

REPORT
***Office of the Chief Administrative Officer,
Electric Utility, Engineering and Finance***

To: Mayor Johnstone and Members of
Council

Date: November 27, 2023

From: Lisa Spitale
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File:

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Item #: 2023-784

Subject: Budget 2024: Proposed 2024 Operating and Capital Utility Budgets

RECOMMENDATION

THAT Council approves the 2024 Utility Rates for the Electric, Water, Sewer and Solid Waste Utilities;

THAT Council directs staff to prepare the necessary bylaws to amend the City's utility rates for 2024 as outlined in this report;

THAT Council approves the Utility Fund 2024 – 2028 Capital Plans and the 2024 Utility Fund Service Enhancement Requests in Attachment #1 - 4 and the Climate Action Fund Service Enhancement Requests and 2024 – 2028 Capital Plan in Attachment #5;

PURPOSE

The purpose of this report is to provide Council with detailed information on the 2024 Proposed Utility Fund Budgets. This report also provides the proposed 2024 Utility rate increases for the Electric, Water, Sewer and Solid Waste Utilities and Five Year Financial Plans (2024 – 2028).

The expectation is that Council will provide staff with feedback at the November 27th Utility Budget Workshop that will set the direction for staff to prepare the necessary bylaws to amend the City's 2024 Utility Rates which will be in effect as of January 1, 2024.

EXECUTIVE SUMMARY

The City owns, operates and maintains four utilities: Electrical Distribution Utility, Water Distribution Utility, Sewerage and Drainage Utility, and Solid Waste Utility.

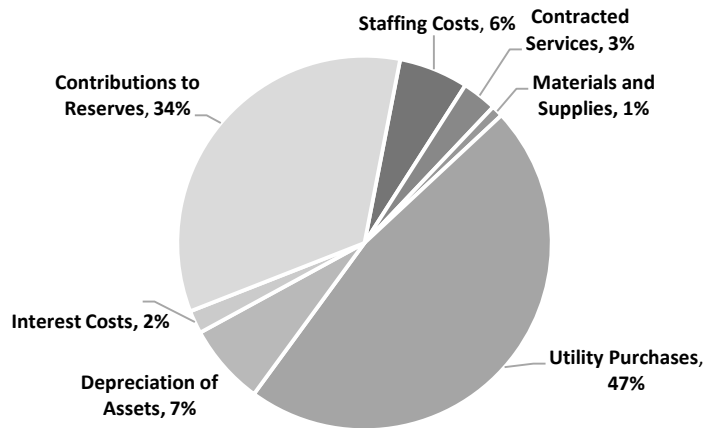
- Total revenue across all utilities and sources is \$125.3M, of which revenue from utility rates comprises 92% of the total.
- Total operating expenses of \$81.9M
- Total proposed 2024 capital expenditures for all utilities is \$68.8M and \$271.5M over the 2024 – 2028 Proposed Capital Plan.

These figures exclude the Climate Action Division, for which a reorganization proposal was presented to Council on November 20, 2023, to combine this department with the Electrical Utility to form a new Energy and Climate Action Department.

2024 BUDGET VALUES

Metro Vancouver levies largely drive the Water, Sewer, and Solid Waste **Operating Expenses**, whereas the Electrical Operating Costs are largely driven by the cost of electricity purchases from BC Hydro. These Metro Vancouver and BC Hydro expenses form Utility Purchases. The balance of the operating expenses come from salaries, supplies and materials, contracted services, debt servicing, amortization and ongoing contributions to utility reserves. The distribution of these expenses is exhibited below:

2024 OPERATING EXPENSES - UTILITY FUNDS
 % PERCENTAGE OF TOTAL REVENUE



The **Capital Expenses** to replace, upgrade, or enhance the City's aging infrastructure is largely funded from the City's reserves and is delivered through contracted services. The utility reserves are maintained with annual contributions from the operating budgets and is utilized to fund the asset renewal and replacements/major upgrades.

The 2024 Proposed Rates and Budget contributes 34% of operating expenses to **Utility Reserves**, which are in turn used to fund **Capital Expenses**. The reserves are set to achieve and maintain a minimum balance of 5-10% of Current Replacement Value (CRV) of assets to support the replacement of aging infrastructure and mitigate against any risks, such as beyond-inflationary increases or for any major unforeseen system failure.

The 2024 Proposed Utility Rate Increases are, overall, consistent with the previous 5 Year Financial Plan increases, with an **overall increase of 6% year over year as compared to 5.8% year over year in 2023**. Individually, the current rate plan reprioritizes utility rate increases toward Funds requiring growth or where inflationary and capital replacement needs are substantial (i.e. Electric and Sewer), while reducing rate increases in other Funds (i.e. Water and Solid Waste) in the interim to balance affordability concerns. The 6% increase represents a **\$225** increase in the average household's utility bill.

