



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 Water Fund Financial Plan and User Fee Revenue

PURPOSE:

The purpose of this report is to consider the proposed 2015-2019 Water Fund Financial Plan as well as the proposed increase in water 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 Water 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 3% overall user fee increase in 2015 which covers both the regional portion of the water system and our municipal portion of the water distribution system. Staff advise that future water 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 water 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 water service is not funded from general property taxation.

Both the regional and the local municipal components of the water system are integral in the delivery of the water utility service to users. As bulk water purchases and Regional bulk water rates are a key cost driver in our municipal financial plan, it is essential information for use in adequately planning for revenue levels needed from user fees. For the current five year financial plan, regional bulk water rate is forecast to remain unchanged at \$0.64/m³ for 2015, and a \$0.02/m³ increase is forecast in each of 2016 and 2017 to raise funds required to meet the planned regional capital works plan.

CAO RECOMMENDATIONS:

That based on the January 21, 2015 staff report “2015-2019 Water Fund Financial Plan and User Fee Revenue” Council approve OPTION 1, that Council approves the 2015-2019 Water Fund Financial Plan, and that water user fee revenue be increased by 3% 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 water 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 water utility service is self-funding, and is not assisted with funding from the general property taxation levy.

DISCUSSION:

The water utility service is provided to property owners utilizing municipal water infrastructure which is owned and operated by the City, as well as by regional water infrastructure which transports and treats the water supply from the Comox Lake reservoir and transports it to the City's boundary. The City of Courtenay purchases the bulk water consumed within its distribution area. The budgeted cost of purchasing bulk water is a primary cost driver within our water financial plan, and is calculated based on the regional bulk water rate as well as the annual volumes of water forecast to be used by the City.

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

Schedule 1: Water Operating Fund

Schedule 2: Water Capital Fund

Schedule 3: Water Fund Reserves

A portion of the budgeted increase in 2015 for the cost of maintaining the existing level of service in City's water operations, as well as carrying out the planned municipal 2015 water capital works, have been funded from the water fund operating surplus account. As a result, staff recommend that a net overall 3% fee revenue increase is required this year as additional funding for City operations and capital works.

Of note in this financial plan is the continuation of the provision of annual funds to carry on the process of compiling detailed condition assessments of the existing water infrastructure. This is key data for asset management, which will assist the City in making informed decisions on capital infrastructure priorities going forward. In addition, \$150,000 has been budgeted to carry out a much needed update to the 2005 Water Model. As asset management/condition assessment work and capacity building community planning are eligible works under the Gas Tax Fund, a transfer of funds from the Gas Tax Reserve sufficient to cover the 2015 condition assessment initiative and the water model study has been provided for in the financial plan.

Water Consumption and the Cost of Purchasing Water

Growth and an extremely dry year in 2014 resulted in ending the year with an increase of 4.1% over water consumption in 2013.

Two water efficiency programs, funded from reserves, have been retained in the financial plan. The first program, “Water Enforcement”, is again planned for the summer season. This initiative has been very beneficial in not only educating the public on water restrictions that may be in effect but also and where required, in enforcing the restrictions. An annual amount of \$5,000 has been budgeted to continue this program. The second efficiency program, “Commercial Toilet Rebates”, has been beneficial for commercial /institutional organizations in replacing older model toilets with newer water saver facilities. An annual amount of \$1,500 has been budgeted to continue this program.

A third program, funded from the Water Meter Repair and Replacement Reserve, is a meter replacement program which has been actively carried out for the past three years. It is believed that the replacement of many of the older meters has been instrumental in identifying internal premise leaks as more accurate meter readings have led to higher billings and as a consequence, investigation by property owners.

Finally, in 2014, the City purchased leak detection equipment which is not proactively in use and has been instrumental in locating areas of concern.

COST OF PURCHASING BULK WATER

Five year water consumption costs were developed taking into account anticipated population growth, effects of implemented water efficiency initiatives, as well as the projected cost to purchase bulk water from the Comox Valley Regional District. The cost per cubic meter is forecast to remain unchanged from the 2014 rate (\$0.64/m3). The cost of bulk water purchases provided for in the five year financial plan is based on the following projections and assumptions.

TABLE 1 – City of Courtenay 2015-2019 Forecasted Water Consumption/Cost of Water Purchases

Projected Bulk Water Costs			
<u>Year</u>	<u>Projected bulk water purchases</u>	<u>CVRD rate / m3</u>	<u>Projected Annual Cost</u>
2014	4,661,484	0.64	\$ 2,983,350
2015	4,708,099	0.64	\$ 3,013,183
2016	4,755,180	0.66	\$ 3,138,419
2017	4,802,732	0.68	\$ 3,265,858
2018	4,850,759	0.68	\$ 3,298,516
2019	4,899,267	0.68	\$ 3,331,501

Capital Projects for 2015

The Water Fund Capital Project Plan is attached as Schedule 2 to this report. For 2015, \$1,354,348 in capital spending is proposed, of which \$506,000 is funded from water user fees and balance from funds held in 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 main or sanitary sewer. 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), England Ave (10th to 12th).

As staff progress with leak detection and condition assessments in 2015, a budget provision of \$500,000 has been identified to renew approximately 1km of watermain. This will be based off current field determined data and historical breaks or maintenance records for problematic areas. Staff continue to work on establishing the locations of this proposed renewal work.

Finally, in late 2013 the City of Courtenay annexed an area of land to the south of existing City boundaries and assumed ownership of the existing water pipe network. As a result, in 2014, staff completed a transfer of the water services to the Comox Valley Water System. This work triggered the payment of CVRD Capital Improvement Cost Charges (CICC) under the CVRD CICC Bylaw 2350 (2001). The current capital budget provides for a \$340,000 allowance for the payment of these fees to the CVRD (subject to confirmation with CVRD staff).

FINANCIAL IMPLICATIONS:

A 3% increase in the water bylaw user rates is recommended. This will result in an *annual* increase of \$10.45 (or \$0.87/month) in the single family user rate.

ADMINISTRATIVE IMPLICATIONS:

Subsequent to Council endorsing the proposed increase to the 2015-2019 Water 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 water 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:

6.2 Water Supply

6.2.1 to ensure a high level of water quality is maintained

6.2.2 to protect the watershed of the Comox Lake and thereby protect the City's source of water

REGIONAL GROWTH STRATEGY REFERENCE:

5-A Water – Promote water conservation and efficiency throughout the Comox Valley

5-B Water - Protect the quality of water sources

CITIZEN/PUBLIC ENGAGEMENT:

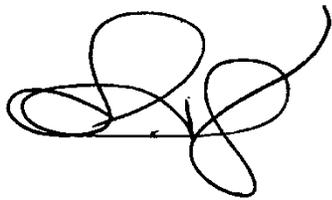
The public is notified of the upcoming changes to user fees through regular council meetings, media webcasts, and information posted on the City's website.

OPTIONS:

OPTION 1: That Council approves the 2015-2019 Water Fund Financial Plan which includes an increase of 3% to revenue raised from water user fees.

OPTION 2: That Council defer the endorsement of the proposed 2015-2019 Water Fund Financial Plan for further discussion.

Prepared by:



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Director, Financial Services/Deputy CAO

Attachs:

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