



The Corporation of the City of Courtenay

# Staff Report

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**To:** Council  
**From:** City Manager (CAO)  
**Subject:** 2024-2028 Water Fund Financial Plan

**File No.:** 1705-20/1715-20  
**Date:** January 24, 2024

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## PURPOSE:

The purpose of this report is for Council to consider the 2024–2028 Water Fund Financial Plan, water user fee changes and water frontage tax changes.

## EXECUTIVE SUMMARY:

The five-year water fund financial plan is prepared annually and user fees are established to cover the projected cost of service delivery for the upcoming year. Funded entirely from water user fees and frontage fees, the water service is not funded from general property taxation.

The water utility has a regional and a municipal component and each plays a vital role in providing water services to the residents of Courtenay. The Comox Valley Regional District (CVRD) has planned capital upgrades and expansion of their water infrastructure. The new water treatment facility was recently commissioned and now provides a continuous supply of high-quality potable water to the growing Comox Valley population. To fund these major capital improvements, the CVRD, through the Water Committee, has increased the bulk water rate to \$1.00 per m<sup>3</sup> from \$0.96 (2023) and \$0.80 (2022) as of January 1, 2024, resulting in an increase of 4%. One cubic meter (m<sup>3</sup>) contains 1,000 liters or 220 Canadian gallons (4.54L). This has an impact as bulk water purchase is the largest expense in the water fund, currently representing just over 59% of the total expenditures. Any further changes to the CVRD bulk water rate through their financial planning process will be reflected in future City of Courtenay financial plans.

Similar to the CVRD, the City is required to generate revenues sufficient to fulfil its commitment to operate a Class 3 water distribution system that provides safe drinking water to the residents. Water service expenses in this proposed financial plan also incorporate higher CVRD bulk water rates and sufficient staffing to complete the various maintenance programs required to comply with statutory water permit requirements set by the Province of BC through the Island Health Authority.

Staff is recommending a 4.5% increase for the water user rates. This will increase the user fee for a single residential dwelling by \$24.16 from \$536.98 to \$560.98 and the bulk water rate for metered properties (commercial, multi family) from \$1.85 to \$1.93 per m<sup>3</sup>.

Staff is also recommending a 4.5% increase for the frontage tax from \$5.84 per meter to \$6.10, this will result in an average frontage charge increase of \$5.68 from \$127.49 to \$133.16.

The expected increase to an average single residential dwelling for water fees and frontage is \$29.84 (user fee \$24.16 + frontage \$5.68) from \$664.31 to \$694.14.

<b>Water Utility Charge Change Summary</b>				
	<b>2023</b>	<b>2024</b>	<b>\$ Change</b>	<b>% Change</b>
User Fee	\$ 536.82	\$ 560.98	\$ 24.16	4.5%
Frontage	\$ 127.49	\$ 133.16	\$ 5.68	4.5%
<b>Total</b>	<b>\$ 664.31</b>	<b>\$ 694.14</b>	<b>\$ 29.84</b>	<b>4.5%</b>

**BACKGROUND:**

Consideration and approval of a five-year financial plan is an annual requirement under the *Community Charter*. The recommended financial plan for the water fund provides detail for 2024-2028. The water utility service is self-funding and receives no funding from the City’s general property taxation levy.

**DISCUSSION:**

The supply of water to Courtenay consumers is a combined effort involving the CVRD who supplies and transmits treated source water from Comox Lake to the City’s boundary where it is then distributed to property owners through the City’s water distribution system. The City purchases bulk water from the CVRD and operates and maintains a Class 3 water distribution system. The City must comply with Island Health permit requirements and standards set out in the Drinking Water Protection Act. To provide this service to the public, the City annually prepares a five-year financial plan to meet the legislative requirements of Section 165 of the Community Charter. This financial plan covers the period of 2024-2028.

The largest cost component of this financial plan is the cost of the regional water service shared proportionately between the service participants, the City of Courtenay, the Town of Comox and Electoral Areas A, B & C of the Comox Valley Regional District.

