



The Corporation of the City of Courtenay

Staff Report

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

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

PURPOSE:

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

EXECUTIVE SUMMARY:

The five-year sewer 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 sewer user fees and frontage fees, the sewer service receives no funding from general property taxation.

The City of Courtenay owns and operates a class 3 sewer collection system that collects effluent within the City and conveys this effluent to Regional trunk systems. These Regional trunk systems, including the Courtenay Lift Station then convey the effluent to the sewage treatment plant for processing, treatment and ultimately release. The Courtenay Lift Station and the Sewage Treatment Plant are part of the Comox Valley Regional Sewer Service, which is administered by the Comox Valley Regional District (CVRD).

Each component plays a vital role in providing sewer services to the residents of Courtenay and its regional partners. The CVRD, through the Sewage Commission, has planned capital conveyance upgrades and treatment plant expansion in order to ensure the sustainability, capacity and integrity of their portion of the system infrastructure. The CVRD's 2024 requisition is \$6,264,000 (\$5,637,600-2023) to the City for the cost of the City's share of the regional sewer service.

The City must also provide funding for its own sewer collection service capital and operational needs. The cost of sewer service delivery is funded through a combination of user fees and frontage and parcel taxes. Sewer expenses have risen by \$1,041,500 from \$9,313,300 to \$10,354,800 which is an 11% increase. The majority (95%) of these cost increases are directly related to the increased CVRD requisition which is expected to rise to \$6,240,000. This increase has been significantly influenced by the Sewer Conveyance project.

Staff is recommending a 10% increase for the sewer user fee which is equivalent to \$39.88, this will increase the user fee from \$398.76 to \$438.64.

Staff are also recommending a 4.5% increase for the frontage tax from \$10.24 per meter to \$10.70, this will result in an average frontage charge increase of \$10.04 from \$223.54 to \$233.58.

The expected increase to an average single residential dwelling for sewer fees is \$49.92 (user fee \$39.88 + frontage \$10.04) from \$622.30 to \$672.22 annually.

Sewer Utility Charge Change Summary

	2023	2024	\$ Change	% Change
User Fee	\$ 398.76	\$ 438.64	\$ 39.88	10.0%
Frontage	\$ 223.54	\$ 233.58	\$ 10.04	4.5%
Total	\$ 622.30	\$ 672.22	\$ 49.92	8.0%

BACKGROUND:

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

DISCUSSION:

The sanitary sewer utility service provided to City property owners is a combination of the City and Comox Valley Regional Sewer Service infrastructure. Administered by the CVRD, the regional sewer service infrastructure includes sewer pumping stations, sewer trunk mains, sewer force mains (including the force main on Comox Road) and a wastewater treatment plant with an outfall for treated effluent. It was constructed in the early 1980's and designed with a 25-year life-cycle. As a result of the 2011 CVRD sanitary sewer master plan, a 10-year capital plan was developed and approved by members of the CVRD Sewer commission in 2012. In 2018, the CVRD embarked on a new Liquid Waste Management Plan (LWMP). This statutory plan is outlining future capital expenditures necessary for the sustainability of the service. The draft plan for Stage 2 was submitted in summer 2022. The review will take approximately one year. Based on feedback from the province, the plan will be revised, shared with the community and then submitted back to the province for final approval, which is likely to occur in Spring of 2024.

City infrastructure includes lift stations, sewer gravity mains, a collection of system appurtenances and sewer connections within the boundaries of the municipality. This infrastructure varies in age depending on its location within the City. Infrastructure on the west side of the City varies from relatively new to over 60 years old, whereas infrastructure on the east side of the river is generally newer and, in some cases, less than 30 years old.

The largest cost component of this financial plan is the cost of the regional sewer service shared proportionately between the service participants, the City of Courtenay, the Town of Comox and HMCS Quadra, based on their respective annual sewer flows.

