



## **AGENDA**

### **Freestanding Committee of the Whole (Corporate Administration & Finance Committee - Budget)**

**June 2, 2021, 1:00 p.m.**

**Council Chambers**

**8645 Stave Lake Street, Mission, BC**

**Pages**

- 1. CALL TO ORDER**
- 2. ADOPTION OF AGENDA**
- 3. CORPORATE ADMINISTRATION AND FINANCE**
  - a. Proposed 2022 Budget Schedule** 2

The purpose of this report is to seek Council's approval for the proposed 2022 budget schedule to allow for the adoption of the District's 2022-2026 Financial Plan/Budget by the start of 2022.
  - b. Preliminary 2022 Budget Status and Direction from Council** 5

This report is to provide Council preliminary budget information that might influence the 2022 budget discussions. No staff recommendation accompanies this report. However, District staff encourage Council to provide direction and criteria to aid in the preparation of the 2022 budget.
  - c. Removal of Water and Sewer Declining Block Rate Structure in Bylaw 2197-1990 and Bylaw 1922-1989** 13

The purpose of the report is to seek Council's support to remove the declining block rate structure and authorize staff to conduct a rate review and bring back recommendations for a rate structure change, communications and implementation plans.
- 4. ADJOURNMENT**



## STAFF REPORT

**To:** Chief Administrative Officer  
**From:** Kerri Onken, Deputy Treasurer/Collected  
**Subject:** **Proposed 2022 Budget Schedule**

**Date:** June 2, 2021

### Recommendations

That the proposed 2022 budget schedule (Attachment A) dated June 2, 2021 from the Deputy Treasurer/Collector, be approved.

### Purpose

The purpose of this report is to seek Council's approval for the proposed 2022 budget schedule to allow for the adoption of the District's 2022-2026 Financial Plan/Budget by the start of 2022.

### Background

This schedule allows for planning and scheduling of staff's time to review and update the budget, scheduling meetings for Council to discuss the budget and to allow for public consultation. This will enable the Financial Plan Bylaw, incorporating the District's operating and capital budgets for the District, to be ready for Council's approval in early January 2022.

### Discussion and Analysis

The proposed 2022 budget schedule shows budget discussions with Council commencing in October 2021. The attachment shows a summary of the meetings and dates with expected outcomes. Department Heads and Managers will be scheduled to attend the budget discussion meetings with Council and be available to clarify or provide additional information as required.

Listed below is the proposed Council Meeting schedule for consideration and discussion. These meetings will be Freestanding Committee of the Whole – Corporate Administration and Finance - Budget (CAFB) meetings and will be held on Wednesday afternoons except where otherwise noted.

October 20	General Operating Fund & Capital Program
October 25	(Monday) Utility Operating & Capital plans
October 27	Summary of all operating and capital plans
November 15	(Regular Council) Community Budget Consultation meeting
December 1 & 2	Public input and final 2022 operating and capital budget discussions
December 20	(Regular Council) First three readings of the 2022-2026 Financial Plan bylaw
January 4, 2022	(Regular Council) Final adoption of the 2022-2026 Financial Plan bylaw

## **Council Goals/Objectives**

This report addresses the three specific goals under Council's strategic focus area of Secure Finances, Assets and Infrastructure, and various goals under the strategic focus area of Organizational Excellence.

## **Financial Implications**

There are no financial implications associated with this report.

## **Communication**

Initial public consultation on the 2022 budget will begin this summer with a Citizen Satisfaction Survey. The Manager of Communication has a separate report coming for Council's consideration. During the budget meetings in October, a report summarizing the survey results will be presented.

The Community Budget Consultation document will be available prior to the community budget consultation meeting in order to inform stakeholders about the proposed budget as part of the public consultation process.

The Freestanding Committee of the Whole – Corporate Administration and Finance - Budget meetings will be held on Wednesdays in the Council Chambers, are open to the public and will be webcast. These budget meetings will be advertised on the City Page, as well as on the District's website.

## **Summary and Conclusion**

Staff are seeking Council's approval for the proposed 2022 budget schedule. This schedule will allow for planning and scheduling staff's time to review and update the budget, have discussions with Council and to provide for public consultation in order to prepare and approve the 2022-2026 Financial Plan bylaw in early January, 2022. Attachment A shows a summary of these meetings along with expected outcomes.

