

TOWN OF GRAVELBOURG

Date: May 15, 2007

WATERWORKS RATE POLICY

On May 14, 2007, Council passed a resolution establishing a new waterworks rate policy – replacing the waterworks policy established in 2006.

Current waterworks rates are \$.0609/cubic foot (\$.0098/gallon) established through Bylaw 1290/07 dated May 14, 2007. Where sanitary sewer connection is integral to waterworks supply, monthly rental rates are charged at an appropriate amount for each sanitary sewer user classification. Current sewer charges are combined with water rates to provide revenues sufficient to meet annual costs of providing the combined utilities.

Under the waterworks rate policy resolution, the per cubic foot water rate of \$.0609 will continue, but to work towards waterworks revenues that cover waterworks operating costs.

Beginning December 15, 2007, Council is planning to raise the per cubic foot water rate by 10% per year for the next five years. A significant portion of this planned increase is attributable to anticipated contractual cost of supply increases over this period. At the same time, Council will closely monitor waterworks and sanitary sewer expenditures. It is anticipated that Sewer Rental and Unit User rates should remain at or near their current levels for the next five years. At the end of the fifth year, Council will review the waterworks policy to work towards waterworks revenues that cover waterworks operating costs and consider the need for a waterworks infrastructure charge. It will, at the same time review sanitary sewer operating costs and consider whether charges are sufficient to meet anticipated operating and infrastructure needs.

By planning the waterworks rate increases ahead of time, residents and businesses will be able to prepare for and adjust to the increases. Bylaws will be passed each year for the water rate changes.

The current rate of \$.0609 per cubic foot established on May 14, 2007 was chosen to be an acceptable rate for residents and businesses at that time based upon our actual treated water supply costs (\$.0432) and an additional amount of \$.0177 per cubic foot to account for our cost of distribution to our customers. The per cubic foot water rate does not generate enough waterworks revenues to cover our actual waterworks operating costs for its distribution. Nor is it anticipated that it will meet our future supply costs where our supplier is about to implement major capital improvements to its treatment facility which must ultimately be absorbed by our end-users.

The rate covers about 70% of the waterworks operating costs, with the other 30% of the operating costs being covered by funding from sanitary sewer charges. Waterworks operating costs or expenditures, include waterworks' staff salaries, benefits and training; power; telephone; fuel; heat; insurance; chemicals; repairs; maintenance; supplies; etc. Administration costs associated with its delivery will now be reflected in those costs which previously were absorbed through general revenue of the Municipality. Also, the current per cubic foot water rate does not include any amounts for future infrastructure costs. Some municipalities use an infrastructure charge to collect revenue that is put into reserves so that they are able to address waterworks infrastructure problems that arise and replace aging waterworks infrastructure as required.

Below provides the planned per cubic foot water rate increases of 10 percent per year over the next five years to demonstrate the impact on residents and businesses, based upon an average household consuming 2200 cubic feet (13,700 gallons) per 3 month billing cycle:

Date	Per Cubic Foot Rate	Estimated Quarterly Charge
December 15, 2006(current)	\$0.06090 (\$0.0098/gal)	\$133.98
December 15, 2007	\$0.06699 (\$0.01078/gal)	\$147.38
December 15, 2008	\$0.07369 (\$0.01186/gal)	\$162.12
December 15, 2009	\$0.08106 (\$0.01304/gal)	\$178.33
December 15, 2010	\$0.08916 (\$0.01435/gal)	\$196.16
December 15, 2011	\$0.09808 (\$0.01578/gal)	\$215.78

Basic Sewer Charges are forecast to remain stable for the next 5 years and are intended to generate sufficient revenues to initially offset true water costs and later to be the catalyst for creating a meaningful reserve for the utility.

Where a Storm Sewer Surcharge is currently in place, it is intended to continue as a fully separate reserve dedicated to future Storm Sewer upgrades upon completion of engineering work.

