

NO: F003

COUNCIL DATE: December 11, 2018

FINANCE COMMITTEE

TO: **Mayor & Council** DATE: **November 30, 2018**

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

SUBJECT: **2019 Five Year (2019-2023) 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 2019 Five-Year (2019–2023) 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 rate adjustments, effective January 1, 2019. The following sections of this report discuss each of the self-funded programs separately.

2.1 2019 Water Utility Rates

The City adopted the Residential Water Metering Program over fifteen years ago and now provides service to more than 67,500 metered water utility accounts. In 2018, these metered accounts were charged \$1.0040 per cubic metre of water consumed. Due to increases in the Greater Vancouver Water District (“GVWD”) water rates and the Utility’s operating and capital cost demands, an increase in the water rates is necessary for 2019.

In 2019, the GVWD water charges will increase by 5.8% resulting in an increase in the GVWD bulk water charges of \$0.0405 per cubic metre. An increase of \$0.0088 per cubic metre, which represents a 2.9% increase over the City’s prior year portion of water charges, is also required to support the Utility’s operating, maintenance costs and capital programs.

Based on these changes, it is recommended for 2019 that the water utility metered rate be increased from \$1.004 per cubic metre to \$1.0533 per cubic metre, which represents a combined change in GVWD and the City's portion of water charges of \$0.0493 per cubic metre. This recommendation will equate to a total increase of \$1.48 per month or \$17.76 per year for the 'average metered single family dwelling' that consumes 360 cubic metres of water per year; and \$8.22 per month or \$98.60 per year for an average business that consumes 2,000 cubic metres of water per year and that has a 50 mm water connection. All business properties in the City have water meters and therefore pay based on actual usage.

The non-metered or 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 increase of \$0.0493 per cubic metre. The consumption by non-metered residential customers is estimated to be 800 cubic metres per year. A residential flat rate customer will see a \$3.25 per month or \$39.00 per year increase. Flat rate customers 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.

The GVWD bulk water rate for the remaining years of the Five-Year Plan is projected to increase by an average of 11.31% per cubic metre per year. Proposed 2019 Water rate changes and their annual impact on average residential and commercial customers are summarized in Tables 1 and 2.

Table 1 - Proposed Water Rate Changes

	GVWD Rate (per (per m ³))	City of Surrey Rate (per (per m ³))	Total Metered Rate (per m ³)
2018	0.6990	0.3050	1.0040
Increase per m ³ of water	\$0.0405	\$0.0088	\$0.0493
2019 (proposed)	0.7395	0.3138	1.0533

Table 2 - Annual Impact on Water Customers

Customer Type	Average Water Consumption (m ³)	Annual Impact of GVWD Increase	Annual Impact of City Increase	Overall Annual Impact
Metered Single Family	360	\$14.58	\$3.18	\$17.76
Metered Commercial	2000	\$81.00	\$17.60	\$98.60
Non-metered Residential	800	\$33.00	\$7.00	\$40.00

2.2 2019 Sewer Utility Rates

The City provides service to more than 65,300 metered sewer utility accounts. In 2018, metered utility customers were charged \$1.0826 per cubic metre of sewer discharge. Due to increases in the Greater Vancouver Sewerage and Drainage District's ("GVS&DD") sewerage rates and the Utility's operating and capital cost demands, an increase in the sewer rates is necessary for

2019. Actual sewer usage is calculated as being 80% of the volume of water that is consumed by the metered water customers or estimated for the non-metered residential customers.

In 2019, the GVS&DD sewer charges will increase by 18.9% resulting in an increase in GVS&DD sewer charges of \$0.1535 per cubic metre of discharge volume. An increase of \$0.0078 per cubic metre of discharge volume, which represents a 2.9% increase over the City's prior year portion of sewer charges, is also required to support the Utility's operating, maintenance costs and capital programs.