**Report Prepared by:** Kerri Onken, Deputy Treasurer/Collector

**Reviewed by:** Doug Steward, Director of Finance

**Approved for Inclusion:** Mike Younie, Chief Administrative Officer

## **Attachment**

Attachment A: Proposed 2022 Budget Schedule

## Attachment A Proposed Budget Schedule

EVENT/TASK	DATES	EXPECTED OUTCOMES
Introduction of the 2022 budget including budget timeline, known budget drivers, and other issues facing the community before we start the budget process.	<b>Committee of the Whole Council Meeting (CAFB)</b> <i>Wednesday, June 2, 2021</i> 1:00 – 4:00 pm	An opportunity for Council to set the tone and direction for the budget. Council can discuss important initiatives and set criteria for a potential tax increase.
Introduction of the capital budget and the General Operating budget including Spending Packages for Council's discussion. (1 <sup>st</sup> budget meeting)	<b>Committee of the Whole Council Meeting (CAFB)</b> <i>Wednesday, October 20, 2021</i> 1:00 – 5:00 pm	A preliminary property tax impact will be presented for Council's consideration. Departments will be on hand to answer questions.
Introduction of utility fund operating and capital budgets including spending packages. Follow-up and refinement of the general operating and capital budgets. (2 <sup>nd</sup> budget meeting)	<b>Committee of the Whole Council Meeting (CAFB)</b> <i>Monday, October 25, 2021</i> 1:00 – 5:00 pm	Preliminary user rates and fees will be presented for Council's consideration discussion. Departments will be on hand to answer questions.
Council discussion on follow-ups or additional information affecting the operating and/or capital budgets of the organization before the Community Budget Consultation. (3 <sup>rd</sup> budget meeting)	<b>Committee of the Whole Council Meeting (CAFB)</b> <i>Wednesday, October 27, 2021</i> 1:00 – 5:00 pm	Update provided on capital budgets, general operating budget, and spending packages. Departments will be on hand to answer questions.
<b>Community Budget Consultation.</b>	<b>Regular Council</b> <i>Monday, November 15, 2021</i>	To inform the public about the District's provisional operating and capital budgets and to receive feedback.
Council discussion of District's Financial Plan. (Two days have been set aside for discussion before finalizing the Financial Plan)	<b>Committee of the Whole Council Meeting (CAFB)</b> <i>Wednesday, December 1 and Thursday, December 2, 2021</i> 1:00 – 5:00 pm	Discussion over two days of input from public consultation and refining the budget to meet Council's goals.
First three readings of 2022 – 2026 Financial Plan Bylaw.	<b>Regular Council Meeting</b> <i>December 20, 2021</i>	First three readings given to Financial Plan Bylaw.
Adoption of 2022 – 2026 Financial Plan Bylaw.	<b>Regular Council Meeting</b> <i>January 4, 2022</i>	Financial Plan Bylaw adopted.



## STAFF REPORT

**To:** Chief Administrative Officer **Date:** June 2, 2021  
**From:** Kerri Onken, Deputy Treasurer/Collector  
**Subject:** Preliminary 2022 Budget Status and Direction from Council

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### Recommendation

This report is to provide Council preliminary budget information that might influence the 2022 budget discussions. No staff recommendation accompanies this report. However, District staff encourage Council to provide direction and criteria to aid in the preparation of the 2022 budget.

### Purpose

The purpose of this report is to provide Council with updates on known inflationary or service level changes and other factors that could potentially have a major impact on the budget, along with any department challenges that might influence the 2022 budget discussions. This is also an opportunity for Council to provide direction to District staff as they continue to prepare their 2022 budget requests for consideration. Direction could include asking staff to review specific services the District provides, to review specific fees the District charges and/or providing staff with a target property tax increase.

### Background

Prior to the first budget meeting with the District Council in October, District staff will spend several months preparing their budget requests. This preparation will include:

- Updating the 2022 budget with known impacts (potential wage increases, service level changes, etc.).
- Having each supervisor and manager review their area of responsibility to identify other factors that could have an impact on the budget.
- Having each department director, along with Finance staff, review each program/project budget request with the respective supervisor/manager.
- Having the Senior Management team, along with Finance staff, review each department budget with the respective director.

Any direction the District Council can provide early will aid District staff in preparing their budget requests and will also ensure Council is provided with the information they require during their budget deliberations.

Departments will be reviewing the programs and service levels provided in 2021 and determining the costs required to deliver the same levels of service in 2022 while paying attention to how COVID-19 could impact these programs.

## Discussion and Analysis

### General Operating Fund

Departments will complete the detailed review of their budgets over the summer. In general, District staff prepare their budget requests based on the assumption that they are to provide the same level of service as they have in the prior year. Staff may identify efficiencies that will allow them to deliver the same level of service for a reduced cost and these budget reductions can be redirected to other programs and services experiencing budget pressures or they can be used to reduce the department's overall 2022 budget request. Unless directed to by Council, changes in service levels are not usually considered by District staff.

Staff's review of the 2022 budget cycle is under way and currently we are aware of a number of issues that will impact the budget. For example;

- There is an estimate of \$774,000 for increases to staff wages. This is to cover contractual increases, service step increases, CPI increases and an estimate for the CUPE contractual settlement as the contract term ended in 2020.
- Based on the five-year forecast provided last year, the RCMP contract is projected to increase by \$270,000 to provide the same level of service.
- Two large vehicle replacements (fire apparatus and sweeper) are entering the fleet along with a few smaller ones which have budget impacts. In order to provide for the replacement and ongoing operating and maintenance costs of these vehicles, the general operating fund budget must be increased by \$106,500.
- During the 2021 budget discussions, Council approved funding \$140,000 of services from accumulative surplus to lower the impact on property taxes. This appropriation has been reversed and a property tax increase is required to maintain this funding.

Attachment A summarizes known budget impacts to date which total \$1,238,654 and represents an approximate 3.36% increase in property taxes. It should be noted that departments have not yet completed their budget reviews for inflationary pressures and any potential budget savings nor have they reviewed their fees and charges for potential additional, or new sources, of revenue.

Recent increases to construction materials, disruption in supply chain and the current value of the Canadian dollar have increased the cost of some purchases. The most noticeable difference is the cost of materials for capital projects, reducing reserve balances and requiring staff to consider deferring or cancelling future projects.

There are some positive impacts for 2022; the final 2021 new construction revenue from property taxation was \$36,000 over the 2021 estimate. For 2022, this additional revenue is being applied to reduce the overall 2022 property tax increase.

Building development in Mission remains steady with the expectation of meeting the 2021 budget target. Depending on when these developments and building projects commence, we may see a favourable impact in the new construction revenue from property taxation for 2022. The current indicators are projecting that development activities will remain at current levels through 2022.

There are still many unknown potential budget impacts staff are watching. Attachment B lists the potential issues that could have an impact on the 2022 budget.

The transit budget is expecting to decrease from the 2021 level. This is due in part to newer, lower cost, buses in the fleet and the fact that Mission's cost share is slightly lower. The impact of the pandemic on ridership remains an unknown and could impact the final budget estimates significantly. BC Transit will be providing a 3-year budget in late September early October.

For the 2022 budget, a 1% increase will generate approximately \$368,950 in property tax revenue. Based on an average home in Mission, with a 2021 assessed value, of \$754,900, a 1% increase in property taxes will increase their 2022 municipal tax levy by approximately \$21.92. While it is very early to predict the Vancouver CPI for 2021, an estimate of 2% is being used for budget purposes.

