

NO: F003

COUNCIL DATE: December 2, 2019

FINANCE COMMITTEE

TO: **Mayor & Council** DATE: **November 14, 2019**

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

SUBJECT: **2020 Five-Year (2020-2024) Financial Plan – Utilities and Other Self-Funded
Programs**

1.0 RECOMMENDATION

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 2020 Five-Year (2020–2024) 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 the current and previous years’ budgets. Introducing the Financial Plan for these programs allows the City to propose the necessary rate adjustments, effective January 1, 2020. The following sections of this report discuss each of the self-funded programs separately.

2.1 2020 Water Utility Rates

The City adopted the Residential Water Metering Program over 15 years ago and now provides service to more than 68,000 metered water utility accounts. In 2019, these metered accounts were charged \$1.0533 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 2020.

In 2020, the GVWD water charges will increase by 6.0% resulting in an increase in the GVWD bulk water charges of \$0.0441 per cubic metre. An increase of \$0.0091 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 2020 that the water utility metered rate be increased from \$1.0533 per cubic metre to \$1.1065 per cubic metre, which represents a combined

change in GVWD and the City's portion of water charges of \$0.0532 per cubic metre. This recommendation will equate to a total increase of \$1.60 per month or \$19.16 per year for the 'average metered single family dwelling' that consumes 360 cubic metres of water per year; and \$8.87 per month or \$106.40 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 \$0.0532 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 \$3.50 per month or \$42.00 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 8.73% per cubic metre per year. Proposed 2020 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 m³)	City of Surrey Rate (per m³)	Total Metered Rate (per m³)
2019	\$0.7395	\$0.3138	\$1.0533
Increase per m ³ of water	\$0.0441 (6.0%)	\$0.0091 (2.9%)	\$0.0532 (5.1%)
2020 (proposed)	\$0.7836	\$0.3229	\$1.1065
% of Total Rate	71%	29%	100%

Table 2 - Annual Impact on Water Customers

Customer Type	Average Water Consumption (m³)	Annual Impact of GVWD Increase	Annual Impact of City Increase	Overall Annual Impact
Metered Single Family	360	\$15.88	\$3.28	\$19.16
Metered Commercial	2000	\$88.20	\$18.20	\$106.40
Non-metered Residential	800	\$35.00	\$7.00	\$42.00

2.2 2020 Sewer Utility Rates

The City provides service to more than 66,000 metered sewer utility accounts. In 2019, metered utility customers were charged \$1.2439 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 2020. 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 2020, the GVS&DD sewer charges will increase by 4.9% resulting in an increase in GVS&DD sewer charges of \$0.0469 per cubic metre of discharge volume. An increase of \$0.0081 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 2020 that the sewer utility metered rate be increased from \$1.2439 to \$1.2989 per cubic metre of discharge volume, which represents a combined change in GVS&DD and the City's portion of sewer charges of \$0.0550 per cubic metre of discharge volume. This recommendation will equate to a total increase of \$1.32 per month or \$15.84 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 \$7.33 per month or \$88.00 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 \$0.0550 per cubic metre of discharge volume. A residential flat rate customer will see a \$2.92 per month or \$35.00 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 12.8% per year for each of the remaining four years of the Five-Year Plan. Proposed 2020 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)
2019	\$0.9654	\$0.2785	\$1.2439
Increase per m ³ of sewage	\$0.0469 (4.9%)	\$0.0081 (2.9%)	\$0.0550 (4.4%)
2020 (proposed)	\$1.0123	\$0.2866	\$1.2989
% of Total Rate	78%	22%	100%

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	\$13.51	\$2.33	\$15.84
Metered Commercial	1600	\$75.04	\$12.96	\$88.00
Non-metered Residential	640	\$30.00	\$5.00	\$35.00

2.3 2020 Drainage/Dyking/Flood Protection Utility Parcel Tax

The Drainage Parcel Tax is currently \$225 per lot for residential, recreation and agricultural properties and \$459 for commercial properties. An increase of \$2 per residential and agricultural property per year; and an increase of \$50 per commercial and industrial 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 2020 will be \$227 for residential and agricultural properties and \$509 for commercial properties. Proposed 2020 Drainage Parcel Tax changes are summarized in Table 5.

