

COMMON COUNCIL REPORT

M&C No.	2019-318
Report Date	November 27, 2019
Meeting Date	December 02, 2019
Service Area	Saint John Water

His Worship Mayor Don Darling and Members of Common Council

SUBJECT: 2020 Utility Fund Operating Budget

OPEN OR CLOSED SESSION

This matter is to be discussed in open session of Common Council.

AUTHORIZATION

Primary Author	Commissioner/Dept. Head	City Manager	Recommended by
<i>Craig Lavigne</i>	<i>Brent McGovern</i>	<i>John Collin</i>	<i>Finance Committee Councillor Merrithew Finance Chair</i>

RECOMMENDATION

The Finance Committee recommends that Common Council approve the 2020 Utility Fund Operating Budget and proceed with first and second reading of the amendment to the Water and Sewerage By-Law, By-Law No. M-16.

The following resolutions are in order provided Council is supportive of the recommended attached budget.

It is recommended that Common Council:

1. **RESOLVE** that the estimated revenue for the Water and Sewerage Utility for the year 2020 in the amount of **\$48,702,000** be adopted (Appendix "A");
2. **RESOLVE** that the estimate of expenses for the Water and Sewerage Utility for the year 2020 in the amount of **\$48,702,000** be approved (Appendix "A"); and
3. Give first and second reading to the two Amendments to the *Water & Sewerage By-Law attached to M&C No. 2019-318* (Appendix "B" and "C").

EXECUTIVE SUMMARY

The 2020 Utility Fund Operating Budget is based upon the new rate structures for both potable and industrial users. A complete rate review of the Utility (as presented to Council November 18, 2019) was undertaken by the consulting firm, Hemson, and was based on how the Utility now provides different services to potable and industrial users due to the separation of potable and raw water between the different classes of users.

There have been considerable pressures on the ratepayers and the Utility over the last 10-15 years due to transformational projects (Harbour Clean-up and Safe Clean Drinking Water). Flat rates have consistently risen by \$72 per year over a number of years and last year the rate increase was reduced to \$60 as a result of numerous expenditure reductions that were implemented and revenue increases that were realized due to by-law changes.

The Utility is proposing to keep the flat rate for water and sewer customers at \$1,428 per year for customers in 2020, which represents no increase from 2019 rates. Increases for customers will vary depending on whether they are water only or sewer only customers. Rates for water only have gone up significantly due to the investments in the Safe, Clean Drinking Water Project, while sewer costs have gone down significantly as a percentage of water cost. Sewerage costs will now be 80.35% of the water cost, compared to 122% of water cost in the past.

Industrial rates have been set based on the use of raw water, cost of providing the service and the management and replacement of industrial water assets.

PREVIOUS RESOLUTION

At the November 20, 2019 meeting of Finance Committee it is was recommended that the Finance Committee approve the 2020 Utility Fund Operating Budget and submit to Common Council for the December 2nd meeting for approval along with first and second reading to the amendment to the Water and Sewerage By-Law, By-Law No. M-16.

At November 18, 2019 meeting of Council it was RESOLVED:

That referring to the submitted report M&C 2019-290: Water & Sewer Rate Study, Common Council:

1. Endorse the attached Water & Sewer Rate Study for 2020;
2. Support removing the third consumption tier from the rate structure given no water consumption has been billed to Tier 3 since 2008; and
3. Direct staff to communicate the results of the of the rate changes to water only and sewer only customers given they will see a change in their 2020 billing.

And that referring to the submitted report M&C 2019-289: East and West Industrial Raw Water Rate Reports, Common Council:

1. Endorse the East Saint John Industrial Raw Water Rate Report and the West Saint John Industrial Raw Water Rate Report; and
2. Support the approach of setting all industrial raw water users rates via by-law.

STRATEGIC ALIGNMENT

The proposed 2020 Utility Fund Operating Budget is aligned with Council's priorities in taking a strategic approach to financial management of the Utility by continuing to contribute capital funding from operating, finding other revenue sources, improving the allocation of costs among ratepayers and continuing to find efficiencies and savings through continuous improvement initiatives.