City of Courtenay 2024 – 2028 Sewer Fund Financial Plan

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

Attachment 1 – 2024-2028 Sewer Fund Financial Plan

Attachment 2 – 2024-2028 Sewer Capital Plan

The sewer fund financial plan includes for 2024: \$10,354,800 in projected sewer revenues and the following expenditures: \$8,913,100 of operating expenses, \$658,500 transferred to the capital fund, \$375,500 transferred to reserves and \$407,700 for debt payments.

Sewer Operating Fund

Sewer Expenses - \$10,354,800

The sewer operating expense budget is presented in Table 1. The overall increase in operating costs between 2023 and 2024 budget is \$1,041,500 (11%), of which \$991,800 is directly related to the projected increase in the CVRD requisition (representing 95% of the increase).

Table 1: Sewer Operating Expense

	2023	2024	BUDGET	
			INCREASE	VARIANCE
	BUDGET	BUDGET	(DECREASE)	%
SEWER EXPENSES				
Contributions to Other Governments	\$ 5,272,200	\$ 6,264,000	\$ 991,800	19%
Sewer Administration	541,200	591,800	50,600	9%
Sewer Fleet	49,000	25,500	(23,500)	(48%)
Sewer Operations	739,000	928,400	189,400	26%
Internal Transfers	2,402,400	2,137,400	(265,000)	(11%)
Sewer Debt Servicing	309,500	407,700	98,200	32%
Total SEWER EXPENSES	\$ 9,313,300	\$ 10,354,800	\$ 1,041,500	11%

Contributions to Other Governments - \$6,264,000

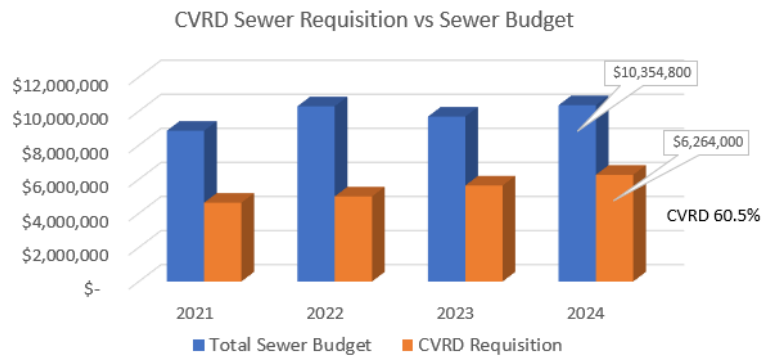
The Comox Valley Regional District 2023-2027 Financial Plan includes a 11% increase for the projected 2024 Regional Sewerage Service Requisition, which is the largest expense in for the Sewer Fund and accounts for 60.5% (56.6%-2023) of the 2024 sewer budget.

Table 2 presents the increase in Courtenay’s share of the sewer service requisition since 2020 to the proposed budget for 2027, based on the CVRD 2023-2027 Financial Plan.

It should be noted that the 2024-2028 Comox Valley Regional District Financial Plan is not available at the time of this report, therefore future year requisition amounts are subject to change and may impact future user fee estimates.

Table 2: Comox Valley Sewer Service Requisition, Courtenay’s Share

CVRD Sewer Service Requisition				
Year		Requisition	\$ Change	% Change
2020	Actual	4,439,680	294,189	7.1%
2021	Actual	4,630,120	190,440	4.3%
2022	Actual	4,994,640	364,520	7.9%
2023	Actual	5,637,600	642,960	12.9%
2024	Budget	6,264,000	626,400	11.1%
2025	Budget	6,612,000	348,000	5.6%
2026	Budget	6,960,000	348,000	5.3%



Sewer Administration - \$591,800

Those sections include a portion of the salaries, wages and benefits of the Public Works Services and Engineering Services teams, as well as training expenses. A portion of the overall service increase (9%) is

due to an additional engineering technologist position that is split 60% general fund, 20% sewer fund and 20% water fund. Other increases are due to the contractual increase for salaries, wages, benefits and inflation.