Table 5 - Proposed Drainage Rate Changes

	Residential and Agricultural	Commercial and Industrial
2019	\$225	\$459
Increase	\$2	\$50
2020 (Proposed)	\$227	\$509

2.4 2020 Solid Waste Utility Rates

The City provides weekly residential curbside organic waste collection with alternating bi-weekly garbage and recycling services to approximately 105,000 single-family households and 29,000 secondary suites. The City also provides 35,000 residences from apartment buildings with centralized recycling service, while approximately 50% of these households additionally receive weekly organic waste collection services. The City processes the organic waste it collects at curbside into a renewable natural gas at its biofuel facility.

The Solid Waste Utility also provides street sanitation services to ensure the cleanliness and beautification of the City. These services include illegal dumping collection, large item pickup program ("LIPU"), litter pickup services, Pop-Up Junk events and streetscape litter bin collection. In 2019, the City launched the Love Where You Live Campaign, to support, enhance and heighten focus towards litter clean-up, illegal dumping clean-up and graffiti removal. This initiative proved to be beneficial towards cleaning and beautifying neighbourhoods, public streets, parks, and properties. To continue with the progress that has been made to date, in 2020 the City will continue to implement and advance its cleanup initiatives and infrastructure; education; waste diversion programs; drop-off events, reuse/repair events; and enhance enforcement efforts by deploying new surveillance technologies.

In 2019, garbage, recycling and organics collection service rates for single and multi-family customers were \$290 per year, while for secondary suite customers were \$145 per year. In 2020, the GVS&DD tipping fee charges will increase by 4.6% (\$5 per tonne) resulting in a GVS&DD tipping fee charge of \$113 per tonne. The GVS&DD is projecting that the Solid Waste Tipping fee will increase by \$7 per tonne in each of the remaining four years of the Five-Year Plan.

Based on these changes, it is recommended for 2020 that a 2.9% increase be applied resulting in an annual collection rate of \$298 for single family and multi-family customers and \$149 for secondary suite customers. The increase will support the increased GVS&DD tipping fee as well as waste diversion, 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 \$1 to \$31 and for Apartment/Townhouse recycling and organic customers by \$1 to \$41 for the implementation of LIPU services at apartment and townhouse buildings.

Proposed 2020 Solid Waste rate changes are summarized in Table 6.

Table 6 - Proposed Solid Waste Rate Changes

	Single Family and Multi-family Garbage/Recycling/Organics	Secondary Suite Garbage/Recycling/Organics	Apartment/Townhouse Recycling/Organics	Apartment/Townhouse Recycling
2019	\$290	\$145	\$40	\$30
Increase	\$8 (2.9%)	\$4 (2.9%)	\$1 (2.9%)	\$1 (2.9%)
2020 (Proposed)	\$298	\$149	\$41	\$31

2.5 2020 Parking

Revenue generated from parking rates covers the on-going operating and maintenance costs as well as contribute to the debt servicing costs of the Surrey Parking Authority. Parking Meter rates vary throughout the city and are set based on market demand and may vary by time of day. In 2020, the parking rates have increased nominally in certain locations ranging from \$0.50 to \$1.00 per hour.

2020 Parking rates are updated per the *Surrey Fee Setting Bylaw, 2001, No. 14577* (Bylaw 14577).

2.6 2020 District Energy

District Energy, known as Surrey City Energy (“SCE”), is the City-owned district energy system that supplies residential, commercial and institutional buildings in City Centre 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.

In 2019, customers were charged a variable energy rate (“Charge”) of \$54.12 per megawatt-hour and a fixed capacity rate (“Levy”) of \$0.0183 per square meter of the building area per day for class 1 customers, and a variable energy rate of \$0.2626 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 2.19% 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 \$18 (Charge and Levy) for a 65m² (700 square foot) residential dwelling unit that consumes an average of 6.8 MWh/year of energy. Proposed 2020 SCE Charge and Levy changes have been summarized in Tables 7 and 8.

Table 7 - Proposed SCE Rate Change (Charge)

	Class 1 & Class 2
	(\$/MWh)
2019	\$54.12
Increase	\$1.19
2020 (proposed)	\$55.31
Percent Increase	2.19%

Table 8 - Proposed SCE Rate Change (Levy)

	Class 1 (\$/m²/day)	Class 2 (\$/kW/day)
2019	\$0.0183	\$0.2626
Increase	\$0.0004	\$0.0057
2020 (proposed)	\$0.0187	\$0.2683
Percent Increase	2.19%	2.19%

2.7 Proposed 2020 Five-Year (2020–2024) 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 CONCLUSION

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 2020 Five-Year (2020–2024) 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”	2020 – 2024 Financial Plan – Water Utility
Appendix “II”	2020 – 2024 Financial Plan – Sewer Utility
Appendix “III”	2020– 2024 Financial Plan – Drainage Utility
Appendix “IV”	2020 – 2024 Financial Plan – Solid Waste Utility
Appendix “V”	2020 – 2024 Financial Plan – Parking Utility
Appendix “VI”	2020 – 2024 Financial Plan – Surrey City Energy Utility

