



Governance and Priorities Committee Report

For the February 12, 2015 Meeting

To: Governance and Priorities Committee **Date:** February 2, 2015
From: Dwayne Kalynchuk, Director of Engineering and Public Works
Subject: Waterworks Connection Charges

Executive Summary

The purpose of this report is to recommend approval of revisions to waterworks connection charges to ensure full cost recovery for these services.

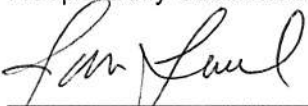
Waterworks connection charges provide funding to install water connections on the city street between the water main and the building plumbing systems and are required for all new development.

The waterworks connection charges are based on a user pay system and are intended to be revenue neutral at the end of each fiscal year. The last increase to these charges was made in March 2005. Based on the most recent review of the actual costs incurred by the City, it was found that connection charges currently do not fully recover costs, thus staff recommend Council revise the bylaw. Costs for many of these services have increased due to various market conditions including increased equipment, material and labour costs.

Recommendations:

- That Council approve Option 1 where the waterworks connection charges for the City of Victoria, which also encompasses the water services for Township of Esquimalt, identified under Schedules A and B - Waterworks Bylaw 07-030, be revised, as per Table 1, herein.
- That an annual review of water connection charges occurs each year, with a report to Council, timed with the annual water utility rate review.

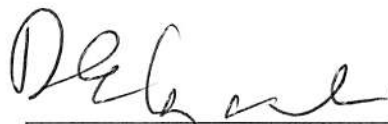
Respectfully submitted,



Jas Paul, Acting Assistant
Director of Underground
Utilities and Facilities



Susanne Thompson
Director of Finance



Dwayne Kalynchuk, P.Eng.
Director
Engineering and Public Works

Report accepted and recommended by the City Manager:

Date:



Feb. 5, 2015

Purpose

The purpose of this report is to recommend approval of revisions to waterworks connection charges to ensure full cost recovery for these services.

Background

Waterworks connection charges provide funding to install water connections on the city street between the water main and the building plumbing systems and are required for all new development.

Water connection charges, which also encompass water services for the Township of Esquimalt, are identified in Waterworks Bylaw No. 07-030. The waterworks connection charges are based on a user pay model and are intended to be revenue neutral at the end of each fiscal year. The last increase to these charges was made in March 2005. Prior to that, costs were increased in July 2001.

To ensure quality control, waterworks connections and related services are installed by City staff. This provides greater assurance that existing infrastructure will be protected and reinstated appropriately, water quality will be maintained and that service disruptions will be minimized. City staff that are responsible for maintenance and operation of the water system are all certified in accordance with the Drinking Water Protection Act.

Work that is completed when new water connections are installed contribute significantly to the renewal of City assets reduces deferred maintenance. This includes replacement of water piping, water meters and underground chambers. Renewal of street surfaces is also incidental to this work as road excavations are re-paved and concrete sidewalks are replaced. Funding shortfalls for water connection charges are covered by water utility capital funds.

Based on the most recent review of actual costs incurred by the City, it was found that current water connection charges in Bylaw No. 07-030 do not fully recover costs. Costs for many of these services have increased due to various market conditions including increased equipment, material and labour costs. While the funding shortfall was found to be significant (\$12,701 in 2012, \$297,800 for 2013 and \$356,800 for 2014), these values are not entirely subsidies to applicants as there are several other factor that have contributed to the shortfall. The review found that current practices do not separate costs for additional works that are over-and-above what is fair to charge applicants. This includes charges for additional infrastructure restoration such as pavement/sidewalk repairs, unforeseen ground conditions and existing utility conflicts.

Most of the water connection fees are currently "fixed fee" charges. These charges were originally determined by reviewing the average actual cost of providing the service. Costs and charges for services can also be administered on an "at cost" basis. *At cost* charges are based on the actual amount expended by the City for labour, equipment and materials, plus any administration charges prescribed in Schedules A and B - Waterworks Bylaw 07-030.