The following table summarizes the proposed Electric, Water, Sewer and Solid Waste Utility user rate adjustments effective January 1, 2024, compared to 2023:

Average Single Family Household	Electric	Water	Sewer	Solid Waste	Blended Rate
	Based on 1,000 KWH	net of 5% discount	net of 5% discount	net of 5% discount	
Current 2023	\$ 1,623	\$ 740	\$ 1,044	\$ 366	\$ 3,756
Proposed 2024 \$ Increase	\$ 54	\$ 44	\$ 84	\$ 44	\$ 225
New Proposed 2024 Annual Cost	\$ 1,677	\$ 784	\$ 1,127	\$ 409	\$ 3,982
2024 % Rate Increase	3.3%	6.0%	8.0%	12.0%	6.0%

BACKGROUND

The 2023 Utility Budget and Rate Increases were approved by Council in December 2022 followed by the approval of the 5-Year Financial Plan in April 2023.

As is the City's practice, if additions or changes to the Plan are required throughout the year, staff actively search for ways to cover costs within the existing plan. This is to mitigate against the expansion of the Plan and the need for an amendment. In cases where no such offsets are available, staff will request an amendment to the Five Year Financial Plan Bylaw (i.e. to increase the total Plan amount) to prevent any delays or disruptions to major projects already underway.

As part of the City's commitment to flexibility and transparency, the Finance Department reports to Council on a quarterly basis and seeks Council approval for any adjustments where budgets would need to be reset or varied from the original budget targets throughout the year. A quarterly monitoring and reporting process is recognized as a best practice and acknowledges that changes happen over the course of any given fiscal year. Accordingly, this approach allows for:

- Reporting out on the quarter results so that Council is well informed on accomplishments or project deferrals due to economic or internal factors;
- Consultation on needed changes to the Approved Multi-Year Budget which, therefore, incorporates Council's feedback on project adjustments or new projects in a timely manner;
- Increased transparency and robust financial oversight which supports a more seamless transition into the next annual budget setting and Five Year Financial Plan update; and
- Allows Council time to set and reset based on changing priorities or community needs and emergencies.

2024 APPROVED BUDGET FRAMEWORK

Due to the engagement work, and with the confirmation of alignment between Council priorities, public input and with staff in the midst of delivering on the 5 year Financial and Capital Plan, staff are proposing that the 2024 Budget be brought to Council in the fall and early 2023 with the focus of continuing the delivery of the existing approved 2023-2027 5 Year Financial Plan.

For the final Utility Rates and 2024-2028 5 Year Financial Plan, staff are proposing that Council approve the Utility Rates in November and defer the General Funded Operating budget to January 2024, with a target to have a final approved 5 Year Financial Plan in February of 2024, which would include the 2024 proposed Property Tax Rate Increases.

2024 APPROVED BUDGET TIMELINES

The table below outlines the remaining key dates around the 2024 Budget and follows a budget best practice approach, including working collaboratively with Council and continuing to build on the ongoing feedback from the community.

Date	Description
27-Nov-23	2024 Utility Rates Workshop
4-Dec-23	2024 Utility Rates Three Readings
11-Dec-23	2024 Utility Rates Bylaw Adoption 2024 Operating Budget Workshop – Proposed Property Tax Rates 2023 Quarterly Capital and Operating Performance Review
8-Jan-24	2024 Capital Budget Workshop – Refinements
22-Jan-24	2024 Operating Budget Workshop – Refinements
5-Feb-24	2024 – 2028 Financial Plan Readings

The 2024 Council Budget Workshops have been and will continue to be promoted widely through various channels, including email notification to various City email databases, social media posts and advertising, City Page notices in the newspaper and by email, advertisements in the Record, and through the City's website.

UTILITY BUDGET WORKSHOP

On November 27th, the Utility Budget Open Council Workshop will be held and City staff will provide a presentation which will include a high level orientation and background of the City's Utility Budgets, Assets, Reserves, Current Financial Forecast and highlights of 2023 Accomplishments and major variances. At this workshop, staff will walk Council through the 2024 Proposed Capital and Operating Budgets, along with the detailed 5 Year Financial Plan and proposed 2024 Utility Rate Increases.

FINANCIAL SUSTAINABILITY PRINCIPLES

The 2024 Proposed General Fund Capital Budget is guided by Financial Sustainability Principles that align with the City's core values when building ***a vibrant, compassionate, resilient city where everyone can thrive*** and ensures the City's budget is:

- **Sustainable** - Maintain assets in a state of good repair through reasonable tax /rate hikes, and without disruptions to services; living within our means;
- **Adaptable** - The ability to change debt levels or leverage reserves; ability to ramp up or down on spending;
- **Stable** - Predictability of City's Sustainable Revenue Sources, & less reliance on external funding or 3rd party funding; and

- **Accountable** - Fiscally prudent & responsible; the ability to ensure that the City's financial decisions are in the best interest of all.

