

2020 Draft Utility Rates

RECOMMENDATION:

That Committee of Council direct staff to prepare the 2020 utility rate bylaws based on the draft budget as presented in the December 17, 2020, staff report, "2020 Draft Utility Rates".

PREVIOUS COUNCIL/COMMITTEE ACTION

None

REPORT SUMMARY

The 2020 draft utility budgets represent a 3.78% increase in water and 2.00% in sewer rates over 2019. The principal factors driving this increase are an increase in Metro Vancouver charges for bulk water purchases and sanitary sewer discharge.

BACKGROUND

Annually the utilities section safely delivers approximately 9.2 million cubic meters of high quality potable water to its 25,418 serviced customers within the City. Employees operate, maintain and construct a city-wide transmission and distribution system that delivers safe and reliable drinking water and ensures adequate flows and pressures are maintained for the City's fire protection needs. The utilities section also provides an essential service for the collection and disposal of liquid wastewater. Employees in this section operate, maintain and construct collection infrastructure that mitigates environmental impact as a result of blockages and overflows, and transfer of wastewater to treatment facilities.

To pay for these services, the City charges utility rates on a user pay basis. Residential units pay a flat rate whereas commercial units are metered and pay based on usage. Water and sewer regulation bylaws are brought to Council in advance of the remainder of the City's budget in order to ensure that utility bills are mailed out to property owners by the second week of February, to be paid by March 31st. This results in funding for the year being available in advance of property tax collection in July.

Beyond funding the cost of annual operations, utility budgets also include contributions to water and sewer infrastructure reserves. These annual contributions of \$2.0 million and \$702 thousand respectively are to fund the replacement/enhancement of utility infrastructure (pipes, pumps, valves, etc.); major repairs and maintenance; studies; and other expenditures that are not part of regular operations. Contributions can either be spent in the year they are made, or used in a future year.

The City has also been setting aside an additional 1% of the prior year's utility levy revenue on a cumulative basis for long term infrastructure replacement (LTR). This funding is intended to help

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fund the anticipated replacement of aging infrastructure as major portions of the City's older infrastructure comes up for replacement.

Charges from Metro Vancouver for bulk water purchases and sanitary sewer discharge constitute the largest portion of the utility budgets (approximately 57%). For a number of years, Metro Vancouver has been forecasting increases to its rates to offset borrowing costs related to capital construction. Until recently, those increases hadn't come to fruition and accordingly for parts of the last 10 years the City's utility levies had been held flat or fairly low.

The following are the historical Port Coquitlam increases over the past 10 years:

Rate	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Water	8.90%	10.20%	6.33%	6.11%	2.4%	0%	0%	0.85%	0%	4.05%
Sewer	4.80%	-1.70%	6.33%	3.38%	0%	0%	0%	3.75%	3.86%	0.82%

In anticipation of future rate increases, the water and sewer budgets have also historically included \$80,000 annually for contributions to the water and sewer rate stabilization reserve. These reserves were established to potentially smooth the impact of future increases.

On January 8, 2019, Committee of Council adopted the following guidelines outlining the use of the rate stabilization reserves:

- Target utility rate: The city will target a utility rate increase between 2.0% to 4.5%.
- Use of rate stabilization reserve: The city will use the reserve to reduce the rate increase to 4.5% in years where it would otherwise exceed 4.5%. To smooth rate increases over a three year period, withdrawals from the reserve in a given year should not exceed 1/3 of the opening balance.
- Contribution to rate stabilization reserve: In years where the rate increase falls below 2.0% the city will make a contribution of up to \$80,000 to the reserve with a cap such that the rate increase does not exceed 2.0%. No contribution will be made in years where the rate increase exceeds 2.0%.

As a result of these guidelines, the City did not make a contribution to the water rate stabilization reserve in 2019 as the utility rate increase exceeded the 2% threshold in the adopted guidelines. The water rate stabilization reserve is projected to have a \$1.05 million balance at the end of 2019 and the sewer rate stabilization reserve is projected to have a \$417 thousand balance (the sewer reserve balance is lower as contributions did not start until 2015).

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DISCUSSION

The 2020 draft utility budget is based on maintaining 2019 service levels. As such, changes reflect inflation, other contractual increases and efficiencies, but do not contain any proposed enhancements or reductions to services.