## City of Courtenay 2024 – 2028 Water Fund Financial Plan

The proposed 2024-2028 Water Fund Financial Plan is detailed in the following attachments:

- Attachment 1 – 2024-2028 Water Fund Financial Plan
- Attachment 2 – 2024-2028 Water Capital Plan

The water fund financial plan includes for 2024 projected revenues of \$10,717,100 and \$10,094,200 of operating expenses, \$29,300 of debt payment, \$200,000 transferred to the capital fund and \$393,600 transferred to reserves.

### Water Operating Fund

***Water Operating Expenses***

The water operating expense budget is presented by activity in Table 1. Total water expenses increase by \$78,000 or 1% between 2023 and 2024 budget. This small change was achieved through substantial reduction in transfers to Other Funds (capital) and reserves.

Table 1: Water Operating Expenses

	2023	2024	BUDGET	
	BUDGET	BUDGET	INCREASE	VARIANCE
			(DECREASE)	%
<b>WATER EXPENSES</b>				
Contributions to Other Governments	\$ 5,454,700	\$ 6,303,100	\$ 848,400	16%
Water Administration	633,000	603,900	(29,100)	-5%
Water Fleet	64,300	6,900	(57,400)	-89%
Water Operations				
JOB 11000 Water Main	169,300	210,600	41,300	24%
JOB 11100 Water Service	405,200	661,400	256,200	63%
JOB 11200 Water Distribution Value	99,900	90,600	(9,300)	-9%
JOB 11300 Water Hydrant/Blow off	218,500	219,100	600	27%
JOB 11400 Water Meter	244,500	244,100	(400)	-16%
JOB 11500 Water Facilities	103,200	105,100	1,900	2%
JOB 11600 Water Quality & X-connect Control	80,500	120,700	40,200	50%
JOB 11700 Water Conservation Program	32,400	32,700	300	1%
JOB 11800 Water Leak Detection	27,600	35,300	7,700	28%
New Connections	100,000	100,000		0%
<b>Total Water Operations</b>	\$ 7,633,100	\$ 8,733,500	\$ 1,100,400	14%
Internal Transfers				
Internal Transfer - Common Costs	\$ 1,299,800	\$ 1,360,700	\$ 60,900	5%
Internal Transfer - To Other Funds	785,800	200,000	(585,800)	-75%
Internal Transfer - To Reserves and Allowances	891,100	393,600	(497,500)	-56%
<b>Total Internal Transfers</b>	\$ 2,976,700	\$ 1,954,300	\$ (1,022,400)	-34%
Water Debt Servicing	\$ 29,300	\$ 29,300	\$ -	0%
<b>Total WATER EXPENSES</b>	\$ 10,639,100	\$ 10,717,100	\$ 78,000	1%

*Comox Valley Regional District Bulk Water Purchase - \$6,303,100*

The purchase of potable water from the CVRD is the largest cost driver in the water operating fund, which represents 59% (51% - 2023) of the total water operating budget. The City reviews and adjusts the estimated consumption every year, although it remains difficult to predict, as water consumption depends on many external factors, such as the weather and population growth. The water consumption for 2024-2028 is estimated based on prior years actual consumption and includes a general increase for consumption.

The CVRD bulk water rate is set to increase from \$0.96 to \$1.00 / m3 as of January 1, 2024: a 4% price adjustment, resulting in an increase of \$218,188. Based on prior years water consumption figures a 12% increase for consumption has been included resulting in an additional \$630,212 of water charges for a total change in consumption of \$848,400

Table 2 shows the combined financial impact of a greater consumption and higher rates on actual and estimated water consumption since 2019.

