

CITY OF MOOSE JAW

TO: MEMBERS OF THE BUDGET COMMITTEE

Mayor Tolmie, Chairperson
Councillor Froese
Councillor McMann
Councillor Mitchell

Councillor Swanson
Councillor Warren
Councillor Luning

Please be advised that His Worship, Mayor Tolmie, has called a Budget Committee meeting on **Monday, March 6, 2017** from 5:00 p.m. to 8:30 p.m. in Scoop Lewry Room, in order to deal with the following:

AGENDA

1. Budget Reviews (see attached schedule).
2. Report dated January 25, 2017 from the Financial Services Department, **re: Watermain Funding.**
3. Report dated January 28, 2017 from the Financial Services Department, **re: Utility Rate Review.**
4. Report dated January 27, 2017 from the Financial Services Department, **re: Designation of 2017 Gas Tax Projects.**

Referred Matters:

5. Report (Communication #7) dated January 11, 2017 from the City Manager, **re: Operating and Capital Budget Estimates.** *(Please bring the budget binders distributed with this communication.)*
6. Councillor Mitchell's motion, **re: Water and Sewer Service Connections**
 - "1. *THAT the City of Moose Jaw adopt policy to encourage replacement of lead pipe water service connections which represent a demonstrated risk to the health and safety of water users.*
 2. *THAT the City assumes responsibility for sewer and water service connection replacement costs in the public portion from the water main to the property line and cock valve.*
 3. *THAT lead service connection replacement shall be mandatory for private property owners when considered in conjunction with the replacement of the water main.*

4. *THAT the City declares a policy that water service will not be reconnected to existing lead service lines on private property where the City has replaced lead service line with non-lead lines in the public portion from the water main to the property line and the City shall provide 30 days notice in writing about discontinuance of service to affected property owners through this policy.*
5. *THAT private property owners' cost share for water service connections be set at a fixed rate of \$2,500 with an additional fixed rate of \$500 for optional sewer line replacement completed at the same time as water service connection replacement.*
6. *THAT the existing cost shared formula for funding no-corrode sewer service connections be discontinued in favor of a more general policy for failing sewer connections.*
7. *THAT where water mains are identified for replacement, subject to permission of the owners, the city conduct advanced inspection and assessment of abutting properties to determine the status, condition and potential replacement for existing water and sewer service connections.*
8. *THAT these rates and policies be applied retroactively to the affected abutting properties in Phase 1 of the Cast Iron Water Main replacement project."*

Tabled Matters:

9. Report dated January 19, 2017 from the Financial Services Department, **re: Operating and Capital Budget Approval Process.** *(Please bring report.)*
10. Tabled motion:

"THAT the practice of collecting franchise fees for the water and sewer utilities be discontinued.

be tabled to be considered in conjunction with the water main replacement funding and water utility rates."
11. Report dated February 6, 2017 from the Parks and Recreation Department, **re: Natatorium and Phyllis Dewar Outdoor Pool.**

"THAT the matter of the Natatorium and Phyllis Dewar Outdoor Pool be tabled for consideration of follow-up action."
12. Transit and Parking.
13. Solid Waste Business Plan.

A LIGHT SUPPER WILL BE PROVIDED

Operating & Capital Budget Review Schedule:

Storm Sewers (Capital)

Sanitary Sewer Utility (Capital)

Solid Waste Utility (Capital)

Cast Iron Watermain Funding Report*

Misc/Bk Chgs/Provisions

Waterworks Utility

Includes:

- a) Report on proposed Utility Rates
- b) Designation of 2017 Gas Tax projects
- c) Tabled Matter, re: Collecting franchise fees for the water and sewer utilities be discontinued.

Tabled Items:

All tabled items handled ie. Phyllis Dewar Outdoor Pool
Transit and Parking
Solid Waste Business Plan.

Finalization:

1. Unfunded Capital Budget.
2. Operating & Capital Finalization motion.
3. Receive and File Operating & Capital Budget Approval Process Communication.

Please bring your Budget Binders, both Operating & Capital, and the 2017 Line-by-Line Operating Budget booklet.

- * Councillor Mitchell's motion re: Water and Sewer Service Connections be considered in conjunction with this report.

CITY OF MOOSE JAW

January 25, 2017

TO: Budget Committee
FROM: Financial Services Department
SUBJECT: Watermain Funding

PURPOSE:

The purpose of this report is to provide Budget Committee with an outline of the potential funding options to fund the cast iron watermain replacement project.

BACKGROUND:

In the last Civic Election held October 26, 2016, a referendum vote was taken on the utilization of a Local Improvement Program (LIP) to fund 30% of the capital cost of the project. The referendum question put forward was:

“THAT the City of Moose Jaw’s replacement of water and sewer mains be funded from general City-wide revenues and/or reserve funds, and not from Local Improvement Project Special Assessments.”

The results of the referendum vote confirmed this resolution and City Council subsequently adopted it on November 8, 2016.

The previous planned funding model for the cast iron watermain project was as follows:

Municipal Taxation (6.75%)	\$ 1,537,000
LIP Levy	\$ 1,608,000
Utility	\$ 2,225,000
Utility Savings	\$ 480,000
	<u>\$ 5,850,000</u>

The direction from the referendum and subsequent Council motion effectively eliminated the Local Improvement Levy funding contribution of \$1,608,000.

Subsequent to the referendum vote, City Council has provided the following direction on the program in a motion passed at the January 23, 2017 City Council meeting:

“THAT the scope for the capital and water main replacement program include complete replacement of water mains and accessories, service connection replacement to the property line for lead and no-corrode, as well as connections at end of life; and

THAT the road be resurfaced within the water main replacement budget; and

THAT the budget level remain the same as Phase 1 (inflation adjusted); and

THAT Administration adjust the service connection bylaw to reflect cost recovery and that the ownership be reflected; and

THAT a Public Awareness and Education Campaign be undertaken on lead in water and it be funded from the main replacement budget; and further

THAT information is provided on potential private service connections including lead and other materials."