Public Engagement Lens & Community Input

On August 28, 2023, staff presented to Council the Budget 2024 Engagement Results, which included participants' priorities for the Utility Operating Budget and Capital Projects. Detailed engagement results can be found on the Budget 2024 page on the City's Be Heard New West website.

A significant majority, comprising 67% of online and in-person participants, expressed a desire for a balanced approach between spending and saving, reflecting their fiscal responsibility and long-term financial stability concerns. Additionally, 78% of participants said they support or somewhat support Council's Strategic Priorities as a guide for prioritizing spending. While indirectly related to Capital budget funding, 74% of respondents indicated their willingness to back a tax increase of 4% or higher in 2024, demonstrating a willingness to fund key initiatives.

The top-rated projects within the Utility Capital Projects that respondents highlighted were the continuing sewer separation work as required by the Metro Vancouver. In addition to sewer separation work, projects that rate high were replacing aging water and sewer mains while focusing on expanding our electrical infrastructure work.

Reconciliation Lens and Capital Priorities

Council's Strategic Priorities are viewed, planned and implemented through the lenses of reconciliation with first nations, diversity, equity, inclusion and anti-racism, climate action and environment, and public engagement; and the priorities are pursued in a manner that builds on the City's foundations of resilience, organizational effectiveness and healthy governance.

The Year of Truth at the City of New Westminster represents a pivotal moment in our commitment to reconciliation. The City's Reconciliation Working Group, comprised of staff from all departments, is seeking ways to develop new systems informed through a two-eyed seeing approach - a way of learning to see from one eye with the strengths of Indigenous ways of knowing and from the other eye with the strengths of Western ways of knowing and using both eyes together. This work includes conducting research into policies, processes and systems developed by other municipalities, governments, agencies, not-for-profits and organizations that appear to be leaders in this work. This groundwork aims to establish new tools that can ensure Indigenous interests are incorporated into City planning efforts.

As part of the West End Sewer Separation project, the City is actively learning and building relationships with the people whose lands we are on. The City hired an archaeological consultant, Kleanza Consulting Ltd., to conduct preliminary field reconnaissance (PFR), and an Archaeological Overview Assessment (AOA) for the project. This required close consultation and engagement with the x^wməθk^wəyəm, Kwantlen First Nation, K^wik^wəłəm, Stó:lō Nation, and səilwətał, who have their own heritage permitting systems.

2023-2027 FINANCIAL PLAN OVERVIEW & 2024 PROPOSED UTILITY RATES

Approved 2023-2027 Financial Plan

The **Current** Five Year Financial Plan includes **Planned Rate** increases for **2023** as follows:

- Electrical Rates Increase 2.8%/year
- Sewer & Water Rates Increase 7%/year
- Solid Waste Rate Increase 14%/year

The 2023-2027 Five-Year Financial Plan includes **funding assumptions** to support some of the City's major initiatives, including Advanced Metering Infrastructure, the new Queensborough Substation, a possible District Energy System, Glass Recycling Program, Climate related initiatives along with ongoing sewer separation program, routine replacement of major Sewer & Water Systems and City's Fleet & Equipment.

2024 OPERATING BUDGET OUTLOOK: PROPOSED RATES

Proposed 2024-2028 Financial Plan forecasted the following Annual Rates:

- Electrical Rates Increase 3.3%/year
- Water Rates Increase reduced to 6%/year
- Sewer Rates Increase 8%/year
- Solid Waste Rates Increase reduced to 12%/year for 3 years followed by 8%/year

The budgets in the draft Five-Year Financial Plan are projections based on best estimates of future events that may materially affect the City such as annual wage increments, and changes in fees charged by Metro Vancouver and BC Hydro. The Plan includes **funding assumptions** to support some of the City's major initiatives, including: Advanced Metering Infrastructure (AMI), voltage conversion, a new Sapperton Substation, a possible District Energy System, and many other net new Climate related initiatives along with ongoing sewer separation program, routine replacement of major Sewer & Water Systems and the City's Fleet & Equipment.

The planned Rates take into consideration these spending assumptions, along with balancing the need to maintain minimum reserve levels to ensure fiscal prudence and sustainability over the long term. The following sections detail key considerations, financial projections, operating expense enhancements or increases, and capital projects for each utility.

1. Electrical

The majority of the Electrical Department's operations are deemed essential. To this end, the department is striving to maintain appropriate service levels for all New Westminster residents,

businesses and institutions while at the same time maintaining the health and safety of our front line staff.

