



THE CORPORATION OF THE CITY OF COURTENAY

## STAFF REPORT

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**To:** Mayor and Council

**File No.:** 1705-20 / 1830-05

**From:** Chief Administrative Officer

**Date:** February 17, 2014

**Subject:** 2014 – 2018 Water Fund Financial Plan and User Fee Revenue

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### **PURPOSE:**

The purpose of this report is to consider the proposed 2014-2018 Water Fund Financial Plan, and to consider a rate equity adjustment for the “outside of the city” user category.

### **POLICY ANALYSIS:**

Section 165 of the *Community Charter* requires a municipality to have a five year financial plan. The 2014-2018 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 0% user fee increase in 2014 for both the regional portion of the water system and for our municipal portion of the water system. While a 0% increase is not felt to be sustainable over time, 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 rate 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 static for 2014 and 2015, and a \$0.02/m<sup>3</sup> increase is forecast for 2016 to assist with funding regional capital works.

The City operates on a calendar year, and it is generally preferred that user rates be set in December so that revised rates can be in effect for the 1<sup>st</sup> of January. However, staff have postponed detailed water budget discussion with Councils until the 2014-2018 regional plan details were available, and could be incorporated into the City’s water fund financial plan.

**CAO RECOMMENDATIONS:**

That based on the February 17, 2014 staff report “2014-2018 Water Fund Financial Plan and User Fee Revenue” Council approve OPTION 1 for the 2014-2018 Water Fund Financial Plan; and

That Council direct staff to amend the “City of Courtenay Fees and Charges Bylaw No. 1673, 1992”, to reflect the proposed rate equity adjustment for the “outside the City” user category; and

That the City carry out an engineering analysis and condition assessment of the water infrastructure in the Comox Road service area to inform future rate setting for outside users.

Respectfully submitted,

*“original signed”*

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David Allen  
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 at the February 17<sup>th</sup> Council meeting provides detail for the 2014 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 purchase of bulk water for redistribution is a primary cost driver within our water financial plan and reflects the bulk water rate as well as the bulk volumes of water purchased.

The proposed 2014-2018 Water Fund Financial Plan is detailed in the attached Schedules:

- Schedule 1: Water Operating Fund
- Schedule 2: Water Capital Fund

Any increases in 2014 to the overall budgeted cost of maintaining the existing level of service in City’s water operations, as well as carrying out the planned municipal water capital works, have been funded from the water fund operating surplus account. As a result, staff recommend that a 0% fee revenue increase is required this year as additional funding for City operations and capital works. As the City

progresses with Asset Management Planning staff recommend that the use of future annual surpluses be subject to specific financial policies considered and approved by Council.

Of note in this financial plan is a new provision of \$35,000 per year, specifically to begin 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 future infrastructure priorities. In addition, \$75,000 has been budgeted to carry out an 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 2014 condition assessment initiative and the water model study has been provided for in the financial plan.

#### Water Consumption and the Cost of Purchasing Water

##### DECREASE IN CONSUMPTION OF WATER

Despite growth and an extremely dry year in 2013, the City of Courtenay as a whole, ended the year with water consumption which was 6.3% less than the bulk consumption recorded in 2012. It is believed that several programs contributed to the reduced use of water.

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. As the 2013 budget provision of \$10,000 was not fully utilized or required, it has been reduced to \$4,000 for 2014 and years following.

The second efficiency program, “Commercial Toilet Rebates”, has been beneficial for commercial /institutional organizations in replacing older model toilets with newer water saver facilities. In 2013, the budget provision for this program was \$15,000 and actual rebates claimed totalled \$1,800 (18 toilets). For 2014 and forward, the budget provision has been reduced to \$3,000 per year.

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 two 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.

##### 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 will remain unchanged from the 2013 rate (\$0.64/m3), and therefore a 0% fee revenue increase related to the regional water system is included in the 2014 budget.