Until the 10 year capital, financial and asset management plans are developed in 2020, it is proposed to keep the LTR reserve contributions at the 2019 levels (water LTR contribution of \$1,007,100, sewer LTR contribution of \$754,700). The additional 1% LTR contributions of \$121,200 for water and an additional 1% of \$89,900 for sewer are therefore not included in the proposed budget.

FINANCIAL IMPLICATIONS

Water Utility

The following table provides a breakdown of the 2020 draft water utility budget. Prior to consideration of the rate stabilization reserve, the required increase in rates was 3.78%. Based on the adopted rate stabilization guidelines, as the rate increase is above 2% but below 4.5% no contribution to the reserve is proposed.

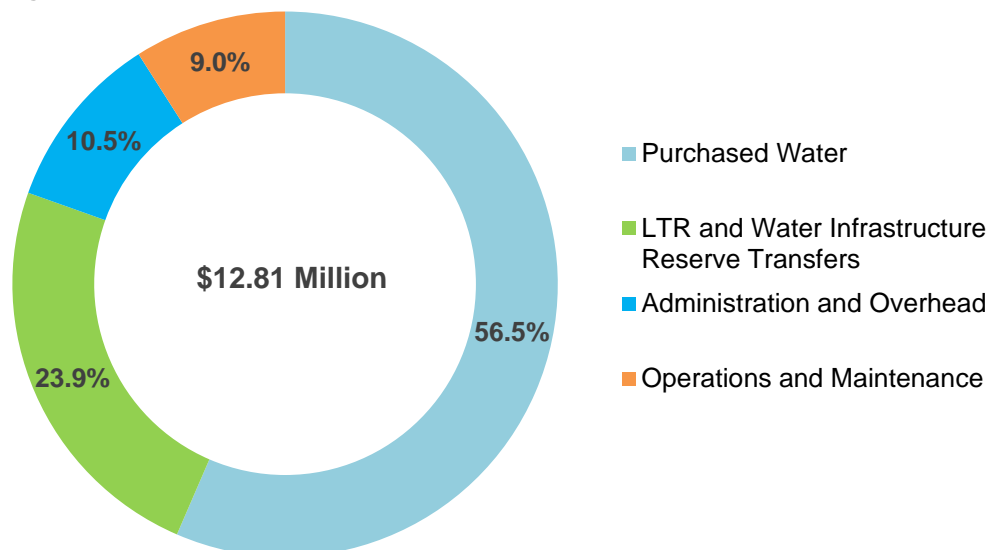
Figure 1: Water Utility Budget

	2019 Approved Budget	2020 Draft Budget	\$ Change	% Change
Revenues				
Utility charges	\$12,247,700	\$12,710,600	\$462,900	3.78%
Permits and licences	18,700	18,700	-	0.00%
Penalties and fines	80,000	80,000	-	0.00%
	\$ 12,346,400	\$ 12,809,300	\$ 462,900	3.75%
Expenses				
Payroll expense	\$773,600	\$786,000	\$12,400	1.60%
Contracted & other services	6,926,500	7,377,500	451,000	6.51%
Materials and supplies	127,900	124,400	(3,500)	-2.74%
Telephone, utilities and rent	47,600	42,400	(5,200)	-10.92%
Internal charges	1,403,200	1,411,400	8,200	0.58%
	\$ 9,260,100	\$ 9,741,700	\$462,500	4.99%
Net Reserve Transfers				
To LTR and Water Infrastructure	\$ 3,067,600	\$ 3,067,600	\$ -	-
To (From) Rate Stabilization	-	-	-	-
	\$ 3,067,600	\$ 3,067,600	\$ -	-
Net Water Budget	\$ -	\$ -	\$ -	- %

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The Community Charter requires that proposed expenditures and transfers to other funds must not exceed the total of the proposed funding sources and transfers from other funds for the year (i.e. the organization cannot budget for a surplus/deficit). As such, after factoring revenues, expenses and transfers to and from reserve, the net water budget balances to \$0.