## **Capital Plans**

District staff are conducting a detailed review of the entire capital program. The District is seeing some significant cost increases and continued pressure to expand its infrastructure to accommodate growth. Prior to the budget deliberations in the fall, District staff plan to bring a comprehensive report to Council that will consider whether additional resources should be committed to the capital plan or whether projects can be deferred or cancelled. The projects in the current capital plan, as well as those in the unfunded capital list will need to be prioritized to ensure those projects deemed most necessary are completed as required.

The results of the Transportation Master Plan that will be completed this year, is also expected to impact both the operating and capital budgets within the General Fund. Master Plans for Water, Sewer and Drainage are also expecting to be completed this year and expect to impact their respective operating and capital budgets.

## **Water Fund**

The Water Operating Fund is currently looking at inflationary pressures in several areas. It is estimated that a 2% increase in budgeted costs is required to maintain existing service levels for the local water system. The first draft of the 2022 Regional Water Operating budget is expected in late August. In addition, results of the Water Master Plan that will be completed this year, is expected to impact both the operating and capital budgets within the Water Fund.

To fund a 2% increase in budgeted operating costs would require a flat-rate water user fee to increase estimated at 1% or approximately \$5.10 per year and an equivalent 1% increase to the residential meter water rate of \$0.01 per cubic meter of water.

## **Sewer Fund**

The Sewer Operating Fund has challenges from three main sources, over and above the 2% preliminary inflation estimate to maintain existing services, that will impact the budget over the next ten years.

1. The Fraser River Sewer Crossing Budget Amendment and Loan Authorization Bylaw report from April 6, 2021 regular Council meeting outline the projected cost to complete the project and the potential to fund a portion of the cost with debt of between \$12.5 million and \$23.5 million. Servicing cost could range from \$345,000 per year to \$1.24 million per year potentially increasing the sewer rates from 6.48% to 23.42% (the equivalent of 0.93% to 3.36% property tax increase) based on current Municipal Finance Authority borrowing rates.
2. The JAMES Waste Water Treatment Plant Upgrades outlined in the Regional Sewer DCC Plan includes costs for seismic and flood proofing starting in 2030 of \$233 million, with Mission's share estimated to be \$48.5 million. 49% of this project is funded from Development Cost Charges and 51% is funded from the Sewer Capital Reserve Fund. Without additional contributions this project would put the Sewer Capital Reserve Fund in an estimated \$23 million deficit by 2032. Staff are evaluating options which could include a recommendation to phase in a 20% increase to user fees to accommodate this project. The first draft of the 2022 Regional Sewer Operating budget is expected in late August.

3. Results of the Sewer Master Plan that will be completed this year, is expected to impact both the operating and capital budgets within the Sewer Fund.

There are several funding options staff will be presenting for Council's consideration in October, 2021 that will impact the sewer user fees. The following chart shows the impacts based on differing user fee increases.

Sewer User Fee Increase	Impact on Flat-Rate Customers	Impact on Metered Customers
1%	\$4.64 / year	\$0.01 / cubic meter
5%	\$23.20 / year	\$0.06 / cubic meter
10%	\$46.40 / year	\$0.12 / cubic meter
15%	\$69.60 / year	\$0.18 / cubic meter
20%	\$92.80 / year	\$0.23 / cubic meter
25%	\$116.00 / year	\$0.29 / cubic meter

### **Solid Waste Fund**

The Solid Waste operations experienced a deficit in 2020 as a result of a recalculation of the landfill post-closure liability identified in the Design and Operating Study by GHD Consulting completed at the beginning of this year. Based on the study and to comply with the Public Sector Accounting Board guidelines, the District was required to record a liability associated with the landfill closure and post-closure activities that exceed the 2020 budget by \$2.6 million.

The results of the design and operating study by GHD Consultants are showing much higher costs associated with the closure and post-closure activities due to revised environmental regulation and some projects needing to be advanced. The District's 50-year capital plan went from \$27 million to \$50 million. The amount required over the next five years to be reserved for future landfill closure and post-closure costs is over \$8 million. An increase in the landfill tipping fees and/or curbside collection fees may be necessary to ensure the refuse reserve is not depleted and that the Solid Waste operations will not incur a deficit.

Staff have been studying the report and have been in discussions with the consultant to clarify certain assumptions used in calculating the life span of the landfill and the timing of capital projects. Preliminary estimates have the life span extending 11 years (closure from 2044 to 2055). The design and scope of a few projects are also being reviewed and could reduce the estimate required to be transferred to the Post Closure liability. The Manager of Environmental Services will bring back a report outlining the results and providing options for Council's consideration in late summer or early fall.

In the Solid Waste Fund there are three main streams of revenue. Landfill disposal fees generates 33% of the revenue. A 1% increase in tipping fees could generate an estimated \$20,000, however, higher costs could result in lower product volume at the landfill. Curbside collection fees for garbage generate 17% of the total revenue. A 1% increase in flat-rate refuse fees would generate an estimated \$10,800 and increase the annual fee by \$1.03. Curbside collection of recycling and compost generate 35% of the total revenue and a 1% increase in the flat-rate fees would generate an estimated \$22,500 and increase the annual fee by \$1.84.



## **Drainage Fund**

The Drainage operations budget is expected to increase by an estimated 12.68% as Council previously approved an increase to the transfer to the Drainage Capital Reserve Fund by \$1 million phased in over four years, from 2020 to 2023. The \$250,000 incremental increase in 2022 represents approximately 10.38% of the total increase. At 12.68%, the impact would result in an approximate \$18.71 increase to the average assessed home in Mission. Results of the Drainage Master Plan that will be completed this year, is expected to impact both the operating and capital budgets within the Drainage Fund.