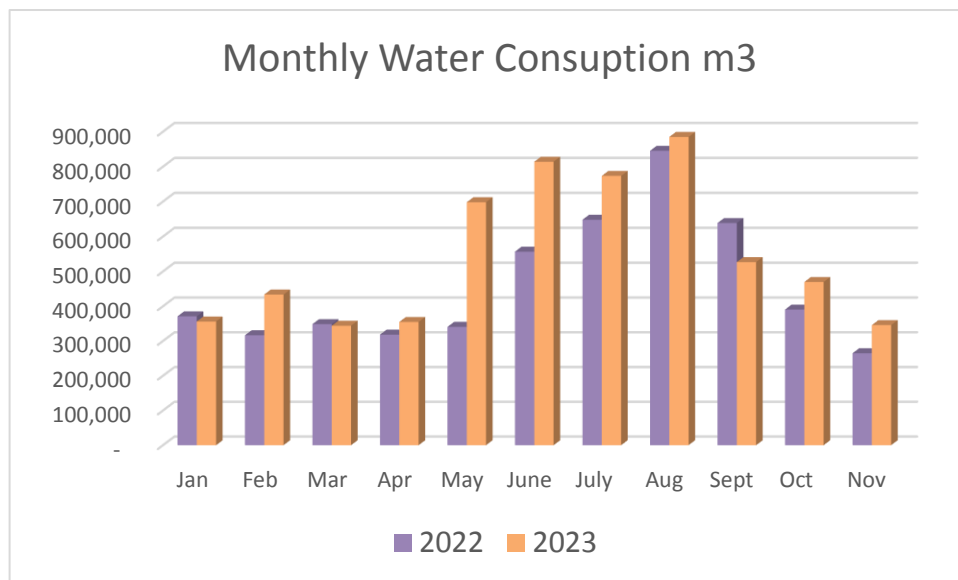
Table 2: Courtenay Water Bulk Purchase 2019-2025

Year		Consumption		CVRD rate		Annual Cost	% Change
		m3	% Change	\$ / m3	% Change		
2019	Actual	4,989,913	0.9%	\$ 0.80	6.7%	\$ 3,991,930	7.6%
2020	Actual	4,671,511	-6.4%	\$ 0.80	0.0%	\$ 3,737,209	-6.4%
2021	Actual	5,277,350	13.0%	\$ 0.80	0.0%	\$ 4,221,880	13.0%
2022	Actual	5,335,646	1.1%	\$ 0.80	0.0%	\$ 4,268,517	1.1%
2023	Actual*	6,351,032	19.0%	\$ 0.96	20.0%	\$ 6,096,991	42.8%
2024	Budget	6,303,100	-0.8%	\$ 1.00	4.2%	\$ 6,303,100	3.4%
2025	Budget	6,622,900	5.1%	\$ 1.00	0.0%	\$ 6,622,900	5.1%

\*1 month estimation

2023 saw a substantial increase in bulk water purchases from the CVRD both in volume and value, this can be attributed to the 20% increase per m3 along with the long dry summer that began in May.

Graph 1: Monthly water consumption compares 2022 to 2023 monthly water consumption. Note May, June, and July have substantially higher consumption rates in 2023 vs 2022.



*Water Administration - \$603,900*

Those sections include a portion of the salaries, wages and benefits of the Public Works Services management staff and Engineering team and training expenses. The variance is due to reallocation of some wages to the water main function.

*Water Fleet - \$6,900*

The Water Fleet budget is adjusted every year based on actual and anticipated equipment and vehicle usage. The general water fleet budget has seen substantial reduction however these costs have been redistributed to better reflect actual cost of specific service provision.

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*Water Operation - \$1,819,600*

The budget for water operations has seen a combined increase of \$338,500. Water operations includes the crew wages and benefits as well as the material and services needed to perform regular operations, preventative and reactive work on the water infrastructure. Regular contractual increases are also included for crew wages and benefits. The Water service function has seen the largest increase of \$256,200 of which \$200,000 is attributed to reactive repairs due to actual trends in system failures. An additional \$51,800 is attributed to equipment charge redistribution and refinement.