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 2014-2018 Projected Water Consumption/Cost of Water Purchases

<u>Year</u>	<u>Projected bulk water purchases</u>	<u>CVRD rate / m3</u>	<u>Projected Annual Cost</u>
2014	4,500,748	0.64	\$ 2,880,479
2015	4,522,577	0.64	\$ 2,894,449
2016	4,544,511	0.66	\$ 2,999,378
2017	4,566,552	0.66	\$ 3,013,925
2018	4,588,700	0.66	\$ 3,028,542

TABLE 2- City of Courtenay, 2014-2018 Water Consumption Assumptions/Projections

Actual	m3/ consumed	% Chg	Population	% pop growth	
2006			22,021		census
2007	4,589,803		23,368	6.1%	BC Stats
2008	4,687,126	2.1%	23,981	2.6%	BC Stats
2009	4,753,690	1.4%	24,244	1.1%	BC Stats
2010	4,597,731	-3.3%	24,580	1.4%	BC Stats
2011	4,623,995	0.6%	24,983	1.6%	BC Stats
2012	4,780,062	3.4%	25,116	0.5%	BC Stats
2013	4,479,025	-6.3%	25,367	1.0%	
2014	4,500,748	0.5%	25,748	1.5%	est
2015	4,522,577	0.5%	26,134	1.5%	est
2016	4,544,511	0.5%	26,526	1.5%	est
2017	4,566,552	0.5%	26,924	1.5%	est
2018	4,588,700	0.5%	27,328	1.5%	est

Review/Consideration of a Rate Equity Adjustment for the “Outside of the City” User Category

When a municipality differentiates between customers inside the municipal limits and those outside those boundaries, it must show that the rate differential is based on cost of service or some other reasonable basis. Several factors can be utilized to justify increased rates for outside users:

- on average, the service to non-residents involves greater expense to those outside of the City that service to its residents
- the filter plant from which the water is distributed is inside of the City
- in any given direction, the suburban areas lie farther from the plant than the intervening urban territory, and these greater distances are shown to entail greater costs in the installation and maintenance of water mains and in the pumping of water
- the outlying area is less densely populated than the City itself, which involves greater average expense in reading of meters and making service calls

However, even if no cost differentials exist, other justifications could exist. Those factors may be additional risk of responsibility to finance a major repair in the event of catastrophe or breakdown; responsibility for ongoing replacement and repair of system components; contributions of residents to the initial construction of the system; moneys from general fund are used to pay salaries of those who manage and operate the system.<sup>1</sup>

While the above reference is from the American Water and Wastewater Association, the principles listed provided valid guidance in our current review of our own “outside user rate”, and are also considered a best practice by the BC Water and Wastewater Association.

The Comox Road water line had been extended in the late 1960’s or early 1970’s to serve K’ómoks First Nations IR #1. Subsequently, as properties along the water line developed, they were permitted to

<sup>1</sup> American Water Works Association, Manual of Water Supply Practices- M1 Fifth Edition; Principles of Water Rates, Fees and Charges (pages 281, 282)

connect to this water line. This area’s water infrastructure now is over 40 years old, and is comprised of various sizes and condition of pipe which would not normally be the servicing standard constructed today.

The City’s outside user rates currently affect 5 metered customers and 38 non-metered customers along the Comox (Dyke) Road area outside of the City’s municipal boundary. Approximately \$39,500 in fee revenue was collected in 2013 from these users. (Total 2013 water user fee revenues = \$4,360,000).

In reviewing user rate bylaws as far back as 1976, the rate for the outside user category was first established as 3 times the rate set for users within the City boundary. However, the ratio has been reduced since that time, and today the non-metered ratio is just under 2 times the inside user rate.

The fees have historically been structured to recover not only a sufficient user fee, but also an added component which reflects the water frontage tax these properties would pay if they were within the City boundary. These rural properties are taxable by the Provincial Surveyor of Taxes, and consequently, the City’s water frontage “tax” cannot be charged.

Effective March 4, 2013, Fees and Charges Amendment Bylaw 2742 establishes the following user fees which affect these customers.

