

Appendix B



Committee of the Whole Report For the Meeting of November 24, 2022

To: Committee of the Whole **Date:** November 14, 2022
From: Jo-Ann O'Connor, Deputy Director of Finance
Subject: 2023 Utility Rates

RECOMMENDATION

That Council:

1. Direct staff to bring forward bylaws outlining water utility, sewer utility, stormwater utility, and solid waste user fee increases for 2023 to the December 1, 2022, daytime Council meeting for consideration of first, second and third readings.

EXECUTIVE SUMMARY

The City's water, sewer, and stormwater utilities in addition to solid waste and recycling programs are self-funded entities. The water and sewer utilities and solid waste and recycling programs are self-sustaining through the revenue provided by user fees and utilize the approach of paying based on consumption. The majority of the stormwater utility is funded through user fees, though a portion is funded through property taxes intended to cover the costs to maintain the City's rights-of-way. The revenue collected from the stormwater program is based on property attributes such as impervious surface, thus connecting the impact a property has on the City's stormwater system.

Each year, staff review the City's Utility operations, maintenance and capital programs to determine the revenue needed to support a sustainable utility program. This process results in a draft budget that is developed based on direction of various master plans, condition assessments, and strategies.

The major cost drivers for the budget and rate changes are the costs imposed upon the City by the Capital Regional District (CRD) for the purchase of water and solid waste tipping fees, contractual obligations for salary and benefit increases, and inflationary costs to maintain the operating and capital assets programs. For 2023, the proposed total utility user fee revenue is about \$42.4 million which represents about 15% of the City's total overall revenue. The annual revenue requirements to sustain these utilities are translated into rates which are then billed to the ratepayers. The proposed increases to the average residential customer is \$28 for water, \$17 for sewer and \$13 for each solid waste and stormwater; and the proposed increase to the typical small business customer is \$28 for water, \$17 for sewer and \$31 for stormwater.

The City of Victoria property owners pay separate utility and property tax bills. The water, sewer and solid waste and recycling bills are issued every four months and the stormwater utility bills are issued in October.

User fees are reviewed annually to ensure there is sufficient funding for the City's utilities and are approved by Council prior to the end of each year to take effect on January 1 of the following year.

PURPOSE

The purpose of this report is to outline the 2023 utility rate requirements and impacts for Council's review and to seek direction for staff to bring forward the water, sewer, stormwater and solid waste and recycling fees for adoption effective January 1, 2023.

BACKGROUND

Utility rates are set to collect the revenue required to fund the costs of providing the specific utility services. Major costs include the purchase of services and bulk water from the Capital Regional District (CRD), contractual obligations such as salaries and benefits, capital investment for water, sewer and stormwater distribution systems, and operating costs to maintain the systems.

The budget covers the calendar year (the City's fiscal year), and the revenue and rate calculations are based on the assumption that fee changes will be implemented on January 1, 2023. Therefore, adoption of new utility rates is required prior to the end of 2022 to take effect by January 1, 2023.

ISSUES & ANALYSIS

Average Residential Property

The proposed total overall utility user fees will be approximately \$1,072 an increase of \$71 over 2022, comprised of \$28 for water, \$17 for sewer and a \$13 for each solid waste and stormwater.

The following table summarizes the 2023 proposed rate impacts.

Total Rate Increase	2022		2023		Dollars \$	Percentage %
Water Utility - 80 units	\$	465	\$	493	\$ 28	6.02%
Sewer Utility - 80 units	\$	171	\$	188	\$ 17	9.94%
Solid Waste - 120 litre bin	\$	230	\$	243	\$ 13	5.65%
Stormwater Utility	\$	135	\$	148	\$ 13	9.63%
Estimated Increase	\$	1,001	\$	1,072	\$ 71	7.09%

Typical Small Business Property

The proposed total overall utility user fees will be approximately \$1,132, an increase of \$76 over 2022, comprised of \$28 for water, \$17 for sewer, and \$31 for storm water.

The following table summarizes the 2023 proposed rate impacts.

Total Rate Increase	2022	2023	Dollars \$	Percentage %
Water Utility - 80 units	\$ 465	\$ 493	\$ 28	6.02%
Sewer Utility - 80 units	\$ 171	\$ 188	\$ 17	9.94%
Stormwater Utility	\$ 320	\$ 351	\$ 31	9.69%
Business Licence	\$ 100	\$ 100	\$ -	0.00%
Estimated Increase	\$ 1,056	\$ 1,132	\$ 76	7.20%

Water Utility

Water services for the City of Victoria and the Township of Esquimalt are provided by the City of Victoria Water Utility. The Water Utility is a self-funded program that operates, maintains, and constructs water infrastructure that delivers safe drinking water to the public and provides sufficient pressure and flow for fire protection and compliance with federal and provincial regulations. User fees are the primary source of revenue for this fund. The Water Utility purchases wholesale water from the Capital Regional District (CRD).

The 2023 draft Water Utility budget is \$24.9 million (Appendix A) which is an increase of \$2.1 million or a 9.02% over 2022. The major costs drivers are the CRD bulk water purchase, contractual obligations for salaries and benefits, inflationary pressures on materials, equipment, and capital infrastructure renewal program.