## **Equipment Fund**

Preliminary indications from the equipment operations in 2021 are showing expenses related to the fleet remaining within budget. Costs associated with insurance and fuel are anticipated to remain fairly constant with only moderate increases over 2021. Parts and supplies will continue to fluctuate with the Canadian dollar. Overall, the equipment operation is projecting a modest surplus if conditions remain the same.

Equipment rates are being reviewed and proposed adjustments to the 2022 rates will be presented to Council for consideration to address the projected deficit in the Equipment Replacement Reserve Fund expected by 2033. The life cycle and condition of the vehicles are being considered while reviewing the Fleet Capital Budget and adjustments are being made to extend the life of the fleet, thereby; maximizing the useful life of the equipment.

Staff continue to review how the effects of COVID-19 are impacting the way we do business and any additional costs associated with changes to our operations. Some anticipated headwinds for 2022 include higher vehicle prices due to tariffs in effect or delays in manufacturing due to pent up demand from plant shut-downs.

## **Forestry Enterprise**

The Forestry Department has indicated that even though it is still early in the year, Forestry sales in 2021 are on track to be significantly higher than 2020, primarily due to the record prices for lumber. Net profit for 2021 will be dependent on stumpage costs to the Province, which are rising fast this year due to the strong lumber markets; however, it is expected that the net profit should exceed the budget estimate for 2021.

The outlook for 2022 assumes that lumber prices will fall from the record highs and we don't expect to see the same level of revenue/profits as we will likely see in 2021. Current projections show that 2022 will show a surplus.

## **Council Goals/Objectives**

This report addresses the three specific goals under Council's strategic focus area of Secure Finances, Assets and Infrastructure, and various goals under the strategic focus area of Organizational Excellence.

## **Financial Implications**

There are no financial implications directly associated with this report. Reports prepared for budget discussions starting in October will provide detailed information of any financial implications.

## **Communication**

Initial public consultation on the 2022 budget will begin this summer with a Citizen Satisfaction

Survey. The Manager of Communication has a separate report coming for Council's consideration. During budget meetings in October, a report summarizing the survey results will be presented.

The budget meetings starting in October are open to the public and there is an opportunity to comment or ask questions about the budget on the District's website.

### **Summary and Conclusion**

This report provides Council with updates on known inflationary or service level changes and other factors that could potentially have a major impact on the budget, along with any department challenges that might influence the 2022 budget discussions. This is also an opportunity for Council provide direction to District staff as they prepare their 2022 budget requests for consideration.

Departments will complete the detailed review of their budgets over the summer. In general, District staff prepare their budget requests based on the assumption that the District will provide the same level of service as it has in the prior year. Any budget efficiencies found can be redirected to programs or services experiencing budget pressures or to reducing the department's overall 2022 budget requests. Unless directed to by Council, changes in service levels are not usually considered by District staff.

Staff's review of the 2022 budget cycle is under way and currently we are aware of a number of issues that will impact the District's budget and are summarized in Attachment A. These known impacts to date total \$1,238,654 which represents an approximate 3.36% increase in property taxes. Attachment B lists the potential issues that could have a significant impact on the 2022 budget.

For the 2022 budget, a 1% increase will generate approximately \$368,950 in property tax revenue. Based on the average home in Mission, with a 2021 assessed value of \$754,900, a 1% increase in property taxes will increase their tax levy by approximately \$21.92. While it is very early to predict the Vancouver CPI for 2021, an estimate of 2.0% is used for budget purposes.

**Report Prepared by:** Kerri Onken, Deputy Treasurer/Collector

**Reviewed by:** Doug Stewart, Director of Finance

**Approved for Inclusion:** Mike Younie, Chief Administrative Officer

### **Attachments**

Attachment A: 2022 Preliminary General Operating Fund Budget Summary

Attachment B: 2022 Unknowns with Potential Core Budget Impacts

## Attachment A

### General Operating Fund Budget Summary

	Budget Dollars	Potential Tax Impact	
<b>Revenue Increases (-) or Decreases (+)</b>			
New construction/development revenue estimate (NCR)	-400,000	-1.09%	<i>Estimated for 2022 tax roll, BCA update expected late November</i>
New construction/development revenue estimate (NCR)	-36,888	-0.10%	<i>Additional Tax Revenue from 2020 tax build</i>
Various fees, charges and revenues	-6,063	-0.02%	
Remove Forestry Reserve funding towards Tourism	50,000	0.14%	<i>\$50,000 per year for 4 years</i>
<b>Total Revenue Increases over Prior Year</b>	<b>\$ -392,951</b>	<b>-1.07%</b>	
<b>Expenditure/Transfer to Reserve Changes</b>			
Net staffing related items	773,488	2.10%	<i>Contractual and step increases</i>
RCMP contract and integrated police services	269,984	0.73%	<i>Estimate increase based on 5 year forecast provided</i>
Operating & replacement costs for previous years equipment purchases	106,449	0.29%	<i>Revised operating costs for purchases of Fire Apparatus, Sweeper &amp; others</i>
Increase in insurance premiums	66,142	0.18%	<i>Online security</i>
Operational expenditures associated with capital projects	27,500	0.07%	<i>Based on general capital plan</i>
Incremental increase in transfer to reserves	25,346	0.07%	<i>Annual increment of 3% to reserves</i>
Increase for equipment rates at 1%	21,256	0.06%	
Westcoast Express Train services/#701 Mission City Bus estimate	15,562	0.04%	<i>Contractual increase for CPI estimate only</i>
Retirement Pay and Post Retirement Costs	15,000	0.04%	<i>Required under Public Sector Accounting Standards</i>
Council indemnity	3,736	0.01%	<i>As set out in Policy ADM.06(C) per RC 18/239</i>
Increase Council Grants for Community for CPI	1,903	0.01%	<i>As set out by recommendations - RC17/009 &amp; RC17/637</i>
FRHP Caretaker Contract increase	1,000	0.00%	<i>Contract renewed 2020</i>
Removal of additional emergency support hours as contract ends	-30,000	-0.08%	<i>Previously only approved until December 31, 2021</i>
<b>Total Expenditure Increases over Prior Year</b>	<b>\$ 1,297,366</b>	<b>3.52%</b>	
<b>Subtotal - To Maintain Existing Services</b>	<b>\$ 904,415</b>	<b>2.45%</b>	
<b>Budget Increases Approved by Council for New Initiatives or Increasing Service Levels</b>			
Remove one year (2021) installment from Surplus to temporarily reduce taxes	140,000	0.38%	
Silverdale Planning Engineer	72,000	0.20%	<i>RC20/375 July 20, 2020 report</i>
Youth Programs	66,000	0.18%	<i>RC21/141 April 6, 2021 report</i>
Seniors Centre Programming & Operations	46,239	0.13%	<i>Costs phased in 2/3 in 2021 and 1/3 in 2022</i>
Budget impacts from Closed council meeting	10,000	0.03%	<i>C2021/077 May 17, 2021</i>
<b>Subtotal of New Initiatives or Increased Service Levels</b>	<b>\$ 334,239</b>	<b>0.91%</b>	
<b>Current status of General Operating Fund Budget as at June 2, 2021</b>	<b>\$ 1,238,654</b>	<b>3.36%</b>	