Figure 2: 2020 Budgeted Water Expenditures



Payments to Metro Vancouver represent 56.5% of the expenses while transfers to the Water LTR & Infrastructure reserves make up a further 23.9% of the total. Operations and maintenance represent 9.0% of the total. Lastly, administration and overhead charges make up the remaining 10.5%. In 2015 the City undertook a utility benchmarking exercise where it was noted that the City's overhead was higher than comparative municipalities. Following an internal review in 2016 staff proposed a phased approach to realign the costs. The direction provided by Committee at the time was to avoid adjustments to overheads as those adjustments would have a corresponding impact on property taxation. Since that time, staff have not proposed any adjustments to shift a portion of overhead back to property taxes.

The draft 2020 water budget results in the following impact to residential and commercial properties.

Figure 3: Impact to Residential Properties

Rate Class	2019 Levy	2020 Proposed Levy	2020 \$ Increase	2020 % Increase
Single Family Dwelling	\$ 448.05	\$464.99	\$16.94	3.78%
Secondary Suite	\$ 448.05	\$340.94	\$16.94	3.78%
Townhouse	\$ 419.72	\$319.76	\$15.87	3.78%
Apartment	\$ 398.74	\$303.05	\$15.07	3.78%

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Figure 4: Impact to Commercial Properties

Rate Class	2019 Example Levy	2020 Estimated Levy	2020 \$ Increase	2020 % Increase
Low Volume Retail	\$ 2,032.24	\$2,109.06	\$76.82	3.78%
Medium Volume Retail	\$ 6,394.08	\$6,635.78	\$241.70	3.78%
High Volume Retail	\$ 23,554.76	\$24,445.13	\$890.37	3.78%
Large Industrial	\$ 378,107.36	\$392,399.82	\$14,292.46	3.78%

Sewer Utility

The following table provides a breakdown of the 2020 draft sewer utility budget. Prior to consideration of the rate stabilization reserve, the required increase in rates was 1.68%. Based on the adopted rate stabilization guidelines, as the rate increase is below 2% a contribution of \$28,600 to the rate stabilization reserve is proposed which would bring the levy increase to 2%.