*Internal Transfers - \$1,954,300*

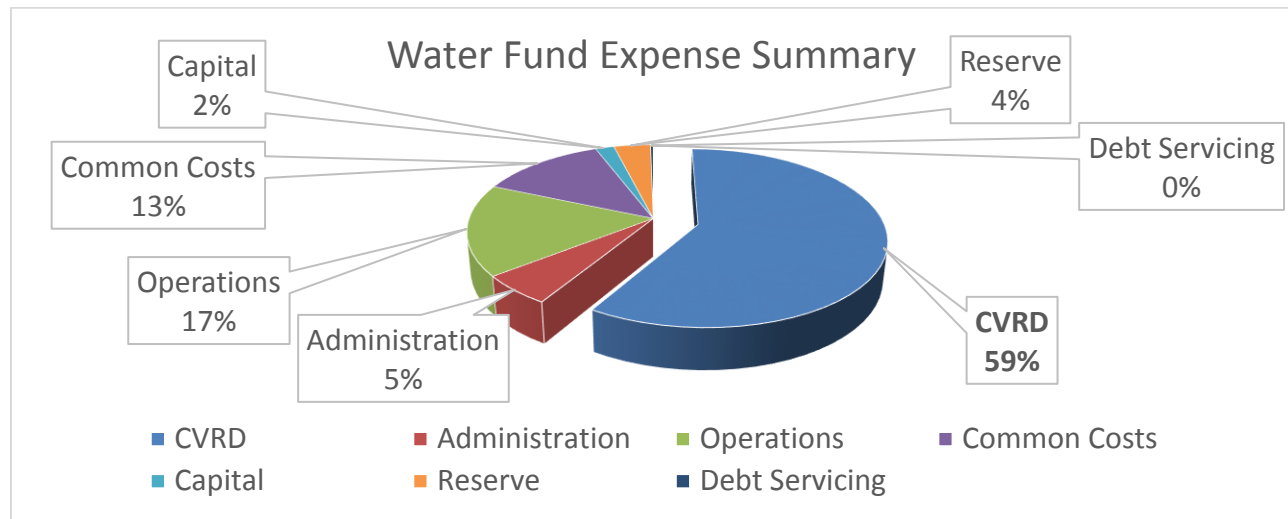
Internal allocations are a percentage of the General Fund and Public Works expenses transferred to the Water Fund. The intent is to transfer a reasonable amount for General Government Services (i.e. finance, human resources, administration) and Public Works administrative expenditures (personnel, utilities, materials, insurance, contracted services and fleet costs) as recognition of the costs necessary to provide the service.

The water allocation has increased by \$60,900 to \$1,360,700 and is set at 14.5% of the General Government Services and to 19% of the Public Works Administrative expenses based on prior year estimate. The allocation percentage is reviewed periodically and will be analyzed before next year's budget. The variance represents the general increase in the General Government Services and Public Works expenses.

Transfer to other funds represents capital projects funded from general revenue (current year water fees). These have decreased to \$200,000 from \$785,800, this figure will vary from year to year depending on the capital plan and how projects are funded (reserve, grant, debt, general revenue). If the project is not completed in 2024 these funds will be transfer into the reserve for future expenditures (RFE) and carried forward to the following year.

Reserve transfers have reduced by \$497,500 to \$393,600, this is due to the removal of \$497,500 to the RFE. The RFE is used to fund capital projects that are funded by general revenue (current year water fees) but have not been completed in the year and need the funding carried forward to the following year. RFE is used to ensure project funding is secured for future years. Transfers to capital reserves are the same as the prior years (\$393,600).

Graph 2 Water Fund Expense Summary illustrates the distribution of the \$10,717,100 of Water Fund expenses



**Water Revenues**

Revenues collected through water user and frontage fees are used to cover the costs of the operating and capital expenditures. Other water revenue includes connection fees and transfers from reserve. Although water rates are recommended to increase these increases are not sufficient to cover the costs of operating the water function. For 2024-2028 the City is relying on prior years surplus to balance the water fund. For 2024 \$303,700 is being drawn from surplus which represents 2.8% of total water revenue.