**2022 Vancouver CPI Budget Estimate = 2.0%**

**Estimated \$ Impact on Average Tax Notice - using average home value of \$754,900 (2021)**

**Current Status**

**\$73.60**

## ATTACHMENT B

## 2022 Unknowns with Potential Core Budget Impacts

Strategic Focus Areas	Unknown Projects with Budget Impacts
Great liveable complete community	Transit ridership estimates for 2022 ( <i>expenditures expected to drop</i> )
	Revised Secondary Dwelling Unit program
Safe community	Collective bargaining between the federal Treasury Board and National Police Federation for RCMP wages
Secure finances, assets and infrastructure	Equipment rates review and rates for new vehicle purchase
	Building starts and development activity in 2021
	Increase transfer to general capital reserve
	Fees and Charges review
	Funding future capital infrastructure
	Business Licence review
Various	Service Level Spending Packages (to be presented in October)
	CUPE collective bargaining impacts as contract expired Dec 31, 2020
	COVID-19 Pandemic - long-term effects on budget



## STAFF REPORT

**To:** Chief Administrative Officer **Date:** June 2, 2021  
**From:** Allen Xu, Manager of Engineering Planning and Assets  
**Subject:** **Removal of Water and Sewer Declining Block Rate Structure in Bylaw 2197-1990 and Bylaw 1922-1989**

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## Recommendations

1. That Council support the concept of removing water and sewer declining block rate structures for Industrial /Commercial/ /Institutional and Multi-Unit Residential customers; and
2. That a review of current water and sewer rate structures be conducted and recommendations for a new water and sewer rate structure, communications plan and implementation plan be brought back at a future meeting.

## Executive Summary

The District uses a water and sewer utility rate structure that is made up of a minimum quarterly meter charge and a volumetric charge that is calculated based on total water consumption volume and a declining block rate structure, for the metered Industrial/Commercial/Institutional (ICI) and Multi-Unit Residential customers. Compared to the District's current rate for one or two unit residential customers, the declining block rates that are currently used are heavily discounted with the first-tier rate for water being 13% lower than current residential rate and the fifth-tier rate (for greater than 1,200 cubic meters per quarter) being 56% lower than the current residential rate.

The declining block rate structure was introduced over thirty years ago and since then the community's needs and priorities for water and sewer utilities have evolved. The needs for water conservation and efficient use and to provide water sustainably for generations to come have become increasingly important, especially since the mid-2000s due to the imminent need to expand water supply capacity and associated significant capital investments.

With a declining block rate structure, rates decrease as more water is consumed and there is little or no incentive for non-residential water customers to implement water conservation measures or use water efficiently. The decreasing rates does not send a correct pricing signal to the customers to reduce or eliminate wasteful water use practices.

Research by District staff has shown that the majority of municipalities in the Lower Mainland area utilize either a uniform rate or a fixed minimum charge plus a uniform rate structure. Only the District and the City of New Westminster are still using a declining block rate structure for water and sewer utilities. It is apparent that the declining block rate structure is no longer the best practice for municipal utility pricing and changing it should be considered.

2020 Water Efficiency Plan Update for the Abbotsford Mission Water and Sewer Commission (AMWSC) sets out specific minimum targets for the District to achieve a consumption reduction of 0.35% year-over-year from 2020 to 2030. Besides programs such as universal metering which is effective yet can be capital intensive, the restructure of utility rates, such as removal of declining block rates, requires low to no capital investments from the District yet is expected to

achieve a meaningful reduction of water consumption. The British Columbia Water Conservation Guide concluded, in 2013, that conservation-oriented pricing structure is an inexpensive yet very effective and enforceable water conservation tool that will drive user behavioral change in water consumption.

Staff recommend Council support the concept of removing the water and sewer declining block rate structure and direct staff to conduct a detailed review to determine the best water and sewer rate structure and rates for the Water Rates Bylaw and Sewer User Rates and Charges Bylaw of the District. When conducting the review and analysis, staff will take the following important factors into consideration and also learn from other municipalities' experience, such as the City of Abbotsford which has successfully removed the ICI declining block rates with a uniform rate structure from 2014 to 2016:

- a) Water Conservation and Efficient Use
- b) Full Cost Recovery
- c) Revenue Stability and Predictability
- d) Equity and Affordability
- e) Local Considerations that are unique to the District
- f) Economic Situation during COVID-19

Staff plan to work on the rate review, financial modeling and forecasting of various options and scenarios, develop detailed recommendations and bring a report back to Council at a future meeting.

