

FINANCE COMMITTEE

TO: **Mayor & Council** DATE: **November 8, 2017**

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

SUBJECT: **2018 Five Year (2018-2022) Financial Plan – Utilities and Other Self-Funded
Programs**

1.0 RECOMMENDATION

It is recommended that the Finance Committee recommend that Council:

1. Approve the rate adjustments outlined in Section 2.0 of this report; and
2. Direct staff to prepare the 2018 Five-Year (2018–2022) 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, 2018. The following sections of this report discuss each of the self-funded programs separately.

2.1 2018 Water Utility Rates

The City adopted the Residential Water Metering Program over fifteen years ago and now provides service to more than 65,600 metered utility accounts. Approximately 73% of all single family dwellings, 59% of all multi-family dwellings and all commercial and industrial customers in the City are now serviced with water meters. In 2017, these metered accounts were charged \$0.9660 per cubic metre of water consumed. Due to increases in the GVWD water rates and system operating & capital cost demands, an increase in the water rate is necessary for 2018.

In 2018, the GVWD bulk water charge will increase by \$0.0262 per cubic metre to \$0.6990 per cubic metre. The ‘average metered single family residence’ now consumes approximately 360 cubic metres per year; these residents will see an approximate increase of \$0.79 per month or \$9.43 per year. An increase of \$0.0118 per cubic metre is also required to support the City’s

general operating, maintenance costs and capital program, resulting in a further increase of \$0.35 per month or \$4.25 per year.

Based on the above, it is recommended for 2018 that the water utility rate be increased from \$0.966 per cubic metre to \$1.004 per cubic metre. This recommendation will equate to a total increase of \$1.14 per month or \$13.68 per year for the 'average metered single family residence' and \$6.33 per month or \$76.00 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 \$1.004 per cubic metre. The average consumption by non-metered accounts is 800 m³ per year. A residential flat rate customer will see a \$2.50 per month or \$30.00 per year increase. 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 approximately 7.3% per cubic metre per year.

2.2 2018 Sewer Utility Rates

In 2017, metered utility customers were charged \$0.9899 per cubic metre of sewer discharge. Due to increases in the GVS&DD sewerage rates and system operating costs, an increase in the sewer rate is necessary for 2018.

In 2018 the GVS&DD sewer charges will increase by 9.4% inclusive of growth. It is expected that this will impact the 'average metered single family residence' in the City of Surrey by approximately \$1.67 per month or \$20.03 per year. An additional increase is also required to support the City's general operating, maintenance costs and capital program, resulting in a further increase of \$0.56 per month or \$6.67 per year.

As such, it is recommended that the sewer utility rate be increased for 2018 from \$0.9899 per cubic metre of discharge volume to \$1.0826 per cubic metre of discharge volume. This equates to a total increase of \$2.23 per month or \$26.70 per year for the 'average metered single family residence' and \$12.36 per month or \$148.32 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 \$1.0826. A residential flat rate customer will see a \$4.92 per month or \$59.00 per year increase. 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 approximately 10.9% per year for each of the remaining four years of the Five Year Plan.

2.3 2018 Drainage/Dyking/Flood Protection Utility Parcel Tax

The Drainage Parcel Tax is currently \$221 per lot. An increase of \$2.00 per lot is proposed to support increased maintenance and capital costs in relation to the City's drainage infrastructure. With this proposed increase, the Drainage Parcel Tax for 2018 will be \$223 for residential and agricultural properties and \$409 for commercial properties.

2.4 2018 Solid Waste Utility Rates

The primary goals of the Solid Waste Utility are to achieve an 80% waste diversion from Surrey residential waste stream by 2020 and to reduce illegal dumping and related cleanup costs by 50% by 2020.

In Surrey, the cost associated with illegal dumping has increased two-fold between the years of 2005 to 2015, far outpacing population growth during the same period. The negative effects of illegal dumping are detrimental to cities as it damages the environment, creates potential public safety hazards, poses health risks to people and wildlife, conveys a negative image of communities, and impacts quality of life in general. While the goal was to achieve a 50% reduction in illegal dumping by 2018, this target has been extended to 2020. In 2017, the City developed and initiated a comprehensive work plan which will be implemented Citywide over the next 3 years. This includes: increasing education of the City's existing waste collection program; new services to high-rise customers; expanding existing services to curbside (single family) customers; and enhancing enforcement efforts by deploying new surveillance technologies.