**Unmetered Water**

Minimum user rate per year or portion thereof for unmetered accounts shall be as follows:

CATEGORY	INSIDE THE CITY PER UNIT	OUTSIDE THE CITY PER UNIT	RATE RATIO
Residential/Duplex	\$348.38	\$667.72	1.92
Multi-Family (three or more connected units)	\$294.27/unit	\$669.47/unit	2.28

**Metered Water**

FOR VOLUMES OF WATER CONSUMED	CHARGE PER QUARTER	RATE RATIO
<b>COMMERCIAL METERED</b>		
0 – 48.0 m3	Minimum rate per unit \$49.60	
48.1 – 566.0 m3	\$1.35	
Greater than 566.0 m3	\$1.08	
<b>OUTSIDE CITY</b>		
0 – 48.0 m3	Minimum rate per unit \$166.32	<i>Was established based on 1/4th of the o/s flat rate, however we note that the ratio is 3.35x the inside metered rate</i>
48.1 – 566.0 m3	\$1.62	
Greater than 566.0 m3	\$1.35	

In following best practices in setting the outside user rate and pricing in a premium for risk and cost recovery, staff recommends that, until such time as an engineering analysis and condition assessment of the area’s water infrastructure can be completed, the following rate structure policy be adopted for the outside user category.

$$(\text{Inside User Rate plus Frontage Rate, assessable at 100 feet}) \times 1.30 = \text{Outsider User Rate}$$

The following table details the existing rate and provides the resulting recommended rates:

Non-Metered Customers:

CATEGORY	CURRENT BYLAW RATE PER UNIT	RECOMMENDED RATE PER UNIT	EQUITY ADJUSTMENT
Residential/Duplex	\$667.72	\$601.09	(\$66.63)
Multi-Family (one legal parcel of land and three or more connected units)	\$669.47	\$530.75	(\$138.72)

Metered Customers

FOR VOLUMES OF WATER CONSUMED	CURRENT BYLAW CHARGE PER QUARTER	RECOMMENDED RATE CHARGE PER QUARTER	EQUITY ADJUSTMENT
<b>Multi-Family Metered</b>			
0 – 48.0 m3	Minimum rate per unit \$166.32	Minimum rate per unit \$98.07	(\$68.25)
48.1 – 566.0 m3	\$1.62	\$1.76	
Greater than 566.0 m3	\$1.35	\$1.40	
<b>Commercial Metered</b>			
0 – 48.0 m3	Minimum rate per unit \$166.32	Minimum rate per unit \$101.53	(\$64.79)
48.1 – 566.0 m3	\$1.62	\$1.76	
Greater than 566.0 m3	\$1.35	\$1.40	

**FINANCIAL IMPLICATIONS:**

A zero percent increase in the bylaw user rates is recommended, with future rates to be informed through the implementation of condition assessments and the development of asset management plans. However, customers will see a slight increase in their 2014 water rate based on billing of the full 2013 bylaw rate which is in effect for 2014. Council may recall that the 2013 rates were set late in March 2014, and the user fee billing for that year represented a blend of the 2012 and 2013 rates bylaws. *The effective increase for a single family unit will be \$5.00.*

The proposed rate equity adjustment for outside user rates is anticipated to *reduce* user fee revenue by approximately \$3,000 in 2014.

**ADMINISTRATIVE IMPLICATIONS:**

Subsequent to Council endorsing the proposed increase to the 2014-2018 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 2014 utility billing.

**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 2014-2018 Water Fund Financial Plan, that a rate equity adjustment for the "outside of the City" user category be approved, and that the City carry out an engineering analysis and condition assessment of water service infrastructure in the Comox Road service area to further inform rate setting for outside users.

OPTION 2: That Council defer the endorsement of the proposed 2014-2018 Water Fund Financial Plan and the proposed equity adjustment for further discussion at a later Council meeting.

Prepared by:

*"original signed"*

Tillie Manthey, BA, CPA, CGA

Director, Financial Services/Deputy CAO

Attachs:

Schedule 1 – Water Operating Fund 2014-2018

Schedule 2 – Water Capital Fund 2014-2018