WASTE OPERATING FINANCIAL PLAN
2016 - 2020
(In thousands)

REVENUE SUMMARY	2016 BUDGET	2017 PLAN	2018 PLAN	2019 PLAN	2020 PLAN
Penalties and Interest on Taxes	\$ 125	\$ 130	\$ 135	\$ 140	\$ 145
Departmental Revenues	40,014	40,786	41,557	42,345	43,147
	\$ 40,139	\$ 40,916	\$ 41,692	\$ 42,485	\$ 43,292
EXPENDITURE SUMMARY					
Departmental Expenditures	\$ 31,364	\$ 31,993	\$ 32,633	\$ 33,286	\$ 33,952
	\$ 31,364	\$ 31,993	\$ 32,633	\$ 33,286	\$ 33,952
Interest Allocated to Approp. Surplus	\$ 30	\$ 41	\$ 53	\$ 63	\$ 73
Contrib'n To General Op	2,401	2,447	2,493	2,541	2,589
Contribution to Capital	1,915	1,960	2,085	2,218	2,282
Net Tsf To/(From) Surplus/Reserve	4,429	4,475	4,428	4,377	4,396
	\$ 8,775	\$ 8,923	\$ 9,059	\$ 9,199	\$ 9,340
Surplus/(Deficit)	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers (To)/From Surplus	-	-	-	-	-
	\$ -	\$ -	\$ -	\$ -	\$ -

Appendix V

5 YEAR PARKING OPERATING FINANCIAL PLAN
2016 - 2020
(In thousands)

REVENUE SUMMARY	2016 BUDGET	2017 PLAN	2018 PLAN	2019 PLAN	2020 PLAN
Departmental Revenues	\$ 2,763	\$ 5,027	\$ 3,093	\$ 3,169	\$ 3,276
	\$ 2,763	\$ 5,027	\$ 3,093	\$ 3,169	\$ 3,276
EXPENDITURE SUMMARY					
Departmental Expenditures	\$ 859	\$ 882	\$ 889	\$ 910	\$ 946
	\$ 859	\$ 882	\$ 889	\$ 910	\$ 946
Contrib'n to General Operating	\$ 166	\$ 182	\$ 186	\$ 190	\$ 197
Net Tsf To/(From) Surplus/Reserve	1,738	3,963	2,018	2,069	2,133
	\$ 1,904	\$ 4,145	\$ 2,204	\$ 2,259	\$ 2,330
Surplus/(Deficit)	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers (To)/From Surplus	-	-	-	-	-
	\$ -	\$ -	\$ -	\$ -	\$ -

Appendix VI

5 YEAR ENERGY OPERATING FINANCIAL PLAN
2016 - 2020
(In thousands)

REVENUE SUMMARY	2016 BUDGET	2017 PLAN	2018 PLAN	2019 PLAN	2020 PLAN
Departmental Revenues	\$ 1,086	\$ 2,122	\$ 3,389	\$ 4,463	\$ 6,098
	\$ 1,086	\$ 2,122	\$ 3,389	\$ 4,463	\$ 6,098
EXPENDITURE SUMMARY					
Departmental Expenditures	\$ 1,289	\$ 2,143	\$ 3,073	\$ 3,700	\$ 4,361
	\$ 1,289	\$ 2,143	\$ 3,073	\$ 3,700	\$ 4,361
Contrib'n to General Operating	65	127	203	268	366
Contribution to Capital	13,933	10,472	9,551	4,026	3,244
Net Tsf To/(From) Surplus/Reserve	(14,201)	(10,620)	(9,438)	(3,531)	(1,873)
	\$ (203)	\$ (21)	\$ 316	\$ 763	\$ 1,737
Surplus/(Deficit)	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers (To)/From Surplus	-	-	-	-	-
	\$ -	\$ -	\$ -	\$ -	\$ -