The objective of the waterworks rate policy is to work towards waterworks that are self-financing, where the users pay for the cost of the service. To accomplish this, waterworks rates need to increase over time so that the revenues cover operating costs, to the extent possible. At the end of the fifth year of the planned rate increases, Council will review its waterworks policy to determine if revenues are covering costs. At that time, Council will also need to consider increasing rates to build the waterworks reserves in order to cover future infrastructure maintenance and replacement costs, such as replacing fire hydrants and water tower in 2025 (\$2.1million), which have been identified in the 2005 waterworks assessment required by *The Water Regulations, 2002* . It will also consider whether the sanitary sewer rates will provide sufficient revenue for anticipated lagoon expansion and pre-treatment to meet future environmental needs.

This waterworks and sewer rate policy will work towards financially independent waterworks that do not have to compete with other key municipal financial demands under the municipal general revenue fund. This will ensure our waterworks and waste treatment can provide safe drinking water and cleaner discharge to the Wood River. Also, rates that cover costs will influence consumer demand and water conservation practices, and self-financing waterworks will reduce pressures on property taxes. Reduced funding for the waterworks from the general revenue fund will be reflected in future mill rates.

WATERWORKS CAPITAL INVESTMENT STRATEGY

On May 14, 2007, Council passed a resolution on a capital investment strategy.

The objective of the waterworks and wastewater capital investment strategy is to address anticipated waterworks infrastructure maintenance, the immediate drinking water infrastructure problems and future infrastructure replacements in a timely fashion so as to ensure the municipal waterworks and wastewater systems provides safe drinking water to residents and businesses that is treated responsibly for users further down river. The strategy uses the 2005 waterworks system assessment that was required by Saskatchewan Environment for infrastructure planning and input from Saskatchewan Environment and UMA engineering with respect to waste water treatment. To cover the costs of future waterworks infrastructure maintenance and replacements, Council anticipates the need to undertake a future combination of increasing water rates to build the waterworks reserves, once the water rates cover waterworks operating costs, and long term borrowing.

This capital investment strategy will ensure that safe drinking water can be provided to the residents and businesses in the community in the present and future.

Capital plans have been established to address the waterworks infrastructure deficiencies and replacements as identified and prioritized in the 2005 waterworks assessment to ensure safe drinking water. The current waterworks and wastewater capital plans and planned sources of funding are as follows:

Project	Planned Year of Completion	2007 Cost	Future Cost*	Source of Funding
Replacement of 4 Hydrants/year	underway in 2011 to be completed by 2026	\$32,000/yr	\$36,000/yr	Infrastructure charge fund – year to year
replace Tower Pressure System	2020	\$500,000	\$580,000	reserves and borrowing

Project	Planned Year of Completion	2007 Cost	Future Cost*	Source of Funding
Construction of 3 rd Lagoon evaporative pond.	underway in 2011 to be completed by 2014	\$45,000/yr	\$47,000/yr	Infrastructure charge fund – year to year
Installation of failsafe back-up generator for both water and sewer operations	2008	\$35,000	\$35,000	reserves and borrowing

Where infrastructure rates are implemented in 2011, Hydrants would be replaced as reserve amounts allowed and pressure system replacement would be accomplished through long term borrowing.

For future waterworks capital plans, projects will be prioritized based on what is needed to ensure safe drinking water.

ANNUAL FINANCIAL OVERVIEW (of the previous calendar year)

Total 2006 waterworks/sanitary sewer revenues were \$396,000.

Total 2006 waterworks/sanitary sewer expenditures were \$386,000 inclusive of administrative costs.

Total debt payments on waterworks infrastructure loans was \$14,700 .

Comparison of waterworks revenues to expenditures, expressed as a ratio

of $\frac{\$392000}{\$386000} = 1.018$

For 2006, waterworks/sewer revenues covered 100 percent of the waterworks/wastewater expenditures.

Amount of 2006 waterworks/wastewater revenues transferred out of the utility - zero.

Amount of 2006 supplementary funding required to cover expenditures

- \$0.00 from the general revenue fund.
- \$51,500 from sanitary sewer revenue offset cost of water supply/distribution

RESERVES

Reserves available for waterworks capital infrastructure - \$41,568 which was intended for intake replacements at Thomson Lake.

Reserves available from Storm Sewer Surcharge for capital upgrade - \$20, 228.

ATTACHMENTS

- Attached is the 2005 waterworks system assessment, as required under section 35 of *The Water Regulations, 2002*.

The Town currently has agreement with SaskWater Corporation for the supply of treated water from its treatment plant located in Gravelbourg and is attached to this document.