At cost charges are currently applied to the larger sized, complex connections. For services installed *at cost*, staff will review the details of the proposal and prepare a cost estimate. The applicant is then required to pay the estimated cost before work starts. At the conclusion of the work, if the actual cost of the work is less the estimated cost, the City is required to refund the difference. Alternatively, if the actual cost exceeds the estimated cost then the applicant is required to pay the difference to the City. Work that is completed *at cost* is also monitored by staff during construction and appropriate allocation of costs occurs for unforeseen conditions.

Issues & Analysis

A recent review of the actual costs incurred for installing service connections concluded that the fixed fee charges need to be increased. In addition, it was found that considerable variability exists in the costs for most of the larger and complex service connections. This is primarily due to the varying site conditions that are apparent in servicing larger developments. Specifically, in siting and constructing larger service lines and water meter chambers. All of these sites are unique with varying underground conditions, lengths of service installation and restoration of above ground infrastructure. To address these variable conditions and to provide greater equity to customers and developers it is recommended that all services greater in size than 25mm be revised to *at cost* charges.

The review also found that charges for disconnection of old water services were not identified in the bylaw. For developments where an existing water service exists, and a new location is proposed there are costs to the City in disconnecting and capping the old service. A new charge is recommended for these services. A listing of waterworks charges is presented in Table 1 with the proposed revisions recommended for approval.

Table 1 *Current and proposed waterworks connection charges*

Size of Connection or Meter	Number of services (2013 & 2014)	Current Fee	Recommended New Fee
18 mm	29	\$2,900.00	\$4,300.00
25 mm	92	3,480.00	4,500.00
40 mm	11	4,870.00	at cost
50 mm	17	5,800.00	at cost
75 mm	0	8,120.00	at cost
100 mm	11	8,930.00	at cost
150 mm	2	at cost	at cost
200 mm	0	at cost	at cost
For duplexes only, 2-18mm (in the same trench)	8	3,130.00	at cost
For duplexes only, 2-25mm (in the same trench) NEW		-	at cost
Cap water service (12mm to 25mm) NEW		-	1,000.00
Cap water service (40mm and greater) NEW		-	at cost
100 mm fire line	10	7,770.00	at cost
150 mm fire line	10	8,240.00	at cost
200 mm and greater	0	at cost	at cost
New fire hydrants that are installed at the request of an applicant	9	4760.00	at cost

The proposed charges will only have a fixed fee for 18mm and 25mm size services, which covers most standard single-family requirements. All connections 40mm and greater are proposed to be completed *at cost*. This is generally consistent with our neighbouring municipalities. The District of Saanich has a fixed fee for 18mm connections and charges *at cost* for larger sizes. The District of Oak Bay has fixed fees for 18, 25 and 40mm and charges *at cost* for larger sizes.

The recommended new fixed fees for 18mm and 25mm services were developed by reviewing data for recent installations and determining the average actual cost.

Options & Impacts

There are two options available to Council:

1. Revise connection charges.

The revisions to the connection charges as outlined in Table 1 would ensure that full cost recovery is provided for development related works. With the revisions of the larger size connections to *at cost* there will also be greater equity to customers and developers as the variability of their costs will be charged respectively. Water connection charges will also be monitored by staff to ensure that an appropriate allocation of costs occurs for unforeseen conditions and that those charges are tracked.

2. Maintain current connection charges or approve charges lower than proposed.

The impact of maintaining current connection charges would be that all work completed at fixed rates will result in a deficit of funding. The deficit would be balanced by funding from the Water Utility. This option will not result in a user pay model. Water Utility services related to maintenance and capital improvements will be reduced to accommodate the available budget.

Recommendations:

- That Council approve Option 1 where the waterworks connection charges for the City of Victoria, which also encompasses the water services for Township of Esquimalt, identified under Schedules A and B - Waterworks Bylaw 07-030, be revised, as per Table 1, herein.
- That an annual review of water connection charges occurs each year, with a report to Council, timed with the annual water utility rate review.