2024 "Proposed" Electrical Utility Rate is 3.3%

Electric Utility	Budget Projections (\$ in millions)				
	2024	2025	2026	2027	2028
Revenues	64.62	81.57	79.30	72.47	75.43
Operating Expenses	47.46	50.66	52.05	53.07	56.98
Capital	35.75	31.33	23.22	9.83	69.77
Reserves	17.41	24.00	30.71	34.84	35.78
Rate Increase	3.3%	3.5%	3.5%	3.5%	3.5%
Reserves / Replacement Value	2.9%	4.0%	5.1%	5.8%	6.0%

2024 Budget Outlook Considerations

With respect to the 2024 Electrical Operating and Capital Budget, Council should consider the following as they review staff presentations:

- Projected 2024 Increase in Cost of Power Purchases \$0.6M
- Fixed Cost & Salary Increases of \$0.3M
- New Operating Expense Service Enhancement Requests \$0.7M
- Climate levy at a rate of 3.5% of Electrical billings
- Proposed Capital Spending of \$35.8M

A majority of the proposed 2024 Capital spending are multi-year projects that have been previously approved and underway including AMI (\$13.4M), New Service Connections and District Energy (\$7.2M).

On October 24, 2023, staff met with the Utility Commission to discuss BC Hydro's projections for rates over the next few years which includes a 2.3% increase in 2024 followed by subsequent increases in following years assumed at an inflation rate of 3% per annum. Staff presented an initial view of capital investments that are likely to be needed expand capacity to meet growing demand for electricity, both in terms of growing demand from existing ratepayers as well as new development. Staff also presented additional operating expenses related to Advanced Metering Infrastructure (AMI) and substation maintenance.

Staff will further articulate demand, capacity and capital investment needs, and explore pricing and funding mechanisms to meet these needs throughout 2024 with the completion of the Sapperton Substation Feasibility study, the 10 Year Forecast study as well as a 50-Year Planning study and will continue to recalibrate rates in the future based on feedback from these studies. In the meantime, staff recommended prudence in the need to increase rates to build financial capacity to fund initial capital projects to meet growing electricity demand and growth.

Here are some of the reasons that support the recommendation and will be presented to Council in greater detail at the November 27th workshop:

- Rate Stability & Predictability: avoid fluctuations in electrical bills to residents and businesses
- Resilient & Adaptable: manage through uncertainty around commodities prices, climate risk, changing economy
- Maintain Healthy Reserves for regular/routine renewal & replacement of existing assets
- Maintaining Level of Services & complying with Measurement Canada Requirements
- Maintain Reasonable Debt Servicing Levels
- Addressing Growth Related Funding Requirements - Long Range Infrastructure Planning

The Utility Commission supported a rate increase in 2024 of 3.3% and a sustainable and predictable rate of 3.5% after 2025 in order to build financial capacity to fund capital projects to increase electricity supply, including a new substation in Sapperton to be completed by 2030; gradual investment in infrastructure in anticipation of an eventual voltage conversion program; additional operating costs related to AMI and substation maintenance representing operating enhancement requests of \$0.4M and \$0.2M, respectively; and to offset projected BC Hydro rate increases to the cost of power of between 2.3%-3.0% over the next 5-years. A 3.3%-3.5% rate increase, is aligned with the City's Reserve Management Policy that recommends maintaining a reserve balance of 5.0% to 10.0% of Electrical Fund assets Current Replacement Value (CRV) by 2025 after funding the Advanced Metering Infrastructure project.

Historically, the Electric Utility has had abundant capacity in order to service the demand of the City. However, it is now faced with the challenge of meeting the electrical needs of their customers in a landscape of greater demand for electrification, increasing low carbon energy mandates, electric mobility, electric space heating systems, addressing a housing crisis with mandated municipal housing targets, alleviating extreme heat impact on habitability of existing residential buildings, and increasing climate resilience with adaptation; all while advocating for sustainable clean energy and conservation.

As such, there will be growing emphasis on long-term planning and capital investment in order to meet these growing demands in the future. Two significant projects which have been included in the 5-year capital plan are the Sapperton Substation as well as the voltage-conversion program. The new substation will provide us with net-new capacity at a strategic location while the voltage-conversion program will see the utility upgrade the entire distribution infrastructure from 12Kv to 25Kv and thus effectively doubling the overall capacity.

2. Climate Action

With the restructuring plan that sees the Climate Action division merging with the Electric Utility to form the new Energy and Climate Action Department, the funding strategy for the Climate Action division is that all existing and future staff will be funded through the Climate Levy.

Remaining funds from the levy will be transferred to the Climate Action Reserve Fund which is used to fund projects and initiatives identified through the City's climate action plans which are necessary to be implemented for the City to achieve the adopted greenhouse gas emissions reduction targets.

As identified in the August 28, 2023, and September 11, 2023 Council reports on climate action workplan acceleration and resulting financial implications, respectively, both the size and structure of the Climate Action Team (CAT) requires augmentation in order to achieve the City's emission reduction targets. Aligning the CAT with the Electric Utility, will enhance the structural capabilities to execute on some key aspects of the climate action accelerated workplan; while still ensuring continuity of existing workplan initiatives that are driven independently by the CAT and initiatives that are supporting departments across the City.