Sewer Fleet Charges - \$25,500

In 2023 staff undertook a review of fleet charges to best determine how charges are allocated and to ensure charges are accurate to the work being performed. As a result of this work, some charges have been increased, decreased or reallocated based on actual usage and value of the equipment being used. There has been a shift in charges falling to the generic fleet charges to more specific equipment charge out accounts within operation accounts.

Sewer Operations - \$928,400

The budget for sewer operations is has increased by \$189,400 however this includes reallocation of fleet charges. Increases can be attributed to increased traffic control, SCADA system refinement and increased equipment charges. Sewer operations include crew wages and benefits as well as the material and services needed to perform regular operations, preventative and reactive work on the sewer infrastructure. Regular contractual increases are also included for crew wages and benefits.

Internal Transfers - \$2,137,400

Internal transfers include transfer to reserves, current year capital projects and a percentage of the General Fund and Public Works administrative expenses.

Transfer to other funds represents capital projects funded from general revenue (current year sewer fees) have increased to \$658,500 from \$277,700, 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 \$694,400 to \$375,500, this is due to the removal of \$106,500 to the contingency reserve, and \$587,900 to the RFE. Contingency transfer is used as a buffer to save funds for future years operating expenses. With the increase to the CVRD requisition, the City is not in a position to save for the future, instead the City is relying on prior years savings. The RFE is used to fund capital projects that are funded by general revenue (current year sewer 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. Reserve transfer of \$375,500 are the same as the prior years.

The sewer allocation has increased by \$48,600 to \$1,103,400 and is set to 11.5% of the General Government Services and to 17% of the Public Works administrative expenses based on prior year estimate. The intent is to transfer a reasonable amount for General Government Services, including Public Works Services and Engineering Services administrative expenditures (personnel, utilities, materials, insurance, contracted services and fleet costs) as recognition of the costs necessary to provide the service. The allocation percentage is reviewed periodically and will be analyzed before next year budget. The variance represents the general increase in the General Government Services budget.

Sewer Revenue - \$10,354,800

Revenues collected through sewer user and frontage fees are used to cover the costs of the operating and capital expenditures. Other sewer revenue includes connection fees and transfers from reserve. Although

sewer rates are recommended to increase these increases are not sufficient to cover the costs of operating the sewer function. For 2024-2028 the City is relying on prior years surplus to balance the sewer fund. For 2024 \$571,400 is being drawn from surplus which represents 5.3% of total sewer revenue.

Table 3: Sewer Revenue

	2023	2024	BUDGET	
			INCREASE	VARIANCE
	BUDGET	BUDGET	(DECREASE)	%
Sewer				
SEWER REVENUE				
Sewer Revenues				
Frontage-Parcel Taxes	\$ (2,120,200)	\$ (2,222,700)	\$ (102,500)	5%
User Fees	(6,534,700)	(7,500,700)	(966,000)	15%
Other Revenues	(60,000)	(60,000)		
Transfers from Surplus/Reserves	(598,400)	(571,400)	27,000	(5%)
Total Sewer Revenues	\$ (9,313,300)	\$ (10,354,800)	\$ (1,041,500)	11%

Sewer Frontage Tax

Staff is recommending a 4.5% increase for the frontage tax from \$10.24 per meter to \$10.70 which will result in an average frontage charge increase of \$10.04 from \$223.54 to \$233.58. Total sewer frontage tax revenue is expected to be \$2,222,700 a \$102,500 increase over the prior years \$2,120,200. The original intent of the frontage tax was to pay for capital costs of the sewer 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.

Sewer User Fee

Staff is recommending a 10% increase for the sewer user fee which is equivalent to \$39.88. This will increase the user fee from \$398.76 to \$438.64. Total sewer user fee revenue is expected to be \$7,500,700, a \$966,000 increase over the prior years \$6,534,700. The increase in user fees is required to fund sewer operating costs, specifically the increases to the CVRD Sewer requisition.