This motion provided some much needed direction on the watermain replacement program and also indicated the budget would be the same as Phase 1 (inflation adjusted). The 2017 Capital Budget, currently before City Council, has a proposed budget of \$5,850,000 for cast iron watermain replacement.

DISCUSSION:

Phase I & II Program Funding:

In terms of previous funding for Phases I and II, the budgeted amounts for each year were \$5,850,000; however, actual funding in place would have been less than the full budgeted amounts. The City had intended to make this up with the \$2,214,991 in carry forward from previous programs. Once the LIP funding is removed, the following funding exists.

Funding for Phase I of the project was originally submitted at \$2,225,000 and subsequently amended in 2015 to \$5,850,000. Available funding for that program will come from the following sources:

Carry Forward Cast Iron Funding	\$2,214,991
Municipal Taxation (2015-2.25%)	\$ 512,759
Utility Contribution	<u>\$2,225,000</u>
	\$4,952,750

This leaves a remaining amount of \$897,250 that will need to be funded from the Waterworks Reserve which doesn't have any funding available as it is all committed to other projects.

Phase II of the project was approved by City Council in 2016 with a budget of \$5,850,000. Available funding sources for this program were anticipated to be:

Local Improvement Levy	\$1,608,000*
Municipal Taxation (2015& 2016-4.50%)	\$1,092,430
Utility Contribution	\$2,225,000
Utility Savings	<u>\$ 480,000**</u>
	\$5,405,430

* Note: No longer available.

** Note: Not yet materialized.

This leaves a remaining amount of \$444,570 that will need to be funded, as well as the \$1,608,000 from the LIP Levy and \$480,000 from the projected Utility Savings that have not yet materialized. This is an overall shortfall for the 2016 program of \$2,532,570 which will need to come from the Waterworks Reserve which doesn't have any funding available as it is all committed to other projects. The cumulative shortfall in funding for 2015 and 2016 is \$3,429,820.

Phase I of the program is complete and it is anticipated that the budget of \$5,850,000 will be consumed by that phase and any small amount remaining will be carried over to the 2017 program. Phase II of the program has not yet commenced and a Phase III of the program is being requested in 2017.

One potential way to deal with the funding shortfall in 2015 and 2016 is to not carry forward the 2016 budgeted funds and instead, complete Phase II of the project in 2017 with 2017 budgeted funds. This would address the 2015 funding shortfall of \$897,250. As well as provide an additional source of funding \$2,420,180 from the 2016 Budget which can be used to support any of the potential funding options below.

An alternative to not carrying forward the 2016 Budget would be to carry forward that budget and do additional cast iron watermain replacement in 2017. In effect, a doubling of the program could occur. There are significant funding implications to doing this as well as logistical factors of doing that much work at one time.

It would be the recommendation of City Administration to not carry forward the 2016 program funding and utilize the funding set aside from the 2016 program of \$3,317,420 (\$1,092,240 Taxation + \$2,225,000 from Utility) to offset the 2015 shortfall and to utilize the remainder with the chosen funding option.

2017 Cast Iron Watermain Replacement Program Funding:

The current funding situation for the \$5,850,000 required in 2017 would be:

Municipal Taxation (6.75%)*	\$ 1,689,053	
Utility	\$ 2,225,000	
Utility Savings	\$ 480,000	**
	<u>\$ 4,394,053</u>	

* Note: This would be subject to Council's approval of an additional 2.25% in municipal taxation in 2017.

**Note: These savings are not being realized at this point but will be recoverable over time.

The available funding sources as detailed above total \$4,394,053 which leaves a budgeted funding shortfall of \$1,455,947 annually.

Potential Funding Options:

The table below highlights the potential funding options that administration has developed that are potential funding options for this shortfall:

Funding Option	Comments	Financial Impact
Municipal Taxation	Each 1% increase in taxation generates \$250,230	This would require an additional municipal tax increase of 5.82%
Infrastructure Levy	Applied on the same basis as current hospital levy	This would require an \$87 infrastructure levy per taxable property including each unit of multi-family residential properties
Fund from Reserves	Applied against capital reserves	Doing this for the remaining 19 years of the program would consume \$27.7 million in reserves and result in lost interest earnings annually of approximately \$1.4 million once reserves fully utilized.
Increase Waterworks Utility Rates	Each 1% increase in utility rates generates approximately \$77,000 in additional revenue	This would require an 18.9% increase in utility rates on top of significant (double digit) increases needed to fund other required water infrastructure both at the City and at Buffalo Pound Water Treatment Plant
Reduce Programs & Services	This would require the reduction of \$1,455,947 in programs and services City wide	This would result in the elimination of at least one large program (transit as an example) or a number of smaller programs or services
Access Additional Federal & Provincial Grant Funding	There are no known programs at this point in time	Any additional grant funding would have a positive impact on this utility
Fund Road Resurfacing from other Capital TR-1 Transportation	The annual resurfacing cost is estimated at \$840,00 related to cast iron replacement project	This would result in \$840,000 less in regular paving mainly of arterial and collector streets and as well would still leave the budget short approx. \$616,000 which would need to be raised from other sources
Borrow the Annual Shortfall	Borrowing is a good financing option when funds are required immediately but one still needs to have the revenue to finance the repayment including interest charges.	Over the remaining 19 years of the program borrowing would total \$27.7 million dollars and the interest charges amortized over 25 years would add an additional \$21 million in costs to the project
Transition the Hospital Levy into an Infrastructure Levy	The Hospital Levy will be complete in 2019. In that year the required levy is estimated to only be \$25 so the remaining amount (\$71) could be utilized for funding this program in 2019 and then the full amount after that.	The Hospital Levy currently generates \$1,607,000 annually
Combination of Funding Sources		Dependent on the choices of funding sources

Recommended Funding Option:

As can be seen from the chart above, there are a number of funding options available to the City to fund the current annual funding shortfall (\$1,455,947) for the Cast Iron Watermain Replacement Project.