REPORT

The proposed 2020 Utility Fund Operating Budget has been prepared using the new potable and industrial rates established by the City's external consultants, Hemson Consulting Ltd. as a foundation. The potable water numbers have changed slightly since the presentation on November 18, 2019 as the budget is now finalized and the industrial numbers have also changed slightly given the approach to the collection of the rate stabilization fund reserve monies has changed from a volumetric based collection to a fixed rate collection. The bottom line revenue collection however remains the same as presented on November 18, 2019 and the revenue from the industrial and potable water customers remains the same. The appropriate costs per user group are established so that the corresponding revenue can be collected.

Revenue

Overall revenue for 2020 has been budgeted at \$48,702,000 (2019- \$48,286,000). The flat rate being proposed remains at \$1,428 per year therefore no increase for ratepayers. The allocation of sewer charges as a percentage has changed significantly as a result of the rate study. Sewer charges will now be 80.35% of a water charge versus 122% in the past. Flat rate customers (166) that are water only will see a significant increase, where flat rate sewer only customers (146) will see a significant decrease. The main reason for the shift is related to the additional cost of providing safe, clean drinking water.

Customers on a meter will see a negligible adjustment in their bill if consumption is the same amount in 2020 versus 2019. Meter water only customers (106) will see a large increase in their water bills as the cost of water has risen, where sewer only customers will see a significant reduction (3).

Industrial revenue is budgeted at \$5,548,000 which will cover the cost of providing raw water, contributions to asset replacement, rate stabilization reserve and

previous debt associated with the system prior to the switch over to a raw water only system.

The balance of revenue includes the fire protection levy, storm sewer levy, interest revenue, other revenue and prior year surplus which is much less than previous years.

Expenditures

Overall expenditures for 2020 have been budgeted at \$48,702,000 (2019-\$48,286,000). Based on the recent rate study and to ensure proper allocation of expenses, all debt, internal charges, capital from operating, post-employment benefits and other charges will be allocated across the three cost centres which are; Potable Water, Industrial Water and Wastewater Treatment in accordance with the cost of service.

Saint John Water has continued to reduce staffing levels through 2019 (decreased by 6 FTEs) as the Safe, Clean Drinking Water Project has ramped down and is approaching final completion. Saint John Water has several budget initiatives that are planned to be undertaken in 2020. Improvements to safety and security are planned by making workplace improvements at various underground vaults and chambers and improving fencing, security and access at various water and wastewater facilities.

There is key replacement of electronic equipment at 30 water and 32 wastewater facilities as well as replacement of eight key communications links to and from various water and wastewater facilities. As well, the replacement of 133 communication radios will be completed. All of this work is necessary for the Utility to monitor activity at its water and wastewater facilities while also ensuring service reliability and efficient use of equipment.

Cleaning, inspection and maintenance on two water storage reservoirs, along with repainting 800 out of the 2,100 fire hydrants in inventory will be achieved in 2020. Other initiatives include; key watermain transmission interconnection for further drinking water system reliability, inspection of dams and protecting the environment through the addition of containment at a facility.

Under wastewater there is planned dredging of cell one and two at the Lancaster Lagoon for improved operational efficiencies, concrete maintenance and upgrades at the Easter Wastewater Treatment Facility and the continuation of the newly established video inspection and flushing program.

These are just some of the expenditures the Utility is planning to undertake in 2020 to increase water and wastewater system reliability, efficiency, and effectiveness and to ensure the ratepayer's needs are being met.

Conclusion

The rate freeze for 2020 is a positive note for ratepayers after several years of increases. The rate studies for potable and industrial rate payers have now been

presented and this will lay the foundation for long-term planning of the Utility that will undertaken in 2020.

The Utility will continue to focus on continuous improvement, finding efficiencies, and process to improvements in 2020, as well as debt management, leveraging of funds from other levels of Government and pay as you go for all capital expenditures. This focus will continue to guide some of the financial decisions as the Utility deals with a very large infrastructure deficit and ongoing pressures of rate increases and expenditure increases over the next several years.

SERVICE AND FINANCIAL OUTCOMES

See enclosed 2020 Utility Fund Operating Budget

INPUT FROM OTHER SERVICE AREAS AND STAKEHOLDERS

Input has been received from the various Service Areas, Senior Leadership Team and members of the Finance Committee.

ATTACHMENTS

Appendix A - 2020 Utility Fund Capital Budget

Appendix B – Amendment to Water and Sewerage By-Law related to Schedules “A”, “B” and “C” to the By-Law

Appendix C – Amendment to Water and Sewerage By-law related to industrial rates

Presentation