Fees and Charges Amendment Bylaw No. 3122, 2024 contains the sewer user fee schedule. All user rates will increase by the proposed 10% except for the car wash class as it is increasing 3-fold from \$438.64 to \$1,315.92. The increase is to better align the recovery rate related to the volume of sewer flows produced by the property compared to the sewer fee applied to the property.

The expected increase to an average single residential dwelling for sewer fees is \$49.92 (user fee \$39.88 + frontage \$10.04) bringing total sewer fees to \$672.22 from \$622.30. The CVRD sewer requisition represents 60.5% of sewer expenses and therefor about \$406.69 of an average single residential dwelling sewer 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.

Sewer Utility Charge Change Summary

	2023	2024	\$ Change	% Change
User Fee	\$ 398.76	\$ 438.64	\$ 39.88	10.0%
Frontage	\$ 223.54	\$ 233.58	\$ 10.04	4.5%
Total	\$ 622.30	\$ 672.22	\$ 49.92	8.0%

Sewer Capital Fund

The projects included in the 2024 Sewer Capital Budget are presented in Table below.

Table 4: Sewer Capital Projects – 2024-2028

Project description	2024	2025	2026	2027	2028	Total 2024-2028 Budget
	Proposed Budget	Proposed Budget	Proposed Budget	Proposed Budget	Proposed Budget	
Anderton Sanitary Lift Station	238,500	309,000	3,229,500			3,777,000
Braidwood Road - Road & Utility - Sewer Component				10,000	500,000	510,000
Comox Rd Sewer Crossing	4,000,000					4,000,000
Cousins Avenue Upgrades			59,400	779,500		838,900
Sewer - 1st Street Lift Station Replacement	3,439,078					3,439,078
Sewer - SCADA Server/Firewall Replacement	20,000					20,000
Sewer Equipment - Lift Station Pumps	60,000					60,000
South Courtenay Sewer System - Phase 1	948,000	10,747,500				11,695,500
South Courtenay Sewer System - Phase 2			860,000	9,747,000		10,607,000
Grand Total	8,705,578	11,056,500	4,148,900	10,536,500	500,000	34,947,478

Anderton Sanitary Lift Station – This project will relocate and upgrade the existing lift station which is one of the oldest lift stations in the city and is at the end of its service life.

Comox Road Sewer Crossing – This project will decommission the existing sanitary main crossing the Courtenay River as well as upgrade the sanitary main along Comox Road that is at the end of its service life. This project has historically been called the Puntledge Sanitary Catchment Replacement however due to confusion with the Puntledge area of town, this project has been renamed to better represent the physical location of work to be performed.

1st Lift Station Replacement – The 1st Street Lift Station is located near Puntledge Park and is also one of the oldest lift stations in the city. This project will replace and relocate the existing lift station which is at the end of its service life.

South Courtenay Sewer Phase 1 & 2 – This project will bring sanitary service to a large section of properties in South Courtenay that do not currently have City sewer services as well as prepare the City for any future development in the area.

Debt Servicing Costs

The Sewer Operating Fund also includes debt servicing costs. Interest payment is expected to rise by \$98,200 due to the 1st Street Lift Station Replacement project and Comox Road Sewer Crossing project. Principal payments of \$185,400 remain unchanged as principal payments on the two new projects are not payable until the following year that debt is held. Total debt servicing costs have increased by \$98,200 from \$309,500 to \$407,700. Total debt costs continue to be reasonable and could see a reduction from budgeted amounts due to falling interest rates. Future debt has been budgeted assuming a 5% interest rate however at the time of report writing the forecasted Municipal Finance Authority interest rate is 4.17%.

Debt servicing costs are set to rise over the next 5 years and 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 sewer 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 Sewer budget is a component of the annual City of Courtenay five-year financial plan. An increase of 10% (5.5%-2023) for the user fee and a 4.5% (0%-2023) for the frontage fee has been incorporated into the 2024-2028 Sewer Fund Financial Plan.