### **Purpose**

This report presents common water and sewer utility fee structures, summarizes what utility rate structures other municipalities have adopted and outlines, in detail, reasons the elimination of the District's current declining block rates should be considered and supported. The report also outlines factors to consider during rate restructuring and the next steps for the District.

The purpose of the report is to seek Council's support to remove the declining block rate structure and authorize staff to conduct a rate review and bring back recommendations for a rate structure change, communications and implementation plans.

### **Background**

The District currently utilizes a water and sewer utility fee structure that is comprised of a minimum quarterly charge and a consumption-based declining block rate structure, for the metered Industrial/Commercial/Institutional (ICI) and Multi-Unit Residential customer group.

The minimum quarterly user rate for water utility services currently varies from \$121.66 for customers with water meters up to 19 mm to \$439.68 for customers with a 250 mm water meter. The volume-based charges are calculated based on a declining block rate which starts from \$1.1160 per cubic meter for the first 300 cubic meters consumed and decreases to only \$0.5715 for the fifth-tier, for consumptions greater than 1,200 cubic meters per quarter.

The minimum quarterly user rate for sewer services varies from \$110.95 for customers with meters up to 19 mm to \$400.95 for customers with 150 mm meters. The volume-based charge is based on water consumption and calculated based on a declining block rate which starts from \$1.0178 per cubic meter for the first 300 cubic meters consumed and decreases to only \$0.5210 for the fifth-tier, for consumptions greater than 1,200 cubic meters per quarter.

It is believed that the District's declining block rate structures for water and sewer came into effect over thirty years ago. These rate structures were selected, under the economic conditions at that time, as perhaps part of a strategy to attract ICI customers to the District.

The community's needs and priorities for water and sewer utilities have evolved over the last thirty years: the needs for water conservation and efficient use and to provide water sustainably for generations to come have grown significantly, especially since the mid-2000s. In 2013, the Abbotsford Mission Water and Sewer Commission (AMWSC) endorsed the regional Water Efficiency Plan which set demand reduction targets and developed additional water conservation programs and policies. In 2017, the District updated the Official Community Plan (OCP) that outlined policies with regard to water supply and called for innovative solutions, besides public education and seasonal water restrictions, to further conserve water.

The AMWSC has recently updated the joint Water Efficiency Plan for 2020 to 2030. In this plan, one of the key action plans is to "improve commercial, industrial, institutional and agricultural water use efficiency". The plan acknowledged that there was little incentive for non-residential water customers to implement water audit recommendations due to the declining block rate structure and called for assistance to the non-residential customers, especially those using large volumes of water, to improve and control their consumption.

## **Discussion and Analysis**

### Utility Rate Structure and Best Practices

The following rate structures are typically used by municipalities in North America for water and sewer utility charges:

- a) **Inclining Block Rates:** A tiered fee system includes variable rates that increase as the volume of water consumed increases. Significantly higher rates are typically charged as water consumption increases. Inclining block rate structures are generally considered conservation oriented.
- b) **Declining Block Rates:** Declining block rates are the opposite of inclining block rates. Rates are discounted with bulk or large-volume water usage.
- c) **Uniform Rates:** A simple rate structure that charges a constant unit rate that does not vary based on water consumption. This rate structure can serve the purposes of encouraging water conservation as users will pay more for more water used. However, it is not as effective a pricing model, for conservation purposes, as the inclining block rate structure.
- d) **Seasonal Rates:** A volumetric based rate structure where water rates are higher during peak periods such as summer. A seasonal rate can help reduce water demand during peak/high demand periods and help with water conservation. For example, the District of Tofino charges a higher water rate (38% higher) to their commercial group customers during high water demand season (April to September).

A summary of water and sewer rate structures that other municipalities in the Lower Mainland utilize for water and sewer utility is attached in Attachment A.

As seen in Attachment A, out of sixteen municipalities that staff have studied, for non-residential customers, only one municipality (New Westminster) applies a declining block rate structure for water and sewer utilities charges. One municipality (Delta) uses the inclining block rate structure for its water supply. The majority of the sixteen municipalities (14 out of 16) utilize either a uniform rate or a fixed minimum charge plus a uniform rate, which clearly is the best practice and rate model that have been recognized and adopted by the vast majority of municipalities in the Lower Mainland area.

A multi-part rate structure appears to be the best structure which achieves full-cost recovery while encouraging water conservation. The fixed portion allows utilities to recoup fixed costs and provides predictable revenues and stability while the volumetric portion charges recover variable costs and drives conservation with a price signal.

#### Water Conservation and Water Efficiency Plan

One of the key objectives of water and sewer utility pricing is to ensure that the rate structure sends a positive signal to the customers to use water efficiently and conserve water. There are numerous benefits of water conservation and improvement efficiency which include, but are not limited to, positive benefits to the financial situations (such as avoiding or deferring capital investments), environmental protection (such as reducing chemical and energy use, reducing greenhouse gases and reducing sewage disposal), and the community (such as enhanced resilience to drought and climate change).

With declining block rates, the rate decreases as more water is consumed. While sometimes it is perceived as a quantity discount and can be used as a strategy to encourage economic development, the decreasing rates do not send a correct pricing signal to the customers to reduce and eliminate wasteful water use practices and provides no incentives for customers to conserve water.

US Environmental Protection Agency (EPA) recommends, in its Best Practices for Evaluating Water Conservation and Efficiency, that declining block rates should be eliminated if they still exist in any water system that seeks to improve water use efficiency.

2020 Water Efficiency Plan Update for the AMWSC sets out specific targets for both Mission and Abbotsford to achieve. The plan sets a minimum target of water consumption reduction of 0.35% year-over-year from 2020 to 2030. Although it is believed that the implementation of universal metering will easily surpass this goal for the District, the restructure of utility rates requires low to no capital investments from the District yet can achieve a meaningful reduction of water consumption. As well, the Water Efficiency Plan also targets a 10 to 20% overall reduction in ICI water demand by 2030, it is expected that the elimination of the declining block rates for ICI users will contribute significantly and effectively towards that goal for the District.