City Administration would recommend a 1.65% municipal tax increase in 2017 rather than the planned 2.25% and that it be directed to the project on an ongoing basis.

City Administration would recommend that the Hospital Levy be transitioned to an Infrastructure Levy beginning in 2019, and that this levy be transitioned from a tax levy to a utility levy on all water consumers based upon meter size. (Please see attached table with potential utility levy examples.)

That the shortfall in funding, until the Hospital Levy has been fully transitioned into an Infrastructure Levy, be made up from the 2016 Budgeted Funding being turned back to the Utility and the use of reserves as a short-term funding source with repayment of reserves to come from additional monies generated in the future from increased utility rates.

City Administration believes this combination of financing options will provide the most viable funding for this project while leaving other funding options such as utility rate increases, further municipal taxation and Federal and Provincial grant funding for other necessary infrastructure funding needs.

The proposed funding for the Cast Iron Watermain replacement project on an ongoing basis would be:

Municipal Taxation (6.15%)	\$ 1,538,000
Utility Infrastructure Levy	\$ 1,607,000
Utility	\$ 2,225,000
Utility Savings	\$ 480,000
	<u>\$ 5,850,000</u>

ATTACHMENTS:

1. Utility Levy Chart

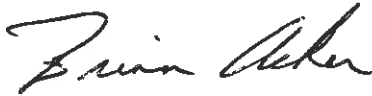
RECOMMENDATION:

THAT the 2016 Cast Iron Watermain Budget not be carried over to 2017; and

THAT the 2.25% allocation of Municipal Taxation in 2017 be reduced to 1.65% and be directed on an ongoing basis to the Cast Iron Watermain Replacement Program; and further

THAT the source of funding for the remainder of the annual \$5,850,000 (to be inflation adjusted annually) come from the transition of the Hospital Levy into an Infrastructure Levy to be levied on water utility customers based upon meter size starting in 2019.

Respectfully submitted,

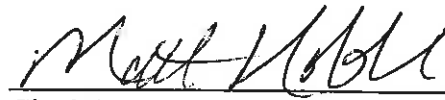


Brian Acker, B. Comm., CPA, CMA
Director of Financial Services

BA/sp

Attach.

CITY MANAGER'S COMMENTS:



City Manager

MAYOR'S COMMENTS:



Mayor

**Potential Water Works
Infrastructure Levy**

Below are examples of how an infrastructure levy might be structured to replace the Hospital Levy collecting the same amount of funds \$1,607,000 annually.

EXAMPLE #1

Meter Size	# of Meters	Annual Amount of Levy		Funds Generated
15 - 20 mm	11786	\$	130.00	\$ 1,532,180
21 - 30 mm	258	\$	130.00	\$ 33,540
31 - 40 mm	43	\$	130.00	\$ 5,590
41 - 50 mm	228	\$	130.00	\$ 29,640
51 - 75 mm	21	\$	130.00	\$ 2,730
76 - 100 mm	10	\$	130.00	\$ 1,300
101 - 150 mm	10	\$	130.00	\$ 1,300
151 - 200 mm	3	\$	130.00	\$ 390
greater than 200mm	4	\$	130.00	\$ 520
	<u>12363</u>			<u>\$ 1,607,190</u>

EXAMPLE #2

Meter Size	# of Meters	Annual Amount of Levy		Funds Generated
15 - 20 mm	11786	\$	94.50	\$ 1,113,777
21 - 30 mm	258	\$	189.00	\$ 48,762
31 - 40 mm	43	\$	378.00	\$ 16,254
41 - 50 mm	228	\$	756.00	\$ 172,368
51 - 75 mm	21	\$	1,512.00	\$ 31,752
76 - 100 mm	10	\$	3,024.00	\$ 30,240
101 - 150 mm	10	\$	6,048.00	\$ 60,480
151 - 200 mm	3	\$	12,096.00	\$ 36,288
greater than 200mm	4	\$	24,192.00	\$ 96,768
	<u>12363</u>			<u>\$ 1,606,689</u>

CITY OF MOOSE JAW

January 28, 2017

TO: Budget Committee
FROM: Financial Services Department
SUBJECT: Utility Rate Review

PURPOSE:

The purpose of this report is to provide Budget Committee with the results of an analysis of Water and Sewer Utility rates.

BACKGROUND:

The City of Moose Jaw provides water and sanitary sewer services to the citizens and businesses of the community via two separate utilities. The Waterworks Utility is setup to be a self-funded utility that provides potable water to the citizens and businesses of the City of Moose Jaw. Likewise, the Sanitary Sewer Utility is also self-funded and provides sanitary sewer disposal services to the citizens and businesses of Moose Jaw.

A self-funded utility is one which generates all of its own revenues and does not rely on a tax based subsidy from the general mill rate of the City. All of the utilities' revenues come from the utilities activities and third party grant funding when available. The City has deviated from the self-funded concept for the Waterworks Utility over the past several years. Since 2013, City Council has directed 6.5% of municipal taxation to the Waterworks Utility specifically for cast iron watermain replacement. In addition, Council is being requested to add an additional 1.65% in 2017. This will bring the tax funding to the Waterworks Utility to 8.15% of municipal taxation or approximately \$2,039,000 annually. This deviation from a standalone self-funded utility has been taken to partially address the capital demands on the waterworks utility while maintaining water rates at reasonable levels.

Longer term funding solutions include an Infrastructure Levy (see report on Watermain Funding) as a means of providing the utility with additional funds. This Infrastructure Levy would be dedicated to infrastructure replacement and rehabilitation.

The rate structure charged to customers of the Waterworks and Sanitary Sewer Utilities must reflect the cost of operating the utilities including all capital costs less any tax funded contribution as is the case with the Waterworks Utility.