Table 3: Water Revenue

	2023 BUDGET	2024 BUDGET	BUDGET INCREASE (DECREASE)	VARIANCE %
<b>WATER REVENUE</b>				
Water Revenues				
Frontage-Parcel Taxes	\$ (1,234,900)	\$ (1,293,700)	\$ (58,800)	5%
User Fees	(7,942,400)	(8,645,700)	(703,300)	9%
Other Revenues	(294,300)	(474,000)	(179,700)	61%
Transfers from Surplus/Reserves	(1,167,500)	(303,700)	863,800	-74%
<b>Total Water Revenues</b>	<b>(10,639,100)</b>	<b>(10,717,100)</b>	<b>(78,000)</b>	<b>1%</b>
<b>Total WATER REVENUE</b>	<b>\$ (10,639,100)</b>	<b>\$ (10,717,100)</b>	<b>\$ (78,000)</b>	<b>1%</b>

**Frontage Fees**

Staff is recommending a 4.5% increase for the frontage tax from \$5.84 per meter to \$6.10, this will result in an average frontage charge increase of \$5.68 from \$127.49 to \$133.16. Total water frontage tax revenue is expected to be \$1,293,700 a \$58,800 increase over the prior year. The original intent of the frontage tax was to pay for capital costs of the water function however over the years operating costs have increased while user fee increases did not keep up to these changes thus operating expenses started to consume frontage tax revenue.

### Water User Fees

Staff is recommending a 4.5% increase for the water user rates. This will increase the user fee for a single residential dwelling by \$24.16 from \$536.98 to \$560.98. Total water user fee revenue is expected to be \$8,645,700 an increase of \$703,300 over the prior year. The bulk water rate increase is also set to be 4.5% for metered properties (commercial, multi family) from \$1.85 to \$1.93 per m3.

The expected increase to an average single residential dwelling for water fees and frontage is \$29.84 (user fee \$24.16 + frontage \$5.68) from \$664.31 to \$694.14. The CVRD bulk water purchases represents 59% of water expenses and therefor about \$408.25 of an average single residential dwelling water fee. A utility rate review is currently underway and will be presented to Council in 2024. This rate review could substantially change utility fee distribution, burden and structure therefore the 2024-2028 Financial plan does not include provision for these changes. The Financial plan simply includes growth and modest percentage increases to existing utility fees.

### Other Revenues

The water utility financial plan also includes miscellaneous revenues such as hydrant rentals (Fire Services), lawn sprinkling permits and park water usage for a total of \$474,000 a substantial increase over the prior years \$294,400. The reason for the increase is due to work performed through utility rate review that identified the City was undercharging itself for water consumed (expense) and sold (revenue). There is a matching expense increase in the general operating fund to better show the true cost of services provided. Using Parks water usage as an example, for many years an estimation of water consumption (expense) and matching revenue was used however over the years this estimation was not updated and overtime no longer truly represented the cost of parks water usage. By under estimating actual consumption through the water function, it was identified that user fees were, in part, subsidizing the parks function.

### Water Capital Fund

The projects included in the 2024 Water Capital Budget are listed in Table 4 below.

Table 4: Water Capital Projects

Project description	2024 Proposed Budget	2025 Proposed Budget	2026 Proposed Budget	2027 Proposed Budget	2028 Proposed Budget	Total 2024- 2028 Budget
Braidwood Road - Road & Utility - Water Component				10,000	500,000	510,000
Cousins Avenue Upgrades			59,400	779,500		838,900
New PRV Connection to 87 Zone (Cumberland - Arden)			30,000	300,000		330,000
Sandpiper / Millard Water Main Upgrade	19,200					19,200
South Courtenay PRV and Booster Station Upgrades (Buckstone Rd)			50,000	500,000		550,000
Water Smart Initiatives - District Meter Zone	400,000	75,000	400,000	75,000	400,000	1,350,000
<b>Grand Total</b>	<b>419,200</b>	<b>75,000</b>	<b>539,400</b>	<b>1,664,500</b>	<b>900,000</b>	<b>3,598,100</b>

Cousins Avenue Upgrades – This project is the water component part of a complete street renewal project.