The table below outlines the main cost drivers.

Water Cost Drivers	Dollars \$	Percentage %
Salaries & Benefits	\$ 157,300	0.69%
CRD Water Purchase	\$ 1,117,970	4.89%
Materials & Equipment	\$ 46,760	0.20%
Transfer to Capital	\$ 740,000	3.24%
Total	\$ 2,062,030	9.02%

Sewer Utility

The City of Victoria's Sewer Utility is a self-funded entity that operates, maintains, and constructs the City's sanitary sewer system. The City's portion of the system includes the wastewater collection system of pipes and pumps that convey flows to the CRD system and wastewater treatment facilities. An efficient sanitary sewer system provides a foundation for public health and community well-being. User fees are the primary source of revenue for this fund.

The 2023 draft Sewer Utility budget is \$9.3 million (Appendix B) which is an increase of \$917,370 or a 10.89% over 2022. The major cost driver of the Sewer Utility budget is the investment and inflationary demands related to the management of capital assets, contractual obligations for salaries and benefits and inflationary pressures on materials and equipment.

The table below outlines the main cost drivers.

Sewer Cost Drivers	Dollars \$	Percentage %
Salaries & Benefits	\$ 103,370	1.23%
Materials & Equipment	\$ 99,000	1.18%
Transfer to Capital	\$ 715,000	8.49%
Total	\$ 917,370	10.89%

Stormwater Utility

The City of Victoria's Stormwater Utility is a self-funded entity that operates, maintains, and constructs the City's stormwater system. An efficient stormwater system manages run off to reduce contamination and pollution of waters to minimize impacts to marine life. Stormwater management is required by provincial and environmental regulations. The funding for the majority of this utility's costs is covered by a stormwater user fee. However, a portion representing the cost of City rights-of-way continues to be funded by property taxes.

The 2023 draft Stormwater Utility budget is \$7.9 million (Appendix C) which is an increase of \$568,900 or a 7.74% over 2022. Like the other utilities, the major cost driver of the Stormwater Utility budget is the investment in and inflationary demands related to the management of capital assets. This is followed by the contractual obligations for salaries and benefits and inflationary pressures on materials and equipment.

The table below outlines the main cost drivers.

Stormwater Cost Drivers	Dollars \$	Percentage %
Salaries & Benefits	\$ 131,100	1.78%
Materials & Equipment	\$ 47,800	0.65%
Transfer to Capital	\$ 390,000	5.31%
Total	\$ 568,900	7.74%

Solid Waste and Recycling

The City's solid and organic waste is a self-funded entity that operates and maintains the collection from residential properties every two weeks. This program provides collection and transfer of residential garbage, organic waste, and yard waste from City households. This also includes the maintenance, repairs, and replacement of approximately 27,500 wheeled bins.

The 2023 draft Solid Waste Utility budget is \$3.6 million (Appendix D) which is an increase of \$198,010 or a 5.80% over 2022. The major cost drivers of the Solid Waste and Recycling budget is comprised of the contractual obligations for salaries and benefits, the tipping fees paid to the CRD and inflationary pressures on materials and equipment.

The table below outlines the main cost drivers.

Solid Waste & Recycling Cost Drivers	Dollars \$	Percentage %
Salaries & Benefits	\$ 87,710	2.57%
Tipping Fees	\$ 50,000	1.47%
Materials & Equipment	\$ 60,300	1.77%
Total	\$ 198,010	5.80%

Utilities Capital Program

The draft Capital Utilities budget for 2023 totals over \$20.7 million (Appendix E) in infrastructure investment and is guided by a variety of plans including 20-year asset master plans for water, sewer, and stormwater in addition to condition assessment reports.

A key component of the development of the underground utility capital plans is asset management planning and lifecycle costing. The analysis includes:

- Risk assessment and service delivery
- Condition assessment and remaining design life
- Capacity requirements including future population growth
- Enhance resiliency to meet climate change, tsunami, and seismic hazards
- Reduce rain inflow and infiltration to sewers
- Optimizing energy use

The goal of the capital plans is to maintain existing underground utility infrastructure and upgrade or provide new underground utility infrastructure to meet future community needs.

CONCLUSION

To ensure that the water, sewer and stormwater utilities and the solid waste and recycling program continue to be sustainably self-funded, an overall rate increase of 7.09% for a residential property and a 7.20% increase for a typical small business property is recommended for 2023.

Respectfully submitted,

Jo-Ann O'Connor
Deputy Director of Finance

Susanne Thompson
Deputy City Manager and Chief Financial Officer

Jas Paul
Assistant Director – Engineering

Philip Bellefontaine
Director Engineering and Public Works

Report accepted and recommended by the City Manager

List of Attachments

Appendix A – Water Utility Operating Budget
Appendix B – Sewer Utility Operating Budget
Appendix C – Stormwater Utility Operating Budget
Appendix D – Solid Waste and Recycling Operating Budget

Appendix E – Underground Utilities Capital Budget