Based on these changes, it is recommended for 2019 that the sewer utility metered rate be increased from \$1.0826 to \$1.2439 per cubic metre of discharge volume, which represents a combined change in GVS&DD and the City's portion of sewer charges of \$0.1613 per cubic metre of discharge volume. This recommendation will equate to a total increase of \$3.87 per month or \$46.45 per year for the 'average metered single family dwelling' that discharges 288 cubic metres (80% of 360 cubic metres of average water consumed) of sewage per year; and \$21.51 per month or \$258.08 per year for a business that discharges 1,600 cubic metres (80% of 2,000 cubic metres of average water consumed) of sewage per year.

The sewer utility rate for non-metered customers will be increased based on the 'average' discharge of a non-metered customer of 640 cubic metres (80% of estimated 800 cubic metres of water consumed) and will reflect the proposed rate increase of \$0.1613 per cubic metre of discharge volume. A residential flat rate customer will see an \$8.58 per month or \$103.00 per year increase. Any "flat rate" sewer customer who is also a water 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 water usage. All business properties in the City have water meters.

The GVS&DD sewer rates are projected to increase an average of 11.0% per year for each of the remaining four years of the Five Year Plan. Proposed 2019 Sewer rate changes and their annual impact on average residential and commercial customers are summarized in Tables 3 and 4.

Table 3 – Proposed Sewer Rate Changes

	GVS&DD Rate (per m³)	City of Surrey Rate (per m³)	Total Metered Rate (per m³)
2018	0.8119	0.2707	1.0826
Increase per m ³ of sewage	\$0.1535	\$0.0078	\$0.1613
2019 (proposed)	0.9654	0.2785	1.2439

Table 4 - Annual Impact on Sewer Customers

Customer Type	Sewer Volume @ 80% of average water consumption (m³)	Annual Impact of GVS&DD Increase	Annual Impact of City Increase	Overall Annual Impact
Metered Single Family	288	\$44.21	\$2.24	\$46.45
Metered Commercial	1600	\$245.60	\$12.48	\$258.08
Non-metered Residential	640	\$98.00	\$5.00	\$103.00

2.3 2019 Drainage/Dyking/Flood Protection Utility Parcel Tax

The Drainage Parcel Tax is currently \$223 per lot for residential, recreation and agricultural properties and \$409 for commercial properties. An increase of \$2 per residential and agricultural property per year and an increase of \$50 per commercial property per year are 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 2019 will be \$225 for residential and agricultural properties and \$459 for commercial properties. Proposed 2019 Drainage Parcel Tax changes are summarized in Table 5.

Table 5 - Proposed Rate Increases

	Residential and Agricultural	Commercial
2018	\$223	\$409
Increase	\$2	\$50
2019 (Proposed)	\$225	\$459

2.4 2019 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 2018, the City significantly increased resident participation in its Large Item Pick Up (LIPU) program by over 40% through promotion of LIPU in high illegal dumping hotspot areas to ensure that residents dispose of items through the appropriate means. As a result, illegal dumping incidents have decreased by 35% since the start of the initiative. A LIPU collection pilot program was also implemented at ten apartment complexes across the City. This pilot program will be expanded to all multi-family buildings in 2019. The City also organized several Pop-Up Junk events which provide a convenient one-stop drop location at no cost for Surrey residents to dispose of unwanted items. The City continues to implement its comprehensive work plan over the next three years to increase education of the City's existing waste collection program; provide new services to high-rise customers; expand existing services to curbside (single family) customers; and enhance enforcement efforts by deploying new surveillance technologies.

In 2018, garbage, recycling and organics collection service rates for single and multi-family customers were \$287 per year, while for secondary suite customers were \$144 per year. These rates have not changed since 2017. For 2019, staff recommends a \$3 increase to single family and multi-family customers to \$290 and a \$1 increase to secondary suite customers to \$145 per year. The increase will support general litter cleanup around the City and capital infrastructure for street cleaning initiatives. Staff also recommends increasing the rates for Apartment/Townhouse recycling customers by \$5 to \$30 and for Apartment/Townhouse recycling and organic customers by \$5 to \$40 for the implementation of LIPU services at apartment and townhouse buildings.

Proposed 2019 Solid Waste rate changes are summarized in Table 6.