The most recent rate changes for the Waterworks and Sanitary Sewer Utilities were adopted by Council in 2015:

“THAT the Waterworks Utility and Sanitary Sewer Utility Rate Schedules be amended to reflect a 9% rate increase for 2016; and further

THAT City Administration be directed to amend Bylaw NO. 5152 The Sewer and Water Utility Bylaw.”

The table below shows the City of Moose Jaw’s Water and Sewer rate increases since 2005:

Historical Review of Utility Rate Increases

	<u>Water</u>	<u>Sewer</u>
2005	2.00%	2.00% *
2006	2.00%	2.00% *
2007	5.00%	10.00%
2008	10.00%	15.00%
2009	10.00%	15.00%
2010	5.00%	13.00%
2011	15.00%	15.00%
2012	9.00%	9.00%
2013	9.00%	9.00%
2014	9.00%	9.00%
2015	9.00%	9.00%
2016	9.00%	9.00%

* Note: Rate increases during the 2002 to 2006 period were not a flat across-the-board increase, but rather were made up of varying rate increases per type of meter and level of consumption. The increase shown is the average projected increase per Communication #178 dated July 11, 2001.

DISCUSSION:

The Water and Sewer Utilities are both facing expenditure pressures on the operating side as well as significant capital expenditure pressures.

Waterworks Utility

The Water Utility in particular is facing increased costs in the production and distribution areas. In 2017, production costs are up 23.3% and the majority of this increase relates to higher costs for potable water from the Buffalo Pound Water Treatment Corporation. (BPWTC). These higher costs are the result of the new entity (BPWTC) now being responsible for all capital costs related to the facility. In order to fund an estimated \$140 million refurbishment project, significant increases in the water rates are planned over the next number of years. Below is a history of recent and planned future rate increases:

	2015	2016	2017	2018	2019	2020	2021
Rates per MegaLitre	235.66	345.00	428.00	515.50	526.00	565.00	650.00

The second area of the Water Utility facing significant cost pressures is the distribution area which in 2017 is budgeting for a 22.5% increase in costs. This increase in costs is primarily related to increased distribution repair costs related to the aging cast iron watermain within the city.

The end result of these major cost increases in both production and distribution costs is a significant reduction in the excess revenue that the utility produces from operations. All of this excess revenue goes directly to funding the infrastructure replacement needs of the utility.

In terms of the infrastructure needs of the utility they are detailed below for the next five years:

Object Account	Total 2016	Carry Forward 2016	2017	2018	2019	2020	2021	Total
9618 - WW1 WATER DISTRIBUTION	660,154	500,000	608,000	679,000	710,000	653,000	676,000	3,326,000
9604 - WW4 WATER RESERVOIRS	2,840,000	2,740,000	1,900,000	9,400,000	12,800,000	5,560,000	2,300,000	31,960,000
9612 - WW5 BPWTP	8,412,598	7,000,000	-	-	250,000	-	-	250,000
9616 - WW16 BPWTP TRANSMISSION LINE	8,881,720	8,250,000	-	11,000,000	1,000,000	-	-	12,000,000
9625 - WW25 WATERWORKS LOAN REPAYMENT	1,433,330	-	1,339,500	2,702,130	4,088,110	5,521,440	6,954,770	20,605,950
9650 - WS1 RAW WATER ASSETS	200,000	200,000	-	-	-	-	-	-
9609 - WW9 EAST WEST FEEDER LINE	2,300,000	100,000	200,000	2,800,000	2,000,000	2,000,000	1,000,000	8,000,000
9617 - WW17 CAST IRON WATERMAIN REP	11,472,312	6,450,000	5,850,000	5,850,000	5,850,000	5,850,000	5,850,000	29,250,000
Water Utility Reserve Summary	35,700,114	25,240,000	9,897,500	32,431,130	26,698,110	19,584,440	16,780,770	105,391,950

As can be seen, the utility is proposing to do \$130,631,950 of capital works over the next five years. This is an extreme amount of capital works for a utility of this size (annual revenue approx. \$9 million).

The Financial Services Department has created a 2017 to 2021 Financial Model for the Waterworks Utility that puts into perspective the extreme financial pressures being faced by the utility.