These initiatives are contributing to achieving our waste diversion and illegal dumping targets by the year 2020. Staff recommend leaving rates unchanged for 2018 at \$287.00.

2.5 2018 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. Parking Meter rates vary throughout the city and are set based on demand and may vary by time of day.

The parking rates at City Hall will remain unchanged for 2018 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 2018 Surrey City Energy

Surrey City Energy is the City-owned district energy system that supplies residential, commercial and institutional buildings in City Center with heat and hot water. Surrey's first permanent district energy center will be co-located with West Village Park and is slated to open in 2018.

Customer rates are based on a fixed capacity levy, and a variable energy charge. For the first 3 years of operation (2015 - 2017), the levy and the charge were set at a level which produced an effective rate that matched the BC Hydro benchmark for a typical full-service residential customer. This process was approved by Council through Corporate Report R246; 2013.

In 2017 customers were charged a fixed capacity charge of \$51.66 per megawatt-hour and a variable energy charge of \$0.0175 per square meter of the building area per day, for class 1 customers and a variable energy charge of \$0.2506 per kilowatt of peak heat energy demand per day, for class 2 customers.

Staff recommend a 2.52% increase, as supported by the Rate Review Panel. This increase enables the Utility to recover its long term costs, while providing stable competitive energy rates for customers. This rate increase would result in an annual cost increase of \$19 for a 65m² (700 square foot) residential dwelling unit that consumes an average of 6.8 MWh/year of energy.

2.7 Proposed 2018–2022 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:

1. Approve the rate adjustments outlined in Section 2.0 of this report; and
2. Direct staff to prepare the 2018 Five-Year (2018–2022) 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.

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General Manager, Finance

Vincent Lalonde, P.Eng
City Manager

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Attachments:

Appendix “I”: 2018 – 2022 Financial Plan – Water Utility

Appendix “II”: 2018 – 2022 Financial Plan – Sewer Utility

Appendix “III”: 2018– 2022 Financial Plan –Drainage Utility

Appendix “IV”: 2018 – 2022 Financial Plan – Solid Waste Utility

Appendix “V”: 2018 – 2022 Financial Plan – Parking Utility

Appendix “VI”: 2018 – 2022 Financial Plan – District Energy Utility

APPENDIX "I"

5 YEAR WATER OPERATING FINANCIAL PLAN 2018 - 2022 (in thousands)

<u>REVENUE SUMMARY</u>	2018 BUDGET	2019 PLAN	2020 PLAN	2021 PLAN	2022 PLAN
Taxation	\$ 179	\$ 139	\$ 122	\$ 96	\$ 79
Investment Income	429	551	524	506	488
Penalties and Interest on Taxes	727	772	831	899	980
	<u>1,156</u>	<u>1,323</u>	<u>1,355</u>	<u>1,405</u>	<u>1,468</u>
Departmental Revenues	73,717	78,226	84,179	90,984	99,084
	<u>\$ 75,052</u>	<u>\$ 79,688</u>	<u>\$ 85,656</u>	<u>\$ 92,485</u>	<u>\$ 100,631</u>
 <u>EXPENDITURE SUMMARY</u>					
Departmental Expenditures	\$ 65,432	\$ 68,760	\$ 73,240	\$ 78,131	\$ 83,515
	<u>\$ 65,432</u>	<u>\$ 68,760</u>	<u>\$ 73,240</u>	<u>\$ 78,131</u>	<u>\$ 83,515</u>
Interest Allocated to Approp. Surplus	356	366	342	325	309
Contrib'n to General Operating	5,085	5,375	5,761	6,201	6,726
Contribution to Capital	8,650	8,667	8,703	10,193	10,189
Net Tsf To/(From) Surplus/Reserve	(4,471)	(3,480)	(2,390)	(2,365)	(108)
	<u>\$ 9,620</u>	<u>\$ 10,928</u>	<u>\$ 12,416</u>	<u>\$ 14,354</u>	<u>\$ 17,116</u>
Surplus/(Deficit)	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers (To)/From Surplus	-	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