FINANCIAL IMPLICATIONS:

The 2024-2028 Sewer Fund Financial Plan provides stable services with reasonable rate changes given expense projections and planned capital projects. The Sewer Fund has lower reserves on hand due to historical capital project cost overruns (Greenwood Trunk) and current project cost estimate escalations (1st St Lift Station, Comox Rd Sewer Crossing) coupled with the rising requisition from the CVRD attributed to the Sewer Conveyance project that has seen cost escalations from initial projections. The City's sewer rates are under review and preliminary findings show Courtenay sewer rates are reasonable when compared to other similar communities.

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

Table 5: 2024 Sewer Fund Financial Plan Summary

	2023	2024	BUDGET	
			INCREASE	VARIANCE
	BUDGET	BUDGET	(DECREASE)	%
Sewer				
SEWER REVENUE				
Sewer Revenues				
Frontage-Parcel Taxes	\$ (2,120,200)	\$ (2,222,700)	\$ (102,500)	5%
User Fees	(6,534,700)	(7,500,700)	(966,000)	15%
Other Revenues	(60,000)	(60,000)		
Transfers from Surplus/Reserves	(598,400)	(571,400)	27,000	(5%)
Total Sewer Revenues	\$ (9,313,300)	\$ (10,354,800)	\$ (1,041,500)	11%
SEWER EXPENSES				
Contributions to Other Governments	\$ 5,272,200	\$ 6,264,000	\$ 991,800	19%
Sewer Administration	541,200	591,800	50,600	9%
Sewer Fleet	49,000	25,500	(23,500)	(48%)
Sewer Operations	739,000	928,400	189,400	26%
Internal Transfers	2,402,400	2,137,400	(265,000)	(11%)
Sewer Debt Servicing	309,500	407,700	98,200	32%
Total SEWER EXPENSES	\$ 9,313,300	\$ 10,354,800	\$ 1,041,500	11%
Total Sewer (surplus) / deficit	\$ -	\$ -	\$ -	

ADMINISTRATIVE IMPLICATIONS:

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

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

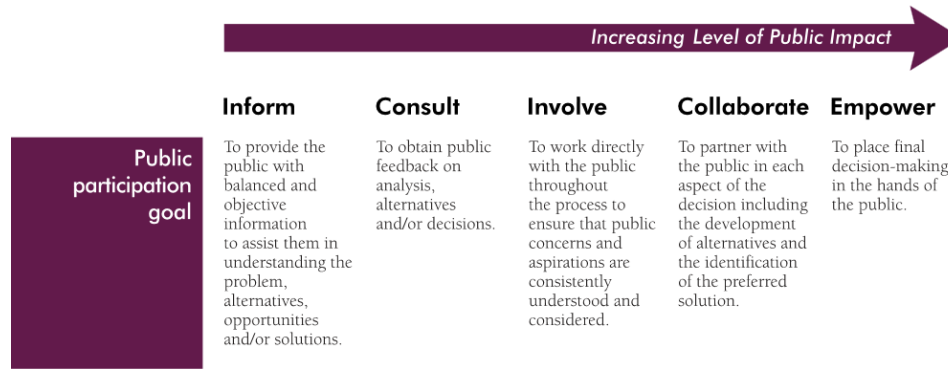
STRATEGIC PRIORITIES REFERENCE:

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. 3122, 2024 (sewer).
and
THAT Council Gives first, second and third readings to Sewer Service Frontage Tax Amendment Bylaw No. 3124, 2024.
and
THAT Council approves the 2024-2028 Sewer 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 Sewer Fund Financial Plan
2. 2024-2028 Sewer Fund Capital Plan
3. Fees and Charges Amendment Bylaw No. 3122, 2024 (sewer)
4. Sewer Service Frontage Tax Amendment Bylaw No. 3124, 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.Pl., MCIP, RPP, City Manager (CAO)