**2020 - 2024 FINANCIAL PLAN
WATER - FINANCIAL SUMMARY**

(in thousands)

REVENUE SUMMARY	2020 BUDGET	2021 PLAN	2022 PLAN	2023 PLAN	2024 PLAN
Special Assessment	95	78	66	39	33
Taxation	95	78	66	39	33
Sale of Goods and Services	84,718	87,429	93,874	101,444	109,961
Developer Contributions	2	2	2	2	2
Investment Income	844	809	824	851	869
Penalties and Interest	835	862	927	1,002	1,087
Grants, Donations and Other	339	346	353	360	367
Other Revenue	1,174	1,208	1,280	1,362	1,454
TOTAL REVENUE	\$ 86,833	\$ 89,526	\$ 96,046	\$103,698	\$112,319
EXPENDITURE SUMMARY					
Operational Expenditures	\$ 71,162	\$ 75,208	\$ 81,071	\$ 88,146	\$ 96,067
TOTAL EXPENDITURE	\$ 71,162	\$ 75,208	\$ 81,071	\$ 88,146	\$ 96,067
TRANSFERS SUMMARY					
Transfers To/(From) Capital Sources	\$ 9,923	\$ 7,976	\$ 8,229	\$ 8,311	\$ 8,452
Transfers To/(From) Operating Sources	5,748	6,342	6,746	7,241	7,800
TOTAL TRANSFERS	\$ 15,671	\$ 14,318	\$ 14,975	\$ 15,552	\$ 16,252
NET WATER	\$ -	\$ -	\$ -	\$ -	\$ -

Appendix "II"

2020 - 2024 FINANCIAL PLAN SEWER - FINANCIAL SUMMARY *(in thousands)*

REVENUE SUMMARY	2020 BUDGET	2021 PLAN	2022 PLAN	2023 PLAN	2024 PLAN
Special Assessment	28	27	26	24	23
Taxation	28	27	26	24	23
Sale of Goods and Services	65,365	70,246	79,744	89,987	98,195
Investment Income	488	444	444	444	444
Penalties and Interest	490	527	598	675	736
Other Revenue	490	527	598	675	736
TOTAL REVENUE	\$ 66,371	\$ 71,244	\$ 80,812	\$ 91,130	\$ 99,398
EXPENDITURE SUMMARY					
Operational Expenditures	\$ 62,905	\$ 70,115	\$ 79,265	\$ 88,357	\$ 94,680
TOTAL EXPENDITURE	\$ 62,905	\$ 70,115	\$ 79,265	\$ 88,357	\$ 94,680
TRANSFERS SUMMARY					
Transfers To/(From) Capital Sources	\$ 6,168	\$ 5,894	\$ 6,560	\$ 7,037	\$ 7,036
Transfers To/(From) Operating Sources	(2,702)	(4,765)	(5,013)	(4,264)	(2,318)
TOTAL TRANSFERS	\$ 3,466	\$ 1,129	\$ 1,547	\$ 2,773	\$ 4,718
NET SEWER	\$ -	\$ -	\$ -	\$ -	\$ -

Appendix “III”

2020 - 2024 FINANCIAL PLAN DRAINAGE - FINANCIAL SUMMARY *(in thousands)*

REVENUE SUMMARY	2020 BUDGET	2021 PLAN	2022 PLAN	2023 PLAN	2024 PLAN
Drainage Parcel Tax	\$ 40,849	\$ 42,255	\$ 43,509	\$ 44,687	\$ 45,894
Special Assessment	27	27	27	27	27
Taxation	40,876	42,282	43,536	44,714	45,921
Developer Contributions	250	250	250	250	250
Investment Income	138	191	233	269	284
Other Revenue	124	126	129	132	135
TOTAL REVENUE	\$ 41,388	\$ 42,849	\$ 44,148	\$ 45,365	\$ 46,590
EXPENDITURE SUMMARY					
Operational Expenditures	\$ 13,603	\$ 13,868	\$ 14,140	\$ 14,419	\$ 14,703
TOTAL EXPENDITURE	\$ 13,603	\$ 13,868	\$ 14,140	\$ 14,419	\$ 14,703
TRANSFERS SUMMARY					
Transfers To/(From) Capital Sources	\$ 14,497	\$ 11,484	\$ 10,944	\$ 11,776	\$ 13,936
Transfers To/(From) Operating Sources	13,288	17,497	19,064	19,170	17,951
TOTAL TRANSFERS	\$ 27,785	\$ 28,981	\$ 30,008	\$ 30,946	\$ 31,887
NET DRAINAGE	\$ -	\$ -	\$ -	\$ -	\$ -