Table 6 - Proposed Rate Increases

	Single Family and Multi-family Garbage/Recycling/Organics	Secondary Suite Garbage/Recycling/Organics	Apartment/Townhouse Recycling/Organics	Apartment/Townhouse Recycling
2018	\$287	\$144	\$35	\$25
Increase	\$3	\$1	\$5	\$5
2019 (Proposed)	\$290	\$145	\$40	\$30

2.5 2019 Parking

Revenue generated from parking rates covers the on-going operating and maintenance costs as well as contribute to the debt servicing costs of Surrey Parking Authority. Parking Meter rates vary throughout the city and are set based on demand and may vary by time of day.

2019 Parking rate changes were approved by Council on November 19, 2018 through Corporate Report No. R222; 2018 Free Parking: City Hall Parkade and Surrey Memorial Hospital.

2.6 2019 Surrey City Energy

Surrey City Energy (“SCE”) is the City-owned district energy system that supplies residential, commercial and institutional buildings in City Center with heat and hot water. SCE is based on a “user-pay” model, and is 100% self-funded by the customers like other City utilities and its operating, maintenance costs and capital programs are fully recovered.

Customer rates are based on a fixed capacity levy, and a variable energy charge. For the first three 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 No. R246; 2013 District Energy System Utility (Surrey City Energy) – Policy on Utility Rate Setting and Regulation.

In 2018, customers were charged a variable energy rate (“Charge”) of \$52.96 per megawatt-hour and a fixed capacity rate (Levy) of \$0.0179 per square meter of the building area per day for class 1 customers, and a variable energy rate of \$0.2569 per kilowatt of peak heat energy demand per day for class 2 customers.

Class 1 customers are residential and mixed-use buildings where the non-residential portion of the building does not exceed 20% of the building area. Class 2 customers are any building where the non-residential portion of the building exceeds 20% of the building area.

Staff recommends a 2.20% increase, as supported by an independent External Rate Review Panel. This increase enables the Utility to recover its capital and operating costs, while providing stable and competitive energy rates for its customers. This rate increase would result in an annual cost increase of \$17 (Charge and Levy) for a 65m² (700 square foot) residential dwelling unit that consumes an average of 6.8 MWh/year of energy. Proposed 2019 SCE Charge and Levy changes have been summarized in Tables 7 and 8.

Table 7 - Proposed Rate Increase (Charge)

	Class 1 & Class 2
	(\$/MWh)
2018	\$52.96
Increase	\$1.16
2019 (proposed)	\$54.12
Percent Increase	2.20%

Table 8 - Proposed Rate Increase (Levy)

	Class 1 (\$/m²/day)	Class 2 (\$/kW/day)
2018	\$0.0179	\$0.2569
Increase	\$0.0004	\$0.0057
2019 (proposed)	\$0.0183	\$0.2626
Percent Increase	2.20%	2.20%

2.7 Proposed 2019–2023 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 Council:

1. Approve the rate adjustments outlined in Section 2.0 of this report; and
2. Direct staff to prepare the 2019 Five-Year (2019–2023) 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.

Kam Grewal, CPA, CMA
General Manager, Finance

Vincent Lalonde, P.Eng
City Manager

Attachments:

Appendix “I”: 2019 – 2023 Financial Plan – Water Utility
 Appendix “II”: 2019 – 2023 Financial Plan – Sewer Utility
 Appendix “III”: 2019– 2023 Financial Plan –Drainage Utility
 Appendix “IV”: 2019 – 2023 Financial Plan – Solid Waste Utility
 Appendix “V”: 2019 – 2023 Financial Plan – Parking Utility
 Appendix “VI”: 2019 – 2023 Financial Plan – District Energy Utility

APPENDIX "I"