2024 Budget Outlook Considerations

With respect to the 2024 Climate Action Operating and Capital Budget, Council should consider the following as they review staff presentations:

- Projected 2024 Climate Levy collection of \$2.0M which represent a 3.5% levy on Electric rate revenue
- Budgeted 2024 carbon credit sales of \$3.6M
- 2024 Fixed Cost & Salary Increases related to climate action team of \$0.6M
- 2024 New Operating Expense Service Enhancement "Requests" \$0.6M mainly comprising staffing increases
- 2024 Proposed Capital Spending of \$1.28M

Climate Action	Budget Projections (\$ in millions)				
	2024	2025	2026	2027	2028
Revenues	5.57	5.64	5.70	5.77	5.84
Operating Expenses	1.02	1.48	1.49	1.50	1.54
Capital	1.28	0.70	0.50	0.50	0.50
Reserves	40.53	43.99	47.70	51.47	55.27

The Climate Action 2024 Proposed Capital budget of \$1.28M has been developed to support delivery of the accelerated climate action workplan (August 28, 2023 Council report). This updated budget includes carryforward funds that had already been approved and allocated in 2023, and will be spent in 2024. Additionally, through the integration of the CAT with the electric utility, accelerated delivery of community incentives and innovative energy demand management program design can be achieved. Finally, with the recent release of the Metro Vancouver report on electric vehicle charging needs, accelerated delivery of publically accessible EV charging was identified as a priority and the funding strategy to accelerate implementation of the eMobility strategy has been incorporated. The carry forward of approved 2023 budget was previously omitted, and results in a 5 year capital budget increase of \$0.71M as compared to the climate action capital budget that was presented October 16, 2023. This ensures that the CAT can continue to deliver on projects highlighted in the 2023 and 2024

workplan years and maintain an ongoing funding strategy for climate plan updates, regulatory reporting and action implementation through to 2028. Through preliminary testing of the draft Climate Action Decision Making Framework, climate policy, planning and incentive projects included in this capital budget are eligible to be considered for funding through the Climate Action Reserve Fund. Delivery of the initiatives in the proposed capital budget is dependent on the proposed staffing plan.

Notable projects included in the 2024 capital budget include:

- Development of a Climate Action Annual Report
- Initiate the development of a Climate Change Resilience and Adaptation Plan Conduct climate vulnerable building research
- Identify resilience and adaptation measures to support residential buildings through climate change driven extreme weather events
- Develop a community-wide public charging network deployment plan
- Expand community incentive programs to include EV Charger retrofits and additional building measures beyond heat pumps
- Develop innovative energy conservation and demand management program planning
- Implementation of the Climate Action Decision Making Framework to support activation of the Climate Action Reserve Fund

The proposed staffing plan involves the establishment of permanent positions over a multi-year period. The estimated costs are \$630,500 in 2024, and \$462,000 in 2025. The total cost for the 2 year period, is approximately \$1.1M. It is important to recognize that these permanent positions represent ongoing costs and would continue beyond the specified budget years.

3. Water Distribution Utility

Potable drinking water is purchased from Metro Vancouver and delivered through the City's water distribution system, which includes 270 kilometres of watermains, to residents and businesses in the City. Routine ongoing operations and maintenance of the water distribution system occurred throughout 2023, and will continue in 2024.

In addition to routine operations and maintenance, staff support the repair of broken water mains, new service connections, and the capital replacement program. Given recent market conditions, supply chain challenges, and escalating construction costs, we anticipate increased strain on City resources, including staff and budgets, which could result in a reduced water main replacement rate, and higher operations and maintenance costs.

2024 "Proposed" Water Utility Rate is 6.0%

Water Utility	Budget Projections (\$ in millions)				
	2024	2025	2026	2027	2028
Revenues	18.21	19.65	20.06	21.25	22.53
Operating Expenses	10.60	11.40	12.10	12.55	12.90
Capital	12.29	6.11	6.31	6.66	8.03
Reserves	18.35	20.72	22.66	25.06	27.01
Rate Increase	6.0%	6.0%	6.0%	6.0%	6.0%
Reserves / Replacement Value	4.8%	5.4%	5.9%	6.6%	7.1%

2024 Budget Outlook Considerations

With respect to the 2024 Water Operating and Capital Budget, Council should consider the following as they review staff presentations:

- Projected 2024 Increase in Metro Vancouver Water Levies \$0.6M
- 2024 Fixed Cost & Salary Increases of \$0.1M
- 2024 New Operating Expense Service Enhancement "Requests" \$0.1M
- 2024 Proposed Capital Spending of \$12.3M

In early October 2023, Metro Vancouver proposed the annual water rate increases for bulk water purchases, for 2024 to 2028 to be 7.6%, 8.9%, 6.4%, 3.5% and 2.7%, respectively. A significant portion of the Metro Vancouver rate increase is related to the regional capital program (reservoir upgrades, transmission mains, marine crossings, etc.).