PRV Connection to 87 Zone – This project is the installation of a pressure reducing value (PRV) connecting to zone 87 at Cumberland Rd and Arden Rd.

South Courtenay PRV and Booster Station Upgrades – This project will be commenced after the CVRD’s water south extension project and will provide improved water supply to the Buckstone area.

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Water Smart Initiatives – District Meter Zone – This project continues with the installation of water meters at the distribution points from the CVRD water transmission mains. The addition of more meters will provide data for water consumption for specific areas that will aid in master planning and conservation.

#### *Debt Servicing Costs*

The Water Operating Fund also includes debt servicing costs. Interest payments are expected remain at \$9,200 and \$20,100 of principal payment for a total of \$29,300 (\$29,300 – 2023). Debt servicing costs will remain stable until 2027 when they fall for a year and then increase to \$67,700 in 2028 with the anticipated completion of the 2027 capital plan.

Debt servicing costs are directly related to the funding method for capital projects. Due to limited reserves on hand, the only available option to fund capital projects is debt. As the years progress through the capital plan, if there are adequate reserves on hand staff will make recommendations to change capital funding from debt to reserve when possible, however given current water rates and reserves the financial plan presented relies on debt to fund capital projects.

#### **POLICY ANALYSIS:**

Section 165 of the *Community Charter* requires a municipality to have a five-year financial plan adopted annually and Section 194 permits the levying of a fee to recover the cost for the delivery of a service.

The 2024-2028 Water Budget is a component of the annual City of Courtenay five-year financial plan. It is proposed to increase the water user fee and frontage fee by 4.5% (4.0% - 2023) and 4.5% (0% - 2023) respectively. These have been incorporated into the 2024-2028 Water Fund Financial Plan.

#### **FINANCIAL IMPLICATIONS:**

The 2024-2028 Water Fund Financial Plan provides stable services with reasonable rate changes given expense projections and planned capital projects. The Water Fund has higher reserves on hand than the Sewer fund however the Water Fund needs to hold a higher operating reserve to ensure adequate funds available to pay the variable CVRD water consumption charges. This being said the City's water rates are under review and preliminary findings show Courtenay rates are reasonable when compared to other similar communities.

The ability to rely on prior year surplus to smooth and defer water rate increases has provided the time required to appropriately review and update water rates to ensure adequate funds are available to support future operating and capital costs.

Table 5: 2024 Sewer Fund Financial Plan Summary



	2023 BUDGET	2024 BUDGET	BUDGET INCREASE (DECREASE)	VARIANCE %
<b>WATER REVENUE</b>				
Water Revenues				
Frontage-Parcel Taxes	\$ (1,234,900)	\$ (1,293,700)	\$ (58,800)	5%
User Fees	(7,942,400)	(8,645,700)	(703,300)	9%
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<b>Total Water Revenues</b>	<b>(10,639,100)</b>	<b>(10,717,100)</b>	<b>(78,000)</b>	<b>1%</b>
<b>Total WATER REVENUE</b>	<b>\$ (10,639,100)</b>	<b>\$ (10,717,100)</b>	<b>\$ (78,000)</b>	<b>1%</b>
<b>WATER EXPENSES</b>				
Contributions to Other Governments	\$ 5,454,700	\$ 6,303,100	\$ 848,400	16%
Water Administration	633,000	603,900	(29,100)	-5%
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JOB 11500 Water Facilities	103,200	105,100	1,900	2%
JOB 11600 Water Quality & X-connect Control	80,500	120,700	40,200	50%
JOB 11700 Water Conservation Program	32,400	32,700	300	1%
JOB 11800 Water Leak Detection	27,600	35,300	7,700	28%
New Connections	100,000	100,000		0%
<b>Total Water Operations</b>	<b>\$ 1,481,100</b>	<b>\$ 1,819,600</b>	<b>\$ 338,500</b>	<b>23%</b>
Internal Transfers				
Internal Transfer - Common Costs	\$ 1,299,800	\$ 1,360,700	\$ 60,900	5%
Internal Transfer - To Other Funds	785,800	200,000	(585,800)	-75%
Internal Transfer - To Reserves and Allowances	891,100	393,600	(497,500)	-56%
<b>Total Internal Transfers</b>	<b>\$ 2,976,700</b>	<b>\$ 1,954,300</b>	<b>\$ (1,022,400)</b>	<b>-34%</b>
Water Debt Servicing	\$ 29,300	\$ 29,300	\$ -	0%
<b>Total WATER EXPENSES</b>	<b>\$ 10,639,100</b>	<b>\$ 10,717,100</b>	<b>\$ 78,000</b>	<b>1%</b>
<b>Total Water (surplus) / deficit</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0%</b>