5 YEAR SEWER OPERATING FINANCIAL PLAN
2018 - 2022
(in thousands)

<u>REVENUE SUMMARY</u>	2018 BUDGET	2019 PLAN	2020 PLAN	2021 PLAN	2022 PLAN
Taxation	\$ 995	\$ 509	\$ 13	\$ 13	\$ 10
Investment Income	312	386	421	392	393
Penalties and Interest on Taxes	268	288	325	364	395
	<u>580</u>	<u>674</u>	<u>746</u>	<u>756</u>	<u>788</u>
Departmental Revenues	53,512	57,584	64,958	72,724	79,016
	<u>\$ 55,087</u>	<u>\$ 58,767</u>	<u>\$ 65,717</u>	<u>\$ 73,493</u>	<u>\$ 79,814</u>
 <u>EXPENDITURE SUMMARY</u>					
Departmental Expenditures	\$ 52,450	\$ 58,454	\$ 63,806	\$ 69,450	\$ 73,363
	<u>\$ 52,450</u>	<u>\$ 58,454</u>	<u>\$ 63,806</u>	<u>\$ 69,450</u>	<u>\$ 73,363</u>
Interest Allocated to Approp. Surplus	\$ 89	\$ 82	\$ 117	\$ 88	\$ 89
Contrib'n to General Operating	3,743	3,976	4,423	4,928	5,337
Contribution to Capital	11,425	11,444	11,488	5,618	5,620
Net Tsf To/(From) Surplus/Reserve	(12,620)	(15,189)	(14,117)	(6,591)	(4,595)
	<u>\$ 2,637</u>	<u>\$ 313</u>	<u>\$ 1,911</u>	<u>\$ 4,043</u>	<u>\$ 6,451</u>
Surplus/(Deficit)	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers (To)/From Surplus	-	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

APPENDIX “III”

5 YEAR DRAINAGE OPERATING FINANCIAL PLAN
2018 - 2022
(In thousands)

<u>REVENUE SUMMARY</u>	<u>2018 BUDGET</u>	<u>2019 PLAN</u>	<u>2020 PLAN</u>	<u>2021 PLAN</u>	<u>2022 PLAN</u>
Taxation	\$ 38,269	\$ 40,098	\$ 42,025	\$ 43,522	\$ 45,062
Departmental Revenues	217	219	221	223	225
	<u>\$ 38,559</u>	<u>\$ 40,416</u>	<u>\$ 42,345</u>	<u>\$ 43,844</u>	<u>\$ 45,386</u>
 EXPENDITURE SUMMARY					
Departmental Expenditures	\$ 13,506	\$ 13,601	\$ 13,697	\$ 13,794	\$ 13,892
	<u>\$ 13,506</u>	<u>\$ 13,601</u>	<u>\$ 13,697</u>	<u>\$ 13,794</u>	<u>\$ 13,892</u>
Contrib'n to General Operating	\$ 2,687	\$ 2,806	\$ 2,932	\$ 3,029	\$ 3,129
Contribution to Capital	13,867	14,027	14,221	19,210	19,425
Net Tsf To/(From) Surplus/Reserve	8,499	9,982	11,495	7,811	8,940
	<u>\$ 25,053</u>	<u>\$ 26,815</u>	<u>\$ 28,648</u>	<u>\$ 30,050</u>	<u>\$ 31,494</u>
Surplus/(Deficit)	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers (To)/From Surplus	-	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

APPENDIX “IV”