Metro Vancouver is revising their regional Development Cost Charge (DCC) program to actively reduce potential costs to residents and embrace the principle of 'growth-pays-for-growth' by shifting growth costs to development. Metro Vancouver proposes to decrease their 'assist factor' to 1% over a multi-year period. The assist factor is the portion of growth projects funded by non-growth-related sources, such as sewage levies and water sales.

Metro Vancouver first implemented Water DCC's in April 2023 and currently has an assist factor of 50%. Over the next few years, this assist factor will be reduced to 1%. For the City of New Westminster, a decrease in the Metro Vancouver assist factor means a reduction in the projected Metro Vancouver levy increases. Previous Metro Vancouver water increases from 2024-2027 were 9%, 13.8%, 12.8%, and 13.8%; now, 2024-2028 are projected to be 7.6%, 8.9%, 6.4%, 3.5%, and 2.7%.

While the Metro Vancouver rate increases are lower, they are still relatively high. There is a risk that if Metro Vancouver cannot collect the DCCs as projected, they may transfer the shortfall back to municipalities. Recognizing this and other risks, it is prudent for the water utility to continue to shore up its reserve levels to mitigate against any future risks. Metro Vancouver levies make up 76% of the 2023 Operating Expenses and, therefore, still significantly impact the Utility's financial position. A proposed rate of 6% will allow for a slight relief to residents while

allowing the City to build reserves and avoid any major fluctuations in future costs owing to Metro Vancouver's ability to collect DCCs.

The Water Utility's 2024 Proposed Capital budget of \$12.3M primarily provides for replacements of end-of-life city water mains, associated trench restoration, new additions to meet future population growth and the replacement of equipment and service vehicles. Notable projects included in the 2024 capital budget include:

- Watermain Replacement Program
- West-End Waterm Rep Prog 23-27
- Water Trench Restoration
- Water Conservation Program
- Water Cross Connection Control

The Water Reserves are set to align with the City's Reserve Management Policy, which recommends maintaining a reserve balance of 5.0% to 10.0% of Water Fund assets' Current Replacement Value (CRV) in order to support the replacement of the aging infrastructure and to mitigate against any risk such as beyond inflationary increases, volatility in utility purchase costs, or for any major unforeseen seismic event.

4. Sewer

The City owns 160 km of combined sewer mains and 90 km of storm sewers, 40km of sanitary mains, 39 pump stations and numerous open drainage ditches, which collect and convey sanitary sewage and storm runoff throughout the city. The Engineering Operations Division is responsible for the routine ongoing operation and maintenance of the system, including responding to infrastructure failure and other issues.

Engineering staff support the ongoing efforts to separate combined sewers. The Capital program includes a commitment, in support of the regional liquid waste management plan, to separate all combined sewers in the City by the year 2075. The City is currently on track to achieve that goal. In addition, similar to the water distribution system, it is necessary to replace aging sewer mains, and improve pump stations and other sewer and drainage infrastructure to ensure that the system remains in a state of good repair.

2024 "Proposed" Sewer Utility Rate is 8.0%

Sewer Utility	Budget Projections (\$ in millions)				
	2024	2025	2026	2027	2028
Revenues	35.94	36.28	37.13	39.78	41.80
Operating Expenses	18.95	20.88	22.30	23.54	25.02
Capital	19.51	10.29	9.26	10.64	8.99
Reserves	30.56	36.89	43.77	50.75	59.92
Rate Increase	8.0%	8.0%	8.0%	8.0%	8.0%
Reserves / Replacement Value	3.2%	3.8%	4.6%	5.4%	6.3%

2024 Budget Outlook Considerations

With respect to the 2023 Sewerage and Drainage Utility Operating and Capital Budget, Council should consider the following as they review staff presentations:

- 2024 Increase in Metro Vancouver Sewer Levies \$2.0M
- Fixed Cost & Salary Increases of \$0.2M
- 2024 New Service Enhancement Requests of \$0.2M
- Proposed Capital Spending of \$19.5M
- Grant of \$10.5M over 5-year period, to offset the cost of sewer separation

In early October 2023, Metro Vancouver proposed the annual sewer rate increases to operate and maintain the sanitary and storm drainage collection system, as well as for floodplain protection, for 2024 to 2028 to be 16.6%, 13.1%, 8.2%, 6.5% and 7.9% respectively. Metro Vancouver has embarked on a multi-year major capital program to upgrade a number of regional sewage treatment facilities which is a key driver for the increasing regional sewerage levies. Similar to the water utility, Metro Vancouver is revising their regional DCC program to actively reduce potential costs to residents and embrace the principle of 'growth-pays-for-growth' by shifting growth costs to development by decreasing the assist factor to 1%.

Metro Vancouver's liquid waste DCCs have been in place since 1997 and currently have an assist factor of 17.5%. Previously projected MV sewer increases from 2024-2027 were 28.2%, 17.1%, 19.2% and 22.7%; now, 2024-2028 are projected to be 19.9%, 13.1%, 8.2%, 6.5%, and 7.9%.