**ADMINISTRATIVE IMPLICATIONS:**

Subsequent to Council endorsing the recommended increase for the 2024-2028 Water Fund Financial Plan, user fees bylaw and frontage bylaw, staff will update the financial system with the new rates, prior to the 2024 utility billing.

Once finalized, the water budget will be incorporated as part of the statutory component of the five-year financial plan.

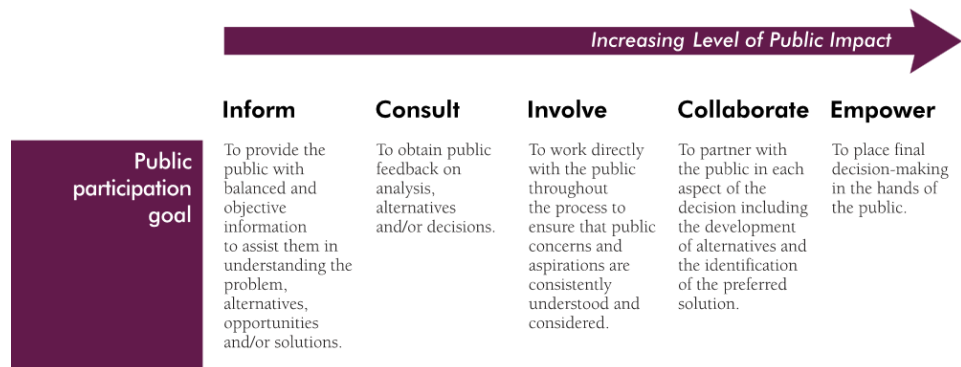
**STRATEGIC PRIORITIES REFERENCE:**

This initiative addresses the following cardinal directions:

COURTENAY WILL BE RESPONSIBLE FOR THE FUTURE by being more thoughtful, strategic, and efficient in all resources that we use whether it be land, energy, or public infrastructure, to ensure that actions deliver on multiple goals of fiscal responsibility, economic resilience, social equity, and ecological health.

**PUBLIC ENGAGEMENT:**

Staff would inform the public based on the IAP2 Spectrum of Public Participation:



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**OPTIONS:**

1. THAT Council Gives first, second and third readings to Fees and Charges Amendment Bylaw No. 3123, 2024 (water).  
and  
THAT Council Gives first, second and third readings to Water Service Frontage Tax Amendment Bylaw No. 3125, 2024.  
and  
That Council approves the 2024-2028 Water Fund Financial Plan as presented for inclusion in the 2024-2028 Five-year plan.
2. THAT Council provide alternative direction to staff.

**ATTACHMENTS:**

1. 2024-2028 Water Fund Financial Plan
2. 2024-2028 Water Fund Capital Plan
3. Fees and Charges Amendment Bylaw No. 3123, 2024 (water)
4. Water Service Frontage Tax Amendment Bylaw No. 3125, 2024

Prepared by: Adam Langenmaier BBA, CPA, CA, Director of Finance, Chief Financial Officer  
Reviewed by: Kyle Shaw, ASCT, CPWI, CWP, CWWP, Director of Public Works Services  
Concurrence: Geoff Garbutt, M.PI., MCIP, RPP, City Manager (CAO)