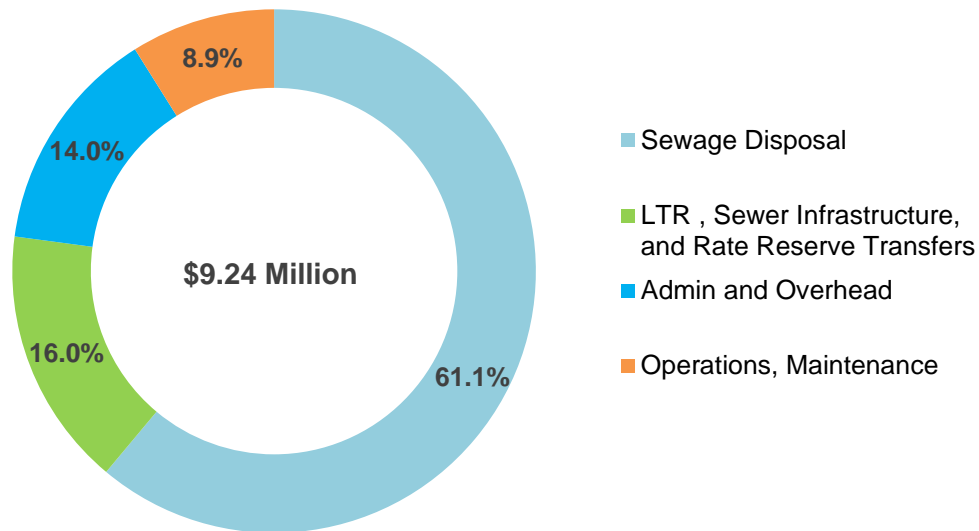
Figure 5: Sewer Utility Budget

	2019 Approved Budget	2020 Draft Budget	\$ Change	% Change
Revenues				
Utility charges	\$ 9,021,100	\$ 9,201,100	\$ 180,000	2.00%
Penalties and fines	63,000	63,000	-	0.00%
	\$ 9,084,100	\$ 9,264,100	\$ 180,000	1.98%
Expenses				
Payroll expense	\$ 351,200	\$ 353,700	\$ 10,100	0.71%
Contracted & other services	5,721,000	5,941,800	220,800	3.86%
Materials & supplies	74,000	76,800	2,800	3.78%
Telephone, utilities & rent	78,000	78,000	-	0.00%
Internal charges	1,323,200	1,328,500	5,300	0.40%
	\$ 7,547,400	\$ 7,778,800	\$ 231,400	3.07%
Net Reserve Transfers				
To LTR & Sewer Infrastructure	\$ 1,456,700	\$ 1,456,700	\$ -	-
To (From) Rate Stabilization	80,000	28,600	(51,400)	-64.25%
	\$ 1,536,700	\$ 1,485,300	\$ (51,400)	-3.34%
Net Sewer Budget	\$ -	\$ -	\$ -	- %

The Community Charter requires that proposed expenditures and transfers to other funds must not exceed the total of the proposed funding sources and transfers from other funds for the year (i.e. the organization cannot budget for a surplus). As such, after factoring revenues, expenses and transfers to and from reserve, the net sewer budget balances to \$0.

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Figure 6: 2020 Budgeted Sewer Expenditures



Payments to Metro Vancouver represent 61.1% of the expenses while transfers to the Sewer LTR, Infrastructure and Stabilization reserves make up a further 16.0% of the total. Operations and maintenance represent 8.9% of the total. Lastly, administration and overhead charges make up the remaining 14.0%. Similarly to water, sewer overheads allocations have not been adjusted since the rate review in 2016.

The draft 2020 utility budget results in the following impact to residential and commercial properties.

Figure 7: Impact to Residential Properties

Rate Class	2019 Levy	2020 Proposed Levy	2020 \$ Increase	2020 % Increase
Single Family Dwelling	\$ 332.43	\$339.08	\$6.65	2.00%
Secondary Suite	\$ 332.43	\$340.94	\$6.65	2.00%
Townhouse	\$ 311.78	\$319.76	\$6.24	2.00%
Apartment	\$ 295.49	\$303.05	\$5.91	2.00%

Figure 8: Impact to Commercial Properties

Rate Class	2019 Example Levy	2020 Estimated Levy	2020 \$ Increase	2020 % Increase
Low Volume Retail	\$ 524.32	\$534.81	\$10.49	2.00%
Medium Volume Retail	\$ 4,520.28	\$4,610.69	\$90.41	2.00%
High Volume Retail	\$ 20,241.36	\$20,646.19	\$404.83	2.00%
Large Industrial	\$ 345,050.80	\$351,951.82	\$6,901.02	2.00%

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Seniors' Discount

In 2019 the seniors' discount was given to seniors whose income did not exceed \$25,217 or had a household income that did not exceed \$31,396. 2019 saw a 5% increase in the number of properties claiming the discount.

Figure 9: Senior's Discount - Five Year Trend

Rate Class	2015	2016	2017	2018	2019
# of Senior's Discounts	271	268	274	318	334
Total Cost	\$ 91,949	\$90,298	\$ 93,549	\$110,347	\$119,506

The 2020 seniors' waiver is based on the taxpayer's 2018 Revenue Canada Notice of Assessment, which will be the most recent information available in February and March when the discounts are being processed. Since Statistics Canada no longer publishes the low-income threshold, the annual threshold for the seniors' discount will be increased by the amount of the Statistics Canada CPI increase for Vancouver each year. In this case, the increase was 2.8% for 2018.

Future Impact of Metro Vancouver Rate Increases

Given that Metro Vancouver's charges are a significant portion of the City's utility expenses, their increases have a large impact on the City's rates. Metro Vancouver's five year financial plan for the Fraser Sewerage area includes the following projections for rate increases to water and sewer:

Figure 10: Metro Vancouver Five Year Forecast

Rate	2020	2021	2022	2023	2024
Water	6.0%	6.1%	8.8%	9.9%	10.1%
Sewer	4.0%	13.9%	15.6%	13.4%	8.1%

OPTIONS (✓ = Staff Recommendation)

	#	Description
✓	1	Direct staff to prepare the utility rate bylaws for 2020 based on the draft budget.
	2	Direct staff to prepare the utility rate bylaws for 2020 based on an amended budget.
	3	Direct staff to bring back additional information to committee for consideration.

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