While the Metro Vancouver rate increases are lower, they are still relatively high – especially for sewers. There is a risk that if Metro Vancouver cannot collect the DCCs as projected, they may transfer the shortfall back to municipalities. Recognizing this and other risks, it is prudent for the sewer utility to continue to shore up its reserve levels to mitigate against any future risks owing to Metro Vancouver's ability to collect DCCs.

Metro Levies make up 74% of the 2023 Operating Expenses and, therefore, significantly impact rates. In addition to funding operating costs, the sewer utility rate funds the Sewer and Drainage Utility's capital budget, which primarily provides for the rehabilitation and replacement of existing sewers, the sewer separation program (a legislative commitment under the Metro Vancouver's Integrated Liquid Waste and Resource Management Plan (ILWRMP)), installation of new storm sewers, associated trench restoration, drainage and floodplain protection works, replacement of pump stations, equipment and service vehicles. The City's asset management plan guides the development of the capital program.

The City's Sewer and Drainage Asset Management Plan was updated in 2023 and presented to Council in April 2023. As per the presentation and report, we now know that the Sewer and Drainage Asset condition is 34% poor & very poor, while the current replacement value is \$918M.

Inflation in the cost of construction and the update in the Current Replacement Value (CRV) of sewer assets through the sewer Asset Management Plan necessitates the need for rates to increase to 8% per annum.

Notable projects included in the 2024 capital budget include:

- Sewer Separation Program
- West End Sewer Separation Program (2023-2027)
- SCADA network upgrade
- Integrated Storm Water Management Plan (ISWMP) program
- Flood Management (dyking)
- Drainage Program
- Pump station upgrade
- Sewer Rehabilitation Program

As noted above, the City Sewer Utility covers a wide spectrum of services. The volume and complexity of work involved and rate increases from Metro Vancouver are placing significant financial pressure on the Utility. Similar to Water, the Sewer Reserves are set to align with the City's Reserve Management Policy which recommends maintaining a reserve balance of 5.0% to 10.0% of Sewer Fund assets' Current Replacement Value (CRV) to support the replacement of the aging infrastructure and to mitigate against any risk such as beyond inflationary increases, volatility in utility purchase costs, or for any major unforeseen seismic event.

5. Solid Waste

In 2023, solid waste services were delivered in a manner consistent with previous years, including weekly organics collection, and bi-weekly recycling and garbage collection, for about 8,400 single-family properties and 25,000 multi-family homes. Curbside garbage, organics, recycling and Multi-family garbage collection is conducted by City staff with the use of City-owned or rented equipment. Multi-family residential organics and recycling is contracted to a third party.

In addition to routine collection services, Engineering staff support the ongoing efforts in the cleanliness of our streets, parks and open spaces through the collection of litter and emptying and maintenance of our street receptacles, removal of illegal dumping and with the Special Pick up Service provided to residents.

2024 "Proposed" Solid Waste Utility Rate is 12.0%

Solid Waste Utility	Budget Projections (\$ in millions)				
	2024	2025	2026	2027	2028
Revenues	6.60	7.46	8.25	8.83	9.46
Operating Expenses	4.94	5.11	5.02	5.21	5.41
Capital	1.23	1.02	0.78	0.63	1.06
Reserves	1.33	2.32	4.48	7.21	9.95
Rate Increase	12.0%	12.0%	12.0%	8.0%	8.0%

2024 Budget Outlook Considerations

With respect to the 2024 Solid Waste Utility Operating and Capital Budget, Council should consider the following as they review staff presentations:

- Cumulative projected 2024 Increase in Metro Vancouver Tipping Fees \$0.2M
- 2024 Fixed Cost & Salary Increases of \$0.1M
- 2024 Proposed Capital Spending of \$1.2M

Revenues generated through solid waste user rates are used to operate and maintain these services. The standard Solid Waste user rates in 2024 are projected to increase by approximately \$44 for an average single-family household to pay for increasing operating and capital costs primarily related to tipping fees paid to Metro Vancouver's Greater Vancouver Solid Waste Services (and other organizations depending on the waste stream) for the disposal of garbage, recyclables and organic waste; as well as to maintain the Utility's fleet of collection vehicles; and to build capital reserves that can meet future vehicle replacements that have experienced significant increases in price in recent years.

On October 18, 2021, staff presented a report to Council seeking approval to implement the Multi-family and Curbside Residential Glass Collection programs. This program began in July 2022 for Curbside and July 2023 for Multi-family. In addition to the standard rate, this program sees an additional ~\$13.68/Household for an average single-family household and an additional \$10/Household for a Multi-family/Strata, or ~\$340,000 annually to cover the annual operating expenses. While glass collection will address part of the problem, there remains a significant amount of contaminated material that needs to be eliminated from the recycling stream. Periodic audits will be conducted, and information will be provided to households that are placing the wrong material into their bins. In instances of repeated contamination, enforcement activity will escalate to fines.