5 YEAR SOLID WASTE OPERATING FINANCIAL PLAN 2018 - 2022 (In thousands)

<u>REVENUE SUMMARY</u>	2018 BUDGET	2019 PLAN	2020 PLAN	2021 PLAN	2022 PLAN
Penalties and Interest on Taxes	\$ 130	\$ 133	\$ 136	\$ 139	\$ 142
Departmental Revenues	42,941	43,981	45,045	46,133	47,247
	<u>\$ 43,071</u>	<u>\$ 44,114</u>	<u>\$ 45,181</u>	<u>\$ 46,272</u>	<u>\$ 47,389</u>
 <u>EXPENDITURE SUMMARY</u>					
Departmental Expenditures	\$ 35,436	\$ 35,358	\$ 35,912	\$ 36,471	\$ 37,043
	<u>\$ 35,436</u>	<u>\$ 35,358</u>	<u>\$ 35,912</u>	<u>\$ 36,471</u>	<u>\$ 37,043</u>
Interest Allocated to Approp. Surplus	\$ -	\$ -	\$ -	\$ -	\$ -
Contrib'n To General Op	2,791	2,859	2,928	2,999	3,071
Contribution to Capital	2,085	2,218	2,359	2,510	2,417
Net Tsf To/(From) Surplus/Reserve	2,759	3,679	3,982	4,292	4,858
	<u>\$ 7,635</u>	<u>\$ 8,756</u>	<u>\$ 9,269</u>	<u>\$ 9,801</u>	<u>\$ 10,346</u>
Surplus/(Deficit)	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers (To)/From Surplus	-	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

APPENDIX “V”

**5 YEAR PARKING OPERATING FINANCIAL PLAN
2018 - 2022
(In thousands)**

REVENUE SUMMARY	2018 BUDGET	2019 PLAN	2020 PLAN	2021 PLAN	2022 PLAN
Departmental Revenues	\$ 4,813	\$ 5,131	\$ 5,298	\$ 5,452	\$ 5,621
	<u>\$ 4,813</u>	<u>\$ 5,131</u>	<u>\$ 5,298</u>	<u>\$ 5,452</u>	<u>\$ 5,621</u>
EXPENDITURE SUMMARY					
Departmental Expenditures	\$ 1,163	\$ 1,140	\$ 1,156	\$ 1,172	\$ 1,189
	<u>\$ 1,163</u>	<u>\$ 1,140</u>	<u>\$ 1,156</u>	<u>\$ 1,172</u>	<u>\$ 1,189</u>
Interest Allocated to Approp. Surplus	-	-	-	-	-
Contrib'n to General Operating	\$ 313	\$ 334	\$ 344	\$ 354	\$ 354
Net Tsf To/(From) Surplus/Reserve	3,338	3,657	3,798	3,926	4,078
	<u>\$ 3,651</u>	<u>\$ 3,991</u>	<u>\$ 4,142</u>	<u>\$ 4,280</u>	<u>\$ 4,432</u>
Surplus/(Deficit)	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers (To)/From Surplus	-	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

APPENDIX “VI”

5 YEAR ENERGY OPERATING FINANCIAL PLAN
2018 - 2022
(In thousands)

REVENUE SUMMARY	2018 BUDGET	2019 PLAN	2020 PLAN	2021 PLAN	2022 PLAN
Departmental Revenues	\$ 2,232	\$ 2,930	\$ 3,564	\$ 4,625	\$ 6,701
	<u>\$ 2,232</u>	<u>\$ 2,930</u>	<u>\$ 3,564</u>	<u>\$ 4,625</u>	<u>\$ 6,701</u>
EXPENDITURE SUMMARY					
Departmental Expenditures	\$ 1,601	\$ 2,421	\$ 2,951	\$ 3,497	\$ 4,422
	<u>\$ 1,601</u>	<u>\$ 2,421</u>	<u>\$ 2,951</u>	<u>\$ 3,497</u>	<u>\$ 4,422</u>
Contrib'n to General Operating	145	190	232	301	436
Contribution to Capital	8,173	2,329	3,475	8,612	2,956
Net Tsf To/(From) Surplus/Reserve	(7,687)	(2,010)	(3,094)	(7,785)	(1,113)
	<u>\$ 631</u>	<u>\$ 509</u>	<u>\$ 613</u>	<u>\$ 1,128</u>	<u>\$ 2,279</u>
Surplus/(Deficit)	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers (To)/From Surplus	-	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>