#### Preliminary Comparative Analysis of ICI and Multi-Unit Residential Rates

Current declining rate structures for ICI and Multi-Family customers for water and sewer are detailed in the Water Rates Bylaw 2197-1990 and the Sewer user Rates and Charges Bylaw 1922-1989, respectively.

The first tier of the declining block rates for water utility is currently \$1.1160 per cubic meter of water consumed and the rates reduce to \$0.9150 when the amount of water consumed quarterly is greater than 300 cubic meters. There are currently five tiers in the declining block rate structure with the lowest rate for the fifth-tier currently set at \$0.5715. The first-tier rate of \$1.1160 is approximately 13% lower than current rate of \$1.29 for metered one and to unit residential customers of the District. The fifth-tier rate of \$0.5715 is 56% lower than the current metered one and two unit residential customer rate. Details of the current water declining block rates for metered ICI and Multi-Unit Residential customers as established in Water Rates Bylaw 2197-1990 are presented in Table 1:



**Table 1 Quarterly Metered Water User Rates**

<b>Water Consumption (m3)</b>	<b>Water Rate (\$/m3)</b>	<b>Percent Lower than Metered Residential Rate (\$1.29/Cubic Meter, %)</b>	<b>Percent Lower than Industrial/Agricultural Rate for Abbotsford (\$1.14/Cubic Meter, %)</b>
Up to 300	\$1.1160	13%	2%
On next 300	\$0.9150	29%	20%
On next 300	\$0.8291	36%	27%
On next 300	\$0.7438	42%	35%
On balance	\$0.5715	56%	50%

It could be perceived by many as an equity issue when large ICI and Multi-Unit Residential customers continue to get up to a 56% discount on their water consumption charges than single/double unit residential customers. It is also questionable whether it is still an effective and necessary tool to use a declining block rate structure that is up to 50% cheaper than our neighbouring municipalities.

As required by the Sewer User Rates and Charges Bylaw 1922-1989, the District applies a similar declining block rate for ICI and Multi-Unit Residential customers that varies from \$1.0178 for the first tier to \$0.5210 for the fifth (and highest) tier after 1,200 cubic meters of water consumption. The sewer volume is calculated based on 100% of the water consumed. Currently the District applies a rate of \$1.17 per cubic meter for one and two unit residential customers.

Similar to water rates, the lowest rate in the declining block for sewer is 55% lower than the rates that District charges to one or two unit residential customers and 46% than Abbotsford's current sewer rate for its industrial and agricultural customers.

#### Preliminary Analysis of ICI and Multi-Unit Customer Consumption

Water consumption by metered ICI and Multi-Unit Residential customers in the District accounts for approximately 16% of total annual consumption (2018 Water Efficiency Plan). If a 10 to 20% reduction can be achieved by removing the declining block rate structure and drive changing of water use habits and investment in water conservation processes and upgrades this, in theory, can translate into 1.6 to 3.2% reduction in the District's total water demand. This finding confirms the British Columbia Water Conservation Guide (2013) statements that conservation-oriented pricing structure is an inexpensive yet very effective and enforceable water conservation tool that will drive user behavioral change in water consumption.

The District currently has approximately 453 customers that are under the ICI and Multi-Unit Residential category. There are only 15-20 customers that consistently consume water beyond the fifth-tier threshold (1200 cubic meters) on a quarterly basis. It is therefore expected that impacts to the majority of the customers in the ICI/Multi-Unit category can be effectively managed by a carefully designed and gradually implemented new rate structure. Staff plan to engage the large consumption customers while developing and implementing a new rate structure to assist them by designing and implementing programs such as water audits and credits or rebates program for water saving process and infrastructure upgrades.

#### City of Abbotsford's Experience

Prior to 2013, the City of Abbotsford had a three-tier declining block water and sewer rate structure for Industrial, Commercial, Institutional and Agriculture customers whereas the

residential customers had uniform rates. The range of water consumption volume for tier 1, tier 2 and tier 3 rates were 0 to 10,000, 10,000 to 100,000 and greater than 100,000 cubic meters, respectively. For the water utility, tier 1, tier 2 and tier 3 rates for non-residential customers were set at 80%, 74% and 60% of the residential customer rate in 2013. For the sewer utility, tier 1, tier 2 and tier 3 rates for non-residential customers were set at 74%, 68% and 58% of the residential customer rate in 2013.

In 2013 Abbotsford's Council approved a plan to eliminate the declining block rate structures for both water and sewer utilities and to set the new rates of non-residential customer rates more in-line with residential rates.

Abbotsford implemented changes of structure and rates in a phased approach over three years from 2014 to 2016. In the first phase, the water rates for the Commercial and Institutional group and the Industrial and Agricultural group were both set at 80% of the residential rate. In the second phase, the rates for each group were brought up to 90% and 85% of the residential rate, respectively. In the final phase, the uniform rates for Commercial and Institutional customers were equal to 100% of the Residential rates at the end of the third year and the Industrial and Agricultural rates were equal to 90% of the Residential rates. Similarly, the sewer rates for the Commercial and Institutional group and Industrial and Agricultural group were gradually increased from 75% and 70% in the first year to 100% and 90% respectively in the third year.

#### Key Considerations in Rates and Structure Review

Besides the promotion of water conservation and efficient use, staff will consider the following key factors while reviewing the current declining block rate structure and determining a new proposed rate structure and rates for Council's consideration.