5 YEAR WATER OPERATING FINANCIAL PLAN 2019 - 2023 *(in thousands)*

REVENUE SUMMARY	2019 BUDGET	2020 PLAN	2021 PLAN	2022 PLAN	2023 PLAN
Taxation	\$ 121	\$ 95	\$ 78	\$ 66	\$ 39
Investment Income	438	530	512	477	461
Penalties and Interest on Taxes	741	802	876	970	1,069
	<u>1,179</u>	<u>1,332</u>	<u>1,388</u>	<u>1,447</u>	<u>1,530</u>
Departmental Revenues	75,647	81,781	89,208	98,553	108,495
	<u>\$ 76,947</u>	<u>\$ 83,208</u>	<u>\$ 90,674</u>	<u>\$ 100,066</u>	<u>\$ 110,064</u>
EXPENDITURE SUMMARY					
Departmental Expenditures	\$ 67,727	\$ 73,992	\$ 80,999	\$ 89,249	\$ 98,424
	<u>\$ 67,727</u>	<u>\$ 73,992</u>	<u>\$ 80,999</u>	<u>\$ 89,249</u>	<u>\$ 98,424</u>
TRANSFERS SUMMARY					
Transfers To/(From) Capital Sources	\$ 4,017	\$ 3,616	\$ 3,594	\$ 4,130	\$ 4,309
Transfers To/(From) Operating Sources	5,203	5,600	6,081	6,687	7,331
	<u>\$ 9,220</u>	<u>\$ 9,216</u>	<u>\$ 9,675</u>	<u>\$ 10,817</u>	<u>\$ 11,640</u>
Surplus/(Deficit)	\$ -	\$ -	\$ -	\$ -	\$ -
	-	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

APPENDIX “II”

5 YEAR SEWER OPERATING FINANCIAL PLAN 2019 - 2023 (in thousands)

REVENUE SUMMARY	2019 BUDGET	2020 PLAN	2021 PLAN	2022 PLAN	2023 PLAN
Taxation	\$ 502	\$ 28	\$ 27	\$ 26	\$ 24
Investment Income	234	296	289	285	281
Penalties and Interest on Taxes	467	470	524	589	647
	701	766	813	874	928
Departmental Revenues	61,805	62,669	69,825	78,554	86,317
	\$ 63,008	\$ 63,463	\$ 70,665	\$ 79,454	\$ 87,269
EXPENDITURE SUMMARY					
Departmental Expenditures	\$ 60,377	\$ 65,069	\$ 72,002	\$ 79,913	\$ 85,965
	\$ 60,377	\$ 65,069	\$ 72,002	\$ 79,913	\$ 85,965
TRANSFERS SUMMARY					
Transfers To/(From) Capital Sources	\$ 8,212	\$ 6,124	\$ 6,909	\$ 7,781	\$ 9,837
Transfers To/(From) Operating Sources	(5,581)	(7,730)	(8,246)	(8,240)	(8,533)
	\$ 2,631	\$ (1,606)	\$ (1,337)	\$ (459)	\$ 1,304
Surplus/(Deficit)	\$ -	\$ -	\$ -	\$ -	\$ -
	-	-	-	-	-
	\$ -	\$ -	\$ -	\$ -	\$ -

APPENDIX “III”

5 YEAR DRAINAGE OPERATING FINANCIAL PLAN
2019 - 2023
(in thousands)

REVENUE SUMMARY	2019 BUDGET	2020 PLAN	2021 PLAN	2022 PLAN	2023 PLAN
Taxation	\$ 39,009	\$ 40,847	\$ 42,309	\$ 43,566	\$ 44,743
Investment Income	76	95	95	95	95
Departmental Revenues	182	184	187	190	193
	<u>\$ 39,267</u>	<u>\$ 41,126</u>	<u>\$ 42,591</u>	<u>\$ 43,851</u>	<u>\$ 45,031</u>
EXPENDITURE SUMMARY					
Departmental Expenditures	\$ 13,916	\$ 14,188	\$ 14,464	\$ 14,745	\$ 15,035
	<u>\$ 13,916</u>	<u>\$ 14,188</u>	<u>\$ 14,464</u>	<u>\$ 14,745</u>	<u>\$ 15,035</u>
TRANSFERS SUMMARY					
Transfers To/(From) Capital Sources	\$ 9,406	\$ 8,406	\$ 8,430	\$ 8,672	\$ 8,697
Transfers To/(From) Operating Sources	15,945	18,532	19,697	20,434	21,299
	<u>\$ 25,351</u>	<u>\$ 26,938</u>	<u>\$ 28,127</u>	<u>\$ 29,106</u>	<u>\$ 29,996</u>
Surplus/(Deficit)	\$ -	\$ -	\$ -	\$ -	\$ -
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