Appendix “IV”

2020 - 2024 FINANCIAL PLAN SOLID WASTE - FINANCIAL SUMMARY *(in thousands)*

REVENUE SUMMARY	2020 BUDGET	2021 PLAN	2022 PLAN	2023 PLAN	2024 PLAN
Sale of Goods and Services	\$ 45,503	\$ 46,812	\$ 48,259	\$ 49,653	\$ 51,083
Investment Income	103	125	158	197	240
Penalties and Interest	146	149	152	155	158
Other Revenue	146	149	152	155	158
TOTAL REVENUE	\$ 45,752	\$ 47,086	\$ 48,569	\$ 50,005	\$ 51,481
EXPENDITURE SUMMARY					
Operational Expenditures	\$ 32,977	\$ 33,640	\$ 34,315	\$ 35,001	\$ 35,701
Debt Interest	1,814	1,770	1,724	1,675	1,623
Debt Principal	844	888	935	983	1,035
TOTAL EXPENDITURE	\$ 35,635	\$ 36,298	\$ 36,974	\$ 37,659	\$ 38,359
TRANSFERS SUMMARY					
Transfers To/(From) Capital Sources	\$ 3,789	\$ 4,081	\$ 4,702	\$ 5,136	\$ 5,581
Transfers To/(From) Operating Sources	6,328	6,707	6,893	7,210	7,541
TOTAL TRANSFERS	\$ 10,117	\$ 10,788	\$ 11,595	\$ 12,346	\$ 13,122
NET SOLID WASTE	\$ -	\$ -	\$ -	\$ -	\$ -

Appendix “V”

2020 - 2024 FINANCIAL PLAN PARKING AUTHORITY - FINANCIAL SUMMARY *(in thousands)*

REVENUE SUMMARY	2020 BUDGET	2021 PLAN	2022 PLAN	2023 PLAN	2024 PLAN
Sale of Goods and Services	3,369	3,421	3,453	3,485	3,517
Other Revenue	1,152	1,244	1,371	1,480	1,601
TOTAL REVENUE	\$ 4,521	\$ 4,665	\$ 4,824	\$ 4,965	\$ 5,118
EXPENDITURE SUMMARY					
Operational Expenditures	\$ 1,773	\$ 1,818	\$ 1,850	\$ 1,882	\$ 1,914
TOTAL EXPENDITURE	\$ 1,773	\$ 1,818	\$ 1,850	\$ 1,882	\$ 1,914
TRANSFERS SUMMARY					
Transfers To/(From) Capital Sources	\$ 1,095	\$ 977	\$ 706	\$ 806	\$ 937
Transfers To/(From) Operating Sources	1,653	1,870	2,268	2,277	2,267
TOTAL TRANSFERS	\$ 2,748	\$ 2,847	\$ 2,974	\$ 3,083	\$ 3,204
NET PARKING AUTHORITY	\$ -	\$ -	\$ -	\$ -	\$ -

Appendix “VI”

2020 - 2024 FINANCIAL PLAN SURREY CITY ENERGY - FINANCIAL SUMMARY *(in thousands)*

REVENUE SUMMARY	2020 BUDGET	2021 PLAN	2022 PLAN	2023 PLAN	2024 PLAN
Sale of Goods and Services	2,819	3,626	5,415	7,011	8,618
TOTAL REVENUE	\$ 2,819	\$ 3,626	\$ 5,415	\$ 7,011	\$ 8,618
EXPENDITURE SUMMARY					
Operational Expenditures	\$ 2,252	\$ 2,888	\$ 3,641	\$ 4,305	\$ 4,879
TOTAL EXPENDITURE	\$ 2,252	\$ 2,888	\$ 3,641	\$ 4,305	\$ 4,879
TRANSFERS SUMMARY					
Transfers To/(From) Capital Sources	\$ 384	\$ 502	\$ 1,422	\$ 2,250	\$ 3,179
Transfers To/(From) Operating Sources	183	236	352	456	560
TOTAL TRANSFERS	\$ 567	\$ 738	\$ 1,774	\$ 2,706	\$ 3,739
NET SURREY CITY ENERGY	\$ -	\$ -	\$ -	\$ -	\$ -