City of Moose Jaw Waterworks Utility 2017 to 2021 Financial Model



Waterworks Utility - Forecast Revised January 26th, 2017	2016	2017	2018	2019	2020	2021
Operating Budget Model						
Revenues:						
General Service	\$ 8,421,232	\$ 9,416,789	\$ 11,015,612	\$ 12,502,720	\$ 14,190,587	\$ 16,106,316
New Industrial Consumption	-	-	-	233,752	233,752	233,752
Utility Billing Penalties	36,191	36,941	41,928	47,588	54,013	61,304
Connection Fees	65,000	66,600	70,000	70,000	70,000	70,000
Water Depots	24,500	31,873	36,176	41,060	46,603	52,894
House Connections	62,950	81,835	100,000	100,000	100,000	100,000
Miscellaneous Revenue	568	-	1,000	1,000	1,000	1,000
Water Meter Revenue	29,000	55,000	55,000	55,000	55,000	55,000
Total Revenues	\$ 8,639,441	\$ 9,689,038	\$ 11,319,716	\$ 13,051,119	\$ 14,750,954	\$ 16,680,266
Expenditures:						
Production	\$ 2,040,889	\$ 2,510,137	\$ 3,031,579	\$ 3,261,943	\$ 3,528,702	\$ 4,077,542
Distribution	3,603,659	3,757,869	3,848,058	3,840,411	3,732,581	3,522,163
Administration	1,005,029	1,180,094	1,207,622	1,230,690	1,254,312	1,281,001
Total Expenditures	\$ 6,649,577	\$ 7,448,100	\$ 8,087,258	\$ 8,333,045	\$ 8,515,595	\$ 8,880,706
Reserve Contribution	\$ 1,989,864	\$ 2,240,938	\$ 3,232,457	\$ 4,718,075	\$ 6,235,359	\$ 7,799,561
Reserve Cashflow Mode						
	2016	2017	2018	2019	2020	2021
Opening Balance of Reserve	\$ 12,119,946	\$ 8,913,022	\$ (4,900,853)	\$ (15,294,095)	\$ (17,408,009)	\$ (10,359,293)
Reserve Contribution	1,989,864	2,240,938	3,232,457	4,718,075	6,235,359	7,799,561
Interest Revenue	315,495	60,183	(328,168)	(572,286)	(520,635)	(177,841)
Borrowing Proceeds	-	15,000,000	15,000,000	15,000,000	15,000,000	15,000,000
Gas Tax Funding	1,936,547	1,983,130	2,033,041	2,082,952	2,082,952	2,082,952
Borrowing Repayment	-	(1,339,500)	(2,702,130)	(4,088,110)	(5,521,440)	(6,954,770)
Tax Funding	1,577,954	2,039,375	2,100,556	2,163,573	2,228,480	2,295,335
Infrastructure Levy	-	-	-	1,191,884	1,607,000	1,607,000
Carry Forwards	-	(25,240,000)	-	-	-	-
Capital Expenditures	(9,026,784)	(8,558,000)	(29,729,000)	(22,610,000)	(14,063,000)	(9,826,000)
Closing Balance of Reserve	\$ 8,913,022	\$ (4,900,853)	\$ (15,294,096)	\$ (17,408,009)	\$ (10,359,293)	\$ 1,466,943
Forecast Rates:						
Projected Key Rates						
Anticipated Cost Increases	2.0%	2.0%	2.4%	2.4%	2.4%	2.4%
Production Cost Increases	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Approved Rate Structure	9.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Proposed Rate Structure	9.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Conservation Rate	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Average Cost Example						
	2016	2017	2018	2019	2020	2021
75M3 per Qtr 15 - 20mm Meter	\$ 145.13	\$ 166.90	\$ 191.93	\$ 220.72	\$ 253.83	\$ 291.90
25M3 per Mnth 15 - 20mm Meter	\$ 48.38	\$ 55.63	\$ 63.98	\$ 73.57	\$ 84.61	\$ 97.30
Comparators:						

As can be seen, the financial model calls for \$75 million in borrowing as well as 15% annual rate increases and transition of the Hospital Levy to a Waterworks Levy beginning in 2019.

The one thing this financial model does not take into account is the potential for any Federal/Provincial Grant funding. The City has applied under the Building Canada Program for Federal/Provincial Grant Funding for the Buffalo Pound Water Transmission line project. This is a \$20 million dollar project that if successful in getting grant funding could see a major contribution made to this project from Federal/Provincial Grant funding.

The other project that the City has applied for Federal/Provincial Grant funding has been made in partnership with the City of Regina and Buffalo Pound Water Treatment Corporation. This grant application is for upgrades to the plant totalling approximately \$40 million. If the BPWTC is successful in securing this grant, it would allow them to reduce the water rate that they are charging the two cities.

The receipt of grant funding for either or both of these programs could have a significant impact on the funding requirements of this utility. Therefore, it is recommended that only a 2017 utility rate increase be considered at this time. Given the potential for grant funding and also the fluidity of the capital requests, it would be prudent to approve a 2017 utility rate increase and wait to see how things unfold before setting a longer term rate structure.

Sanitary Sewer Utility

The Sanitary Sewer Utility is experiencing more moderate cost pressures on its operations than the Waterworks Utility. The Sanitary Sewer area is seeing the most cost pressures with a 10% cost increase in 2017. The majority of the increased costs relates to sewer mains where the Engineering Department is proposing to implement a new preventative maintenance program in this area.

In terms of the infrastructure needs of the utility, they are detailed below for the next five years:

Object Account	Total 2016	Carry Forward 2016	2017	2018	2019	2020	2021	Total
9731 - S1 SANITARY SEWERS	1,836,409	900,000	1,478,000	3,027,000	1,069,000	1,606,000	1,150,000	8,330,000
9733 - S3 WASTEWATER TREATMENT PLANT	3,503,191	3,254,260	531,000	1,825,000	696,000	762,500	532,000	4,346,500
9734 - S4 LIFT STATIONS	199,126	199,126	1,300,000	10,150,000	266,000	290,000	200,000	12,206,000
9725 - S25 WASTEWATER LOAN REPAYMENT	1,544,065	-	1,546,728	1,545,688	1,543,791	1,546,056	1,545,325	7,727,588
9723 - S23 CRESCENTVIEW GRINDER HOIST	109,965	-	-	-	-	-	-	-
9728 - S28 UTILITY MASTER PLAN	17,652	16,000	-	-	-	-	-	-
Sanitary Sewage Reserve Summary	7,210,408	4,369,386	4,855,728	16,547,688	3,574,791	4,204,556	3,427,325	32,610,088

As can be seen, the utility is proposing to do \$36,979,474 of capital works over the next five years. This is still a significant amount of infrastructure rehabilitation but it is much more manageable given the size of the utility (annual revenue approx. \$7 million).

The Financial Services Department has created a 2017 to 2021 Financial Model for the Sanitary Sewer Utility that puts into perspective the extreme financial pressures being faced by the utility.