Solid Waste Utility revenues also include a financial contribution from Recycle BC for collecting approved residential recyclables through the City's curbside and multi-family recycling programs. The incentive rates from the Recycle BC contract were set in 2019 and will remain static until 2028

The Solid Waste Utility capital budget provides for the replacement of the Utility's automated garbage/recycling packers and the replacement of garbage/recycling/yard and food scraps carts and disposal bins. Increasing vehicle costs and procurement delays are posing significant challenges to the Solid Waste fleet. The cost of collection vehicles has doubled recently, necessitating increases in the vehicle reserves. Currently, a two-year trial is being conducted, which sees the utility rent collection vehicles supplant end-of-life assets. This is an attempt to mitigate short-term budget and procurement challenges, which are causing negative financial and staff hours strain on the maintenance of end-of-life assets.

The Solid Waste Reserves are projected to be net negative until 2025. Investment in garbage and recycling vehicles increased in the last 5 years, and the proposed 5 year plan is setting the rates to replenish the existing reserve, provide provision for the replacement of the vehicle fleet,

and to responsibly build up reserves for the upcoming replacements and tipping fee increases, primarily for organic waste processing.

2024 Summary

Collectively the increase across all utility funds is 6.0%, which is in line with last year's 5.8% year over year rate increase. The current rate plan reprioritized utility rate increases toward Funds requiring growth or where inflationary and capital replacement needs are substantial (ie. Electric and Sewer), while reducing rates in other Funds (ie Water and Solid Waste) in the interim to balance affordability concerns. The 6% increase represent a \$225 increase in the utility bill of the average household.

Average Single Family Household	Electric	Water	Sewer	Solid Waste	Blended Rate
	Based on 1,000 KWH	net of 5% discount	net of 5% discount	net of 5% discount	
Current 2023	\$ 1,623	\$ 740	\$ 1,044	\$ 366	\$ 3,756
Proposed 2024 \$ Increase	\$ 54	\$ 44	\$ 84	\$ 44	\$ 225
New Proposed 2024 Annual Cost	\$ 1,677	\$ 784	\$ 1,127	\$ 409	\$ 3,982
2024 % Rate Increase	3.3%	6.0%	8.0%	12.0%	6.0%

INTERDEPARTMENT LIASON

The Electrical, Engineering and Finance Departments have collaboratively prepared the draft Five-Year Financial Plan (2024-2028) for the Utility Funds including the proposed 2024 Utility Rates. The Climate Action Department along with the Electrical and Finance Departments prepared the draft Climate Action Fund Capital Plan (2024-2028) and 2024 Service Enhancements.

OPTIONS

There are four options for Council's consideration; they are:

Option 1 - THAT Council approves the 2024 Utility Rates for the Electric, Water, Sewer and Solid Waste Utilities;

Option 2 - THAT Council directs staff to prepare the necessary bylaws to amend the City's utility rates for 2024 as outlined in this report;

Option 3 - THAT Council approves the Utility Fund 2024 – 2028 Capital Plans and the 2024 Utility Fund Service Enhancement Requests in Attachment #1 - 4 and the Climate Action Fund Service Enhancement Requests and 2024 – 2028 Capital Plan in Attachment #5; or.

Option 4 – THAT Council provides further direction.

Staff recommend Options 1, 2 and 3

CONCLUSION

Staff has completed the City's draft 2024-2028 Financial Plan for the Utility Funds. This Plan incorporates both the operating and capital budgets for each of the Utilities. The Plan reflects adjustments in utility user rates necessary to maintain and operate the utilities over the next five years.

Staff has also completed 2024-2028 Capital Plan and 2024 service enhancements for the Climate Action Team and Fund in advance of the departments integration with the Electric Utility.

Provided that Council agrees with the proposed 2024 Utility Rates for the Electric, Water, Sewer and Solid Waste Utilities, staff will bring forward for Council's consideration at the next regular meeting of Council, the necessary bylaws to amend the City's Utility Rates for 2024 and will bring the Five Year Financial Plan to Council in the new year consolidated with the General Fund.

ATTACHMENTS

Attachment 1 - Electrical Utility Fund Draft 2024 - 2028 Financial Plan, Capital Plan and 2024 Service Enhancements

Attachment 2 - Water Utility Fund Draft 2024 - 2028 Financial Plan, Capital Plan and 2024 Service Enhancements

Attachment 3 - Sewerage and Drainage Utility Fund 2024 - 2028 Financial Plan, Capital Plan and 2024 Service Enhancements

Attachment 4 - Solid Waste Utility Fund Draft 2024 - 2028 Financial Plan and Capital Plan

Attachment 5 – Climate Action Team Draft 2024 - 2028 Capital Plan and 2024 Service Enhancements

APPROVALS

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