APPENDIX “IV”

5 YEAR SOLID WASTE OPERATING FINANCIAL PLAN 2019 - 2023 *(in thousands)*

REVENUE SUMMARY	2019 BUDGET	2020 PLAN	2021 PLAN	2022 PLAN	2023 PLAN
Penalties and Interest on Taxes	\$ 143	\$ 146	\$ 149	\$ 152	\$ 155
Departmental Revenues	44,064	45,132	46,224	47,341	48,488
	\$ 44,207	\$ 45,278	\$ 46,373	\$ 47,493	\$ 48,643
EXPENDITURE SUMMARY					
Departmental Expenditures	\$ 35,063	\$ 35,709	\$ 36,360	\$ 37,030	\$ 37,715
	\$ 35,063	\$ 35,709	\$ 36,360	\$ 37,030	\$ 37,715
TRANSFERS SUMMARY					
Transfers To/(From) Capital Sources	\$ 4,062	\$ 4,276	\$ 4,498	\$ 4,969	\$ 5,289
Transfers To/(From) Operating Sources	5,082	5,293	5,515	5,494	5,639
	\$ 9,144	\$ 9,569	\$ 10,013	\$ 10,463	\$ 10,928
Surplus/(Deficit)	\$ -	\$ -	\$ -	\$ -	\$ -
	-	-	-	-	-
	\$ -	\$ -	\$ -	\$ -	\$ -

APPENDIX “V”

5 YEAR PARKING OPERATING FINANCIAL PLAN 2019 - 2023 *(in thousands)*

REVENUE SUMMARY	2019 BUDGET	2020 PLAN	2021 PLAN	2022 PLAN	2023 PLAN
Departmental Revenues	\$ 3,960	\$ 4,282	\$ 4,457	\$ 4,655	\$ 4,839
	\$ 3,960	\$ 4,282	\$ 4,457	\$ 4,655	\$ 4,839
EXPENDITURE SUMMARY					
Departmental Expenditures	\$ 1,338	\$ 1,361	\$ 1,384	\$ 1,408	\$ 1,432
	\$ 1,338	\$ 1,361	\$ 1,384	\$ 1,408	\$ 1,432
TRANSFERS SUMMARY					
Transfers To/(From) Capital Sources	\$ 1,006	\$ 1,284	\$ 1,216	\$ 990	\$ 1,138
Transfers To/(From) Operating Sources	1,616	1,637	1,857	2,257	2,269
	\$ 2,622	\$ 2,921	\$ 3,073	\$ 3,247	\$ 3,407
Surplus/(Deficit)	\$ -	\$ -	\$ -	\$ -	\$ -
	-	-	-	-	-
	\$ -	\$ -	\$ -	\$ -	\$ -

APPENDIX “VI”

5 YEAR ENERGY OPERATING FINANCIAL PLAN 2019 - 2023 *(in thousands)*

REVENUE SUMMARY	2019 BUDGET	2020 PLAN	2021 PLAN	2022 PLAN	2023 PLAN
Departmental Revenues	\$ 2,758	\$ 2,870	\$ 3,905	\$ 6,628	\$ 8,803
	\$ 2,758	\$ 2,870	\$ 3,905	\$ 6,628	\$ 8,803
EXPENDITURE SUMMARY					
Departmental Expenditures	\$ 1,938	\$ 2,408	\$ 2,801	\$ 3,795	\$ 4,671
	\$ 1,938	\$ 2,408	\$ 2,801	\$ 3,795	\$ 4,671
TRANSFERS SUMMARY					
Transfers To/(From) Capital Sources	641	275	850	2,402	3,560
Transfers To/(From) Operating Sources	179	187	254	431	572
	\$ 820	\$ 462	\$ 1,104	\$ 2,833	\$ 4,132
Surplus/(Deficit)	\$ -	\$ -	\$ -	\$ -	\$ -
	-	-	-	-	-
	\$ -	\$ -	\$ -	\$ -	\$ -