City of Moose Jaw Sanitary Sewer (Wastewater) Utility 2017 to 2021 Financial Model



Wastewater Utility - Forecast Revised January 28, 2017	2016	2017	2018	2019	2020	2021
Operating Budget Model						
Revenues:						
General Service	\$ 6,784,162	\$ 7,157,600	\$ 7,837,754	\$ 8,260,992	\$ 8,707,086	\$ 9,177,269
New Industrial Wastewater	-	-	-	266,167	266,167	266,167
Sewer Blocks	4,900	2,300	2,300	2,500	2,500	2,700
Utility Billing Penalties	32,403	33,777	35,601	37,523	39,550	41,685
Septage Fees	24,500	30,000	32,000	34,000	36,000	38,000
House Connections	76,425	99,352	102,333	105,403	108,565	111,822
Miscellaneous Revenue	-	-	-	-	-	-
Total Revenues	\$ 6,922,390	\$ 7,323,029	\$ 8,009,987	\$ 8,706,585	\$ 9,159,867	\$ 9,637,642
Expenditures:						
Administration	\$ 749,125	\$ 835,663	\$ 851,261	\$ 867,234	\$ 883,590	\$ 900,338
Sewage Treatment	2,050,290	2,152,875	2,204,544	2,257,453	2,311,632	2,367,111
Additional Costs New Wastewa	-	-	-	38,329	40,245	42,258
Sanitary Sewers	1,007,373	1,125,275	1,152,282	1,179,936	1,208,255	1,237,253
Total Expenditures	\$ 3,806,788	\$ 4,113,813	\$ 4,208,087	\$ 4,342,952	\$ 4,443,722	\$ 4,546,960
Reserve Contribution	\$ 3,115,602	\$ 3,209,216	\$ 3,801,900	\$ 4,363,633	\$ 4,716,145	\$ 5,090,682
Reserve Cashflow Model						
	2016	2017	2018	2019	2020	2021
Opening Balance of Reserve	\$ 4,025,480	\$ 4,530,987	\$ (222,970)	\$ (13,186,560)	\$ (12,247,820)	\$ (11,588,154)
Reserve Contribution	3,115,602	3,209,216	3,801,900	4,363,633	4,716,145	5,090,682
Interest Revenue	128,347	64,622	(217,903)	(445,101)	(446,923)	(426,892)
Borrowing Proceeds	-	-	-	-	-	-
Building Canada Funding	102,580	1,197,420	-	-	-	-
Infrastructure Levy	-	-	-	595,000	595,000	595,000
Borrowing Repayment	(1,544,065)	(1,546,728)	(1,545,688)	(1,543,791)	(1,546,056)	(1,545,325)
Carry Forwards	-	(4,369,386)	-	-	-	-
Capital Expenditures	(1,296,957)	(3,309,000)	(15,002,000)	(2,031,000)	(2,658,500)	(1,882,000)
Closing Balance of Reserve	\$ 4,025,480	\$ (222,970)	\$ (13,186,560)	\$ (12,247,820)	\$ (11,588,154)	\$ (9,756,689)
Forecast Rates:						
Projected Key Rates						
Anticipated Cost Increases	2.0%	2.0%	2.4%	2.4%	2.4%	2.4%
Approved Rate Structure	9.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Proposed Rate Structure	9.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Conservation Rate	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Average Cost Example						
	2016	2017	2018	2019	2020	2021
75M3 per Qtr 15 - 20mm Meter	\$ 131.00	\$ 136.86	\$ 147.19	\$ 156.02	\$ 165.39	\$ 175.31
25M3 per Mnth 15 - 20mm Meter	\$ 43.67	\$ 46.29	\$ 49.06	\$ 52.01	\$ 55.13	\$ 58.44

City Administration would recommend funding the Sanitary Sewer Utility in a method similar to the Waterworks Utility. Firstly, starting in 2019 City Administration would propose that an Infrastructure Levy of approximately 1/3 that of the Water Utility be put in place to generate approximately \$595,000 annually. This would provide sustainable funding that would go directly to infrastructure rehabilitation.

In addition, to the Infrastructure Levy, it is being proposed that annual 6% rate increases will be required. It should be noted that without the Infrastructure Levy, rate increases closer to 9% annually would be required.

Based upon the financial model above, one can see that the utility will generate about \$5.7 million annually by 2021 which can be put towards infrastructure renewal. It is felt that this level of funding should be sufficient to reduce the overdrawn balance of the reserve over time. In the interim, the City is utilizing its reserves to fund the annual shortfall until the utility can repay it.

As can be seen from the financial models detailed above, both utilities are facing financial pressures. The analysis above has proposed rate increases for each of the next five years for each utility.

The uncertainty surrounding these financial models relates to:

- Scope of work that must be performed over the next five years.
- Federal/Provincial Infrastructure Funding.

Given these uncertainties and the obvious need for a utility increase for 2017, City Administration would recommend to Council to proceed with a 2017 increase only at this point in time.

The rate adjustments recommended in this report are necessary for the utilities to be able to meet their financial obligations and continue to provide water and sanitary sewer services.

A comparison of other cities' 2017 rates for both residential and commercial usage is provided in the table below and it can be seen that Moose Jaw ranks third in 2017 for residential water and sewer charges after one applies the proposed increases in this report. The charts also show that Moose Jaw ranks second for commercial sewer and water charges.

Residential Water & Sewer		
25M3 per Month - 3/4" service	2017	Rank
Yorkton	82.49	1
Swift Current	99.89	2
Moose Jaw	101.91	3
Prince Albert	103.27	4
Saskatoon	104.03	5
Regina	132.56	6

Commercial Water & Sewer 500M3 per Month - 2" service	2017	Rank
Prince Albert	1,262.84	1
Moose Jaw	1,400.08	2
Yorkton	1,483.70	3
Swift Current	1,561.45	4
Saskatoon	1,880.41	5
Regina	1,923.92	6

The charts above clearly illustrates that all cities in Saskatchewan are facing significant infrastructure costs related to the operation of their utilities and that Moose Jaw has not been alone in implementing significant rate increases over the past number of years and despite those increases, still has rates that compare favourably to other cities.

