

CITY OF PORTAGE LA PRAIRIE SEWER & WATER UTILITY RATE REVIEW

Executive Summary

A water and sewer rate study for the City of Portage la Prairie (the City) is enclosed for the years 2010 to 2012 and on. The study consisted of the compilation of water and sewer activities and statistics. The capital and operating plan for the years 2010 to 2012 made up the financial analysis to assist in the determination of water & sewer rates for the next three years.

The most significant capital project in the near future is the removal of nutrients from the wastewater effluent. The cost of this project is estimated at \$51 Million and an application for funding 2/3 of this project through grants has been submitted to the Canada Manitoba Infrastructure. The City's share of \$17 Million has been built into the 10 year capital plan, with funding sources of \$14.2 Million from its reserves and \$2.8 Million issued as debt. The project is scheduled to take place over the next 5 years, with engineering and design work in 2011 and 2012 and construction from 2012 to 2014.

Rate increases are required in sewer rates and this plan proposes to increase sewer rates for capital purposes by 9% in Step 1 (domestic level) and 13% in Step 2 (wholesale and variable levels) in each of the years 2010 to 2012 inclusive.

It's important to note that the City's 10 year Capital plan includes rate increases beyond 2012 for nutrient removal implementation, reserve restoration and operating increases that are related to the operation of new nutrient removal processes. It is anticipated that annual operating increases to remove nutrients would be approximately \$2 Million.

By the end of 2012 the annual Nutrient Removal Reserve transfer will be \$2,022,227 under this proposal. Additional rate increases for 2013 and 2014 will also be required for the project but will be reviewed in a later study. Once the project is complete and in operation, the annual transfer would be used to offset the increased operating costs.

The financial projections for 2010 to 2012 inclusive assume annual increases of 3% increase in salaries, 2% increase in the major hydro accounts, 3% in major chemical accounts and 3% in the Industry sewage over-strength cost participation (recovery) account. As well additional staff is required in the Utility Division and these costs (\$200,000 plus benefits) are included in the projections.

Rate increases for operating costs in water and sewer rates are proposed to increase by 1% for first 2 steps (Domestic and Intermediate levels) and 3% per year at the 3rd and 4th steps (higher level users).

This results in a net operating surplus of \$244,179 in 2012 before the adjustments for the new PSAB (Public Sector Accounting Board) standards. With PSAB adjustments, such as capital and debt principal removed, amortization added and PUB's requirement to include transfers to reserves for rate purposes, the net 2012 operating year amounts to a deficit of \$ 481,245. This is primarily due to the significant net amortization costs of \$1,781,094 annually. This clearly indicates the need for continuous rate increases to fund the future replacements of existing infrastructure.

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The City is in a good position with working capital surplus. The balance ending 2012 is \$9.07 Million which is significantly above the minimum requirement of \$2.17 Million (20% of operating expenses).

The City enjoys a recent history of fiscal year ending operating surpluses with the last operating deficit (less than \$50,000) occurring in 2001. Prudent financial management has enabled the Utility to operate efficiently and deliver exceptional drinking water to its customers and treat wastewater at an affordable price.

This study proposes to increase water and sewer rates (in each of the 3 years) by an average of 2% for operating increases with additional increases in the sewer rates an average of 11%.

The proposal raises the larger volume rates at a higher percentage than the lower volume rates. There is a significant difference from the domestic level to the industrial level. With a higher increase in rates for wholesale and variable rates, the proposal seeks to narrow the gap between the rates. By 2012 the total variable (large user) rate will be 53% of the total domestic level, a significant increase from the 2009 gap of 44%. This effort continues on from previous rate increases which also raised the high volume rates at a higher percent than the domestic level rates. It would be difficult at this time to raise the variable rate higher than proposed. Large industry contributes approximately 50% of the revenues for the Utility and economic challenges in the world markets means for more caution and discretion in the City’s deliberations.

By 2012, an additional \$2.4 Million will be raised annually under this proposal. The annual sewer rate increases of 9% for domestic and 13% for industry will generate an annual \$1.7 Million for nutrient removal and the average annual 2% increases in water and sewer rates across the board will generate an annual \$694,274 to meet operating increases.

The impact for the various users (Domestic to Industrial) is located below:

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Impact on a family with consumption of 15,000 gallons per quarter

| | 2009 Annual | 2010 Annual | 2011 Annual | 2012 Annual | |
|-------------------|----------------|----------------|----------------|----------------|--------------------|
| Water & Sewer | \$683 | \$722 | \$765 | \$811 | |
| Annual Increase | | \$39 | \$43 | \$46 | |
| Increase Per Year | | 5.7% | 5.9% | 6.0% | <u>Avg</u> 5.9% |

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Impact on a mid -sized industry with consumption of 1,000,000 gallons per quarter

| | 2009 | 2010 | 2011 | 2012 | |
|-------------------|----------|----------|----------|----------|--------------------|
| | Annual | Annual | Annual | Annual | |
| Water & Sewer | \$32,076 | \$34,560 | \$37,343 | \$40,446 | |
| Annual Increase | | \$2,484 | \$2,783 | \$3,103 | |
| Increase Per Year | | 7.7% | 8.1% | 8.3% | <u>Avg</u> 8.0% |

Impact on Large Industry based on 76 million gallons per quarter

| | 2009 | 2010 | 2011 | 2012 | |
|-------------------|-------------|-------------|-------------|-------------|---------------------|
| | Annual | Annual | Annual | Annual | |
| Water & Sewer | \$1,429,579 | \$1,603,451 | \$1,801,714 | \$2,030,260 | |
| Annual Increase | | \$173,872 | \$198,263 | \$228,546 | |
| Increase Per Year | | 12.2% | 12.4% | 12.7% | <u>Avg</u> 12.4% |

In comparison to other municipalities, the 2012 Domestic rates place the City between Brandon (lowest) and Winnipeg (highest). For mid sized industry, the City is similar to Brandon and less than Winnipeg. Large sized industry in Portage remains to enjoy lower rates than Winnipeg and Brandon.

Schedules are provided in the report for further comparisons as well as additional information for rate analysis and approval.

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