- a) Full Cost Recovery - One of the principles for utility pricing is that the water/sewer rates will reflect the full cost of providing the service which captures the actual operating and maintenance costs, debt service on capital investments, depreciation of equipment and price inflation. It should be noted that the review of the utility rate structure is not intended to increase revenue from utilities.
- b) Revenue Stability and Predictability – the rates and rate structure should be set to provide for utility revenue stability and simplify demand and revenue forecasting. One way to achieve this is to find a balance between a fixed base charge and volumetric based charges which can be dependent upon many factors such as utility size, user profiles and demand patterns.
- c) Equity and Affordability – pricing equity is also an important consideration in utility pricing. Local governments however are responsible to ensure that the service is provided efficiently so that the rates are affordable. Although typically affordability (the ability to pay) is addressed outside of the utility charges mechanism by rebates programs or by income assistance programs offered by other levels of government.
- d) Local Considerations - there may be other factors, such as local economic situations, that are unique to the District and that will need to be taken into consideration when determining utility rates and structures to ensure that the final implementation of rates and structure are feasible and appropriate for the District. Local economic situations during COVID-19 may also need to be considered.

It is recognized that the right rate structure today may not be appropriate in the future. Water rate structures should be reviewed regularly to ensure key objectives such as the appropriate level of operating, maintenance and capital cost recovery, equity and affordability are

considered. Utility fee structures will need to be reviewed and recalibrated to respond to changing conditions.

### Next Steps

With Council's endorsement, staff plan to perform the following tasks in the coming months.

- a) Review the current rates and structure for both water and sewer ICI and Multi-Unit Residential groups which will include, but not be limited to, water consumption, demand modelling, and various scenario comparisons to understand the impact to users, to operations, maintenance, and capital programs and to revenues;
- b) Develop an implementation plan for the any new proposed rate and rate structures. The plan will look at timelines, phasing of the rate and structure, cost sharing or rebates programs that can be developed to help with customers to change water use habits and perform process improvements or facility water efficient retrofits/upgrades.
- c) Develop a communications plan to the public and affected customers for the removal of current rates and the implementation of new rates and rate structures.
- d) Prepare staff report(s) and make recommendations to Council at future meetings.

### **Council Goals/Objectives**

The recommendations in this report will primarily contribute to the following Council's Strategic Goals:

- a) Secure Finance, Assets and Infrastructure: the recommendations will ensure the long-term sustainability of utility as well as funding be available for plan, manage and maintain public water and sewer infrastructure; and
- b) Organizational Excellence: the recommended actions of this report is a continuous improvement effort that aims to achieve better water conservation, utility pricing and billing as well as to provide more effective and efficient services for water and sewer to the public.

### **Financial Implications**

There are no immediate financial implications associated with the recommendations of this report. Potential financial implications for implementation of future rate structures will be analyzed and brought back to Council once the rate structure review is completed.

### **Communication**

The recommended actions will be performed by a team comprised of Engineering & Public Works, Finance Department and Economic Development Department staff.

Staff plan to work with Corporate Communications to engage ICI and Multi-Unit residential customers during the rate structure review process.

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<b>Reviewed by:</b>	Tracy Kyle, Director of Engineering and Public Works
<b>Reviewed by:</b>	Doug Stewart, Director of Finance
<b>Approved for Inclusion:</b>	Mike Younie, Chief Administrative Officer

**Attachment**

Attachment A: Water Utility Rates and Structure for Municipalities in Lower Mainland

### Appendix A: Water and Sewer Rate Structure for Municipalities in Lower Mainland Area

<b>Municipality</b>	<b>Water Rate Structure (Metered)</b>	<b>Sewer Rate Structure (Metered)</b>
<b>Abbotsford</b>	Residential/Commercial/Institutional or Industrial/Agricultural groups: uniform rate	Residential/Commercial/Institutional or Industrial/Agricultural groups: uniform rate
<b>Burnaby</b>	All metered users: minimum charge + uniform rate	All metered users: uniform rate
<b>Chilliwack</b>	All metered users: minimum charge +uniform Rate	All metered users: minimum charge + uniform rate
<b>Coquitlam</b>	All non-residential metered users including ICI and agricultural users: base charge +uniform rate	all non-residential metered users including ICI an agricultural user: fix charge +Uniform Rate
<b>Delta</b>	All metered users in the water Area: inclining block rates + minimum charge	Flat Rate
<b>Langley Township</b>	Base rate + uniform rate	Base rate + uniform rate
<b>Maple Ridge</b>	All customers: base rate +uniform rate	Industrial users: uniform rate
<b>New Westminster</b>	Commercial and Industrial users: base rate +declining block rate	Declining block rate, based on 80% of water volume consumed.
<b>North Vancouver (City)</b>	Commercial/Industrial/Hospital/Schools: minimum charge + uniform Rate varies by season	Commercial/Industrial/Hospital/Schools: minimum charge + uniform Rate varies by season
<b>Pitt Meadows</b>	All users: base rate +uniform rate	Flat Rate or base rate + uniform rate
<b>Port Coquitlam</b>	All metered customers: minimum charge +declining block rate	All metered customers: minimum charge + uniform rate (> 1,500 cu.ft.)
<b>Port Moody</b>	All users: base rate +uniform rate	Uniform rate (actual meter reading or 80% of water consumed)
<b>Richmond</b>	ICI, Multi-Family, and Farm users: minimum charge +uniform rate	Uniform rate
<b>Surrey</b>	All users: base rate+uniform rate	ICI users: uniform rate of sewer discharge based on 80% of water consumed.
<b>Vancouver</b>	All users: base rate+uniform rate (seasonal)	All users: uniform rate on 85% of water consumed
<b>West Vancouver</b>	Commercial: base rate +uniform rate	Commercial users: uniform rate+base charge based on 100% of water consumed.

a) This is not an exhaustive list of utility rate structures for all municipalities in the Lower Mainland.

b) Information was collection from publicly domain and is used for the District staff's analysis only. The District does not guarantee its completeness or accuracy.