Also of specific interest is the water and sewer rates of Moose Jaw's closest comparator, that being the City of Regina. The City of Regina's 2017 proposed water and sewer rates are compared to the City of Moose Jaw's in table format below:

**Comparison of 2017 Water & Sewer Charges
for Moose Jaw and Regina**

2017:

<u>Water:</u>	<u>Regina</u>	<u>Moose Jaw</u>
Monthly Base or Meter Charge (18mm connection)	\$23.94	\$27.14
Consumption Charge	\$1.9005 M3	\$1.1394 M3
 <u>Sanitary Sewer:</u>	 <u>Regina</u>	 <u>Moose Jaw</u>
Monthly Base or Meter Charge (18mm connection)	\$18.59	\$15.41
Consumption Charge	\$1.701 M3	\$1.2351 M3

As can be seen, the City of Regina's water consumption charge is 67% more than Moose Jaw's and its sewer usage charge is approximately 38% more than Moose Jaw's. It is important to note that both Regina and Moose Jaw receive their treated water from the same source that being the Buffalo Pound Water Treatment Plant which they both own proportionately.

The City of Moose Jaw's water and sewer charge for a residential customer with a 20 mm meter and 25 M3 of usage a month is \$92.05. The proposed rate increases will result in this same residential customer paying \$101.91 for water and sewer services in 2017 based upon the proposed rate increases in this report. This is a cumulative overall increase of 10.7%. Although this is a significant increase in cost, it should be noted that the cost of water and sewer services is still reasonable when compared to the monthly charges that one pays for electricity, natural gas, cable and telephone.

In addition, as part of the communications plan for this rate increase, the City will make every effort to inform our customers about the Water Instalment Payment Plan (WIPPS) that the City offers. This plan allows customers to move from the regular three month billing and payment cycle to a monthly payment cycle which is done electronically. The move from quarterly to monthly billings under the WIPPS plan allows customers to be charged a more manageable monthly bill rather than facing a larger bill every three months. Currently about 13% of the City's Water & Sewer customers take advantage of the monthly payment plan.

City Administration is recommending only a one-year utility rate increase be implemented at this time. The rationale for this recommendation is twofold. First of all the capital plans for both utilities are subject to fluctuation into the future and secondly the City has applied for Federal/Provincial funding which will have a significant impact on rates should that funding be received. The City currently has two applications for the Water Utility, one for the transmission line and another in partnership with the City of Regina for refurbishment of the Buffalo Pound Water Treatment Plant. For these reasons, a rate increase of 15% for the Waterworks Utility and 6% for the Sanitary Sewer Utility effective April 1st, 2017 is being recommended.

SUMMARY:

The City of Moose Jaw, not unlike other communities, is being faced with increased costs related to the operating and capital costs associated with providing safe drinking water and sanitary sewer services. Operating costs have faced inflationary pressures as well as increased costs related to maintenance of aging infrastructure and additional costs related to operating new infrastructure such as the wastewater treatment plant.

The requirements for rehabilitation of infrastructure have also grown exponentially in the last few years with the City of Moose Jaw facing planned capital expenditures over the next five years totalling over \$130 million for the Waterworks Utility and over \$36 million for the Sanitary Sewer Utility. These projects include upgrades and renewal of water and sewer lines, wastewater treatment plant, lift stations, water reservoirs and the Buffalo Pound supply line to the city.

The end result of the financial analysis that has occurred for these utilities is the need for adjustments to the rate schedules of the utility's charges. Both the Water and Sewer Utilities derive in large part the revenue necessary to fund operations and capital infrastructure from the rates that are charged.

City Administration is recommending a 15% increase to Waterworks Utility rates and a 6% increase to Sanitary Sewer Rates effective April 1st, 2017.

FINANCIAL IMPLICATIONS:

The financial implications of the rate charges are detailed in the attached financial models for the Waterworks and Sanitary Sewer Utility.

ATTACHMENTS:

1. Proposed 2017 Utility Rate Schedule.

RECOMMENDATION:

THAT the Waterworks Utility Rate Schedule be amended to reflect a 15% rate increase effective April 1st, 2017; and further

THAT the Sanitary Sewer Utility Rate Schedule be amended to reflect a 6% rate increase effective April 1st, 2017; and further

THAT City Administration be directed to amend Bylaw N0. 5152 The Sewer and Water Utility Bylaw.

Respectfully submitted,



Brian Acker, B. Comm., CPA, CMA
Director of Financial Services

BA/sp

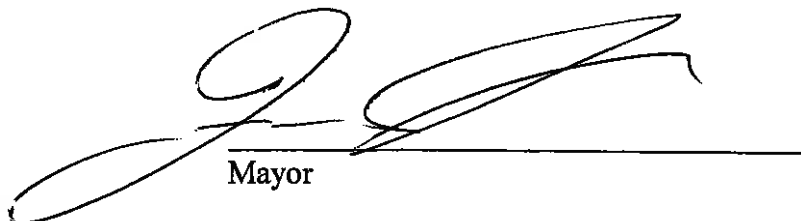
Attach.

CITY MANAGER'S COMMENTS:



City Manager

MAYOR'S COMMENTS:



Mayor

PROPOSED 2017 UTILITY RATES

2. Fees, rates and charges for water service:

2.1 Consumers with a service connection to the City's Water Work shall pay a monthly water service connection fee calculated as follows:

(a) Commencing April 1, 2017:

<u>Meter Size</u>	<u>Monthly Service Fee:</u>
15 - 20 mm	\$27.14
21 - 30 mm	\$40.71
31 - 40 mm	\$81.43
41 - 50 mm	\$135.73
51 - 75 mm	\$271.45
76 - 100 mm	\$542.92
101 - 150 mm	\$1,628.71
151 - 200 mm	\$2,171.60
greater than 200mm	\$3,257.41

2.2 Consumers supplied with water through a metered service connection from the City's Water Works, other than Out-of-City Consumers, shall pay the fee calculated as follows for all water supplied through that service connection:

(a) Commencing April 1, 2017

Per cubic metre
of water consumed
\$1.1394

2.3 Out-of-City Consumers with a service connection to the City's Water Works shall pay the fee calculated as follows for all water supplied through that service connection:

(a) Commencing April 1, 2017

Per cubic metre
of water consumed
\$ 1.7111

2.4 Consumers receiving water from the City's water dispensing devices shall pay the fee calculated as follows for all water supplied through such devices:

