



THE CORPORATION OF THE CITY OF COURTENAY

STAFF REPORT

To: Council

File No.: 1705-20 / 1830-05

From: Chief Administrative Officer

Date: January 21, 2015

Subject: 2015 – 2019 Sewer Fund Financial Plan and User Fee Revenue

PURPOSE:

The purpose of this report is to consider the 2015-2019 Sewer Fund Financial Plan as well as the proposed increase in sewer user fee revenue for 2015.

POLICY ANALYSIS:

Section 165 of the *Community Charter* requires a municipality to have a five year financial plan. The 2015-2019 Sewer Fund Financial Plan is a component of the annual City of Courtenay five year financial plan.

Section 194 of the *Community Charter* allows Council to charge a user fee to cover the cost of delivery of a service.

The current year financial plan proposes a 10% user fee increase in 2015 to fund the regional portion of the sewer system, and a 3% increase to fund our municipal portion of the sewer system. Staff advise that future sewer utility rate adjustments for the municipal portion of the system will be supported through the development and implementation of Asset Management Planning, based on condition assessments, life cycle analysis, and risk management.

EXECUTIVE SUMMARY:

The five year sewer fund financial plan is prepared annually and user fees are established to cover the projected net cost of service delivery for the upcoming year. The sewer service is not funded from general property taxation.

Both the regional and the local municipal components of the sewerage system are integral in the delivery of the sewer utility service to users. While the planned fee increases in the regional five year plan are significant, these increases provide essential funding for capital works that are required to ensure the sustainability, capacity and integrity of the system's infrastructure.

An increase of 13% for user fees is recommended. The financial impact of this increase would result in a yearly increase of \$29 for a single family residence.

CAO RECOMMENDATIONS:

That based on the January 21, 2015 staff report "2015-2019 Sewer Fund Financial Plan and 2015 User Fee Revenue" Council approve OPTION 1, and proceed with the recommended 2015-2019 Sewer Fund Financial Plan, and that sewer user fee revenue be increased by 13% for 2015; and

That Council direct staff to amend the "City of Courtenay Fees and Charges Bylaw No. 1673, 1992", to reflect the proposed increase.

Respectfully submitted,



David Allen, BES, CLGEM, SCLGM
Chief Administrative Officer

BACKGROUND:

Consideration and approval of a five year financial plan is an annual requirement under the *Community Charter*. The recommended Financial Plan for the sewer fund presented today provides detail for the 2015 year, as well as projections for the four years following. With Council's approval, the corresponding rates bylaws will then be drafted and presented to Council for adoption.

The sewer utility service is self-funding and is not assisted with funding from the general property taxation levy.

DISCUSSION:

The sewer utility service is provided to property owners utilizing municipal sewer collection infrastructure which is owned and operated by the City, as well as by regional infrastructure comprised of sewer force mains, pumping stations, and a wastewater treatment plant that is owned, operated, and managed by the Comox Valley Regional District. The City of Courtenay and the Town of Comox share proportionately in the costs associated with the regional infrastructure based on their relative sewer flows to the wastewater treatment plant.

Comox Valley Regional Sewerage 2015-2019 Financial Plan

The regional "Comox Valley Sewerage System" was constructed in the early 1980's and was designed to provide for a 25 year capacity. The system is now over thirty years old, and in 2011 a sanitary sewer master plan was completed which identified the capital works required to ensure continued viability and the sustainability of this core infrastructure.

A prioritized 10 year capital plan for the regional system was comprehensively debated by regional and municipal staff, as well as the members of the Sewer Commission, and was approved in 2012 by the Sewer Commission. This 10 year capital plan is a key driver in the cost of delivering sewer service in both Courtenay and Comox and is reflected in our five year financial plans.

In last year's 2014-2018 Comox Valley Sewerage System Financial Plan, the Sewer Commission approved annual increases of 12% to the municipal requisition, to end in 2018. Raising funds from user fees was part of the integrated financial planning in raising funds to carry out the approved regional plan capital works without significant dependence on incurring high levels of debt. The financial forecasts for the 2015-2019 Comox Valley Sewerage System Financial Plan continue this financial strategy, although at slightly lower percentages, and for 2015 to 2019 are planned to be 2015 – 11%, 2016 -10%, 2017 – 9%, 2018 – 8%, and 2019 – 0%. Requisitions increases are anticipated to remain level beginning in 2019.

In last year's regional budget process, the year of actual need for future regional capital works was reviewed (reflecting lower than previously forecast growth projections), and a phased budget provision for the approved priority projects was incorporated. This has resulted in a reduction in the both immediate

capital funding required in the next five years, a reduction in requisition funds required, and has assisted in reducing the projected debt financing required over the next fifteen years. It is felt by both regional and municipal finance staff that this is more financially sustainable in the long term for the service.

Table 1 below details the regionally budgeted requisitions for the 2015-2019 regional five year financial plan. For the 2015 financial year, an increase of 10% to the user fee revenues is required to ensure that the City’s share of regional system costs can be appropriately funded.