(a) Commencing April 1, 2017

Per cubic metre
of water consumed
\$3.3118

4. Fees, rates and charges for sewer service

4.1 Consumers with a service connection to the City's Sanitary Sewer System shall pay a monthly service connection fee calculated as follows:

(a) Commencing April 1, 2017:

<u>Meter Size</u>	<u>Monthly Service Fee:</u>
15 - 20 mm	\$15.41
21 - 30 mm	\$23.13
31 - 40 mm	\$46.25
41 - 50 mm	\$77.10
51 - 75 mm	\$154.16
76 - 100 mm	\$308.33
101 - 150 mm	\$924.96
151 - 200 mm	\$1,223.29
greater than 200mm	\$1,849.92

4.2 Consumers supplied with water through a metered water service connection from the City's Water Works other than Out-of-City Consumers, shall pay sewage fees calculated as follows for all water supplied through that service connection:

(a) Commencing April 1, 2017	<u>Per cubic metre of water consumed</u> \$1.2351
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CITY OF MOOSE JAW

January 27, 2017

TO: Budget Committee
FROM: Financial Services Department
SUBJECT: Designation of 2017 Gas Tax Projects

PURPOSE:

The purpose of this report is to request Budget Committee to designate the 2017 Municipal Gas Tax Projects to which the 2017 Gas Tax funding will be applied.

BACKGROUND:

The Gas Tax Fund (GTF) was launched in 2005 by the Federal Government in an effort to provide predictable and sustainable funding for municipal infrastructure. It has subsequently been renewed a number of times and the current program runs through 2019. The program is anticipated to run indefinitely and provide a reliable source of infrastructure funding for many years to come.

The City of Moose Jaw has received the following funding under the program to date:

City of Moose Jaw	
History of Federal Gas Tax Funding	
Historical Funding:	
2005-06	\$ 595,387
2006-07	\$ 595,387
2007-08	\$ 795,564
2008-09	\$ 998,631
2009-10	\$ 2,014,566
2010-11	\$ 1,934,346
2011-12	\$ 1,934,346
2012-13	\$ 1,883,308
2013-14	\$ 1,883,308
2014-15	\$ 1,889,963
2015-16	\$ 1,889,963
	<u>\$ 16,414,769</u>
Future Funding:	
2016-17	\$ 1,983,130
2017-18	\$ 1,983,130
2018-19	\$ 2,082,952
	<u>\$ 6,049,212</u>

As can be seen from the chart above, the Federal Gas Tax Funding program has provided a significant contribution to Moose Jaw's Infrastructure Renewal efforts over the last decade. Moose Jaw initially applied the funding to its Wastewater Utility to fund a portion of the Wastewater Treatment Plant and since 2013, that funding has been transitioned to the Waterworks Utility in order to aide in funding things like the Buffalo Pound Water Treatment Plant Upgrades project and Water Distribution Feeder Line Replacement project.

DISCUSSION:

In 2016 City Council passed the following motion:

“THAT Council rescind Budget Committee motion dated February 20, 2016 as follows:

“THAT the WW16 BPWTP transmission line be approved as the 2016 municipal gas tax project.”

; and further

THAT the 2016 municipal gas tax projects be water distribution feeder line replacement and Buffalo Pound Water Treatment Plant upgrades.”

City Council will note that the motion was changed from the original project as many of the Federal and Provincial grant funding programs do not allow for piggybacking more than one grant program on a project. This would be the case in 2017 as well where we have submitted the transmission line for funding under a separate Building Canada program.

Therefore for 2017, City Administration would recommend that the City designate the Buffalo Pound Water Treatment Plant Upgrades project and Water Distribution Feeder Line Replacement project as the City's Gas Tax Funded projects.

It should be noted that the BP Upgrade project was initiated a number of years ago and is just now seeing construction get fully underway. In 2017, it is anticipated the City of Moose Jaw's share of construction will be \$3,965,750. In terms of the feeder line, project expenditures in 2017 are anticipated to be in the \$300,000 range. Between the two projects there will be enough expenditures to offset the City's anticipated GTF funding in 2017.


FINANCIAL IMPLICATIONS:

The designation of these two projects for funding under the GTF program will allow for \$1,983,130 in Federal Funding to flow to the City of Moose Jaw's Waterworks utility to aide in funding necessary capital works projects.

RECOMMENDATION:

THAT Capital project WW-5 BPWTP Upgrades and WW-9 Feeder Lines be designated as the City of Moose Jaw's 2017 Municipal Gas Tax Funded programs.

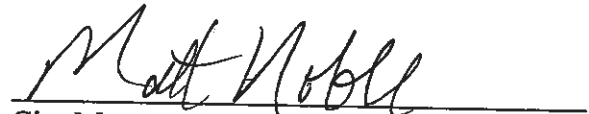
Respectfully submitted,



Brian Acker, B. Comm., CPA, CMA
Director of Financial Services

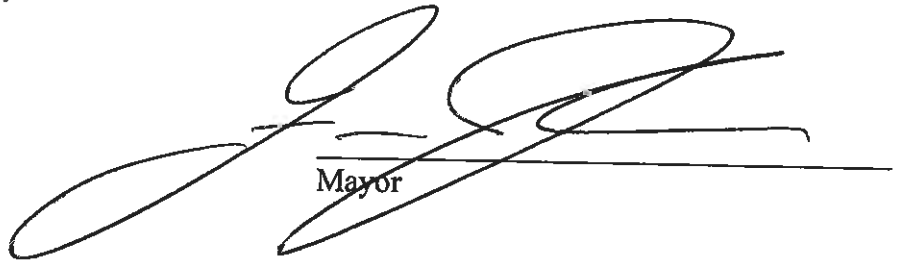
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CITY MANAGER'S COMMENTS:



City Manager

MAYOR'S COMMENTS:



Mayor