TABLE 1 – 2015-2019 Comox Valley Sewerage System, proposed requisition and estimate of Courtenay’s percentage share

YEAR	TOTAL REQUISITION	% INCREASE IN REQUISITION	COURTENAY % (BASED ON PROPORTIONAL CTNY/CMX SEWER FLOWS)	COURTENAY REQUISITION
2014	\$4,303,482	12%	64.93%	\$2,794,251
2015	\$4,776,865	11%	64.90% (est)	\$3,104,962
2016	\$5,254,552	10%	65.00% (est)	\$3,415,458
2017	\$5,727,461	9%	66.00% (est)	\$3,722,850
2018	\$6,185,658	8%	66.00% (est)	\$4,082,534
2019	\$6,185,658	0%	67.00% (est)	\$4,144,391

City of Courtenay 2015-2019 Sewer Financial Plan

The proposed 2015-2019 Sewer Fund Financial Plan is detailed in the attached Schedules:

- Schedule 1: Sewer Operating Fund
- Schedule 2: Sewer Capital Fund
- Schedule 3: Sewer Reserves

The overall costs of maintaining the City’s sewer operations and carrying out planned city sewer capital works has been funded in part from the 2014 operating surplus. As a result, staff recommend that a net 3% increase is required for the City’s operations and capital works.

Of note in this financial plan is the provision of \$50,000 from 2015 through to 2019, specifically to continue the process of compiling detailed condition assessments of the existing sewer infrastructure. This is key data for the development of a sewer asset management plan, which will assist the City in making more informed decisions on future capital infrastructure priorities. As asset management/condition assessment work is eligible work under the Gas Tax Fund, a transfer of funds from the Gas Tax Reserve sufficient to cover the 2015 condition assessment initiative has been provided for in the financial plan.

The Sewer Fund Capital Project Plan is attached as Schedule 2 of this report. For 2015, \$1,728,000 in capital spending is proposed, of which \$758,000 is funded from user fee revenue, and the balance is funded from reserves.

Approximately half of the capital projects identified for 2015 are a continuation of engineering designs initiated in 2014 and relate to other budget categories such as roads, storm sewer or watermains. Where priorities align for infrastructure renewal of surface and/or underground utility replacement, staff propose to advance those projects to construction in 2015. These projects include 2nd Street (Cliffe to England), 12th Street (Stewart to Urquhart), and England Avenue (10th to 12th).

Staff have identified the need to replace the existing Anderton and 1st Street Sewer Lift Stations in 2016. In order to have this occur, design should begin in 2015. The sewer main draining into the 1st Street Lift Station has been identified to have capacity constraints for a number of years. In addition, the forcemain leaving the lift station has been identified as requiring renewal for a number of years. As part of the Lift Station design, staff recommend that the renewal and upgrade of this sewer and forcemain be completed in conjunction with the Lift Station replacement.

FINANCIAL IMPLICATIONS:

To cover the overall 2015 cost of delivering the sewer utility operating and capital activities, an increase of 13% is recommended. This will result in an annual increase of \$29.00 (or \$2.42/month) in the single family user rate.

ADMINISTRATIVE IMPLICATIONS:

Subsequent to Council endorsing the proposed increase to the 2015-2019 Sewer Utility Financial Plan and user fees, staff will prepare the user fees amendment bylaw, and return it to Council for adoption.

On adoption for the user fee amendment bylaw, staff will update the financial system for the 2015 utility billing.

The proposed sewer utility work plan is anticipated to be delivered with existing staff resources in coordination with contracted engineering service providers.

STRATEGIC PLAN REFERENCE:

Value Statement 2: A progressive, diverse and sustainable City

Goal 1: Ensure infrastructure is sustainable

Objective c) Complete an inventory and assessment of City roads, buildings, and utilities, and report on works required.

OFFICIAL COMMUNITY PLAN REFERENCE:

Section 6.3 Sanitary Sewer Treatment

REGIONAL GROWTH STRATEGY REFERENCE:

5-D Sewer – Encourage sewer management approaches and technologies that respond to public health needs and maximize existing infrastructure

CITIZEN/PUBLIC ENGAGEMENT:

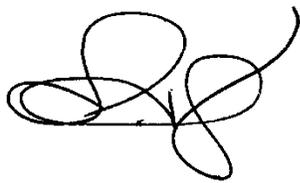
The public is notified of the upcoming changes to sewer user fees through regular council meetings, media webcasts, and information posted on the City's website.

OPTIONS:

OPTION 1: That Council approves the 2015-2019 Sewer Fund Financial Plan, and that sewer user fee revenue be increased by 13% for 2015, and further that staff are directed to amend the user fee bylaws to incorporate the fee increase.

OPTION 2: That Council defer the endorsement of the proposed 2015-2019 Sewer Utility Financial Plan and the proposed increase to the 2015 sewer user fees for further discussion at a later Council meeting.

Prepared by:



Tillie Manthey, BA, CPA, CGA

Director, Financial Services/Deputy CAO

Attachments:

Schedule 1 – Sewer Operating Fund 2015-2019
Schedule 2 – Sewer Capital Fund 2015-2019
Schedule 3 – Sewer Reserves