



City of Richmond

-Report to Committee

To: General Purposes Committee
From: Graham Willis,
Manager, Special Projects
Re: **GVS&DD Sewer DCC**

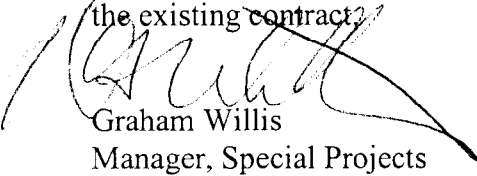
To General Purposes - Apr 18, 2006

Date: April 6, 2006

File: 03-0920-02-01

Staff Recommendation

That the GVS&DD sewer DCC currently being funded by the Richmond sewer utility be charged to developers at subdivision or building permit approval, as appropriate, effective July 1, 2006, and that the GVS&DD be given written notice immediately of the City's intentions to terminate the existing contract.


Graham Willis
Manager, Special Projects

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FOR ORIGINATING DIVISION USE ONLY			
ROUTED TO:	CONCURRENCE		CONCURRENCE OF GENERAL MANAGER
Engineering	Y	<input checked="" type="checkbox"/>	N <input type="checkbox"/>
Budgets	Y	<input checked="" type="checkbox"/>	N <input type="checkbox"/>
Law	Y	<input checked="" type="checkbox"/>	N <input type="checkbox"/>
Revenue	Y	<input checked="" type="checkbox"/>	N <input type="checkbox"/>
Development Applications.....	Y	<input checked="" type="checkbox"/>	N <input type="checkbox"/>
REVIEWED BY TAG	YES	NO	REVIEWED BY CAO
	<input checked="" type="checkbox"/> <i>sw</i>	<input type="checkbox"/>	YES <input checked="" type="checkbox"/> <i>CAO</i> NO <input type="checkbox"/>

Staff Report

Origin

The first regional district DCC bylaw came into force on January 1, 1997. The charge was initiated to fund the costs of capital expenditures for the Greater Vancouver Sewerage & Drainage District (GVS&DD) attributable to growth. The service area was divided among the four sewerage areas and a fifth was created to deal with the capital costs of treatment beyond primary that were to be allocated on a regional basis. Separate DCC rates were calculated for each of the four areas, based on their unique capital programs, and then a common regional rate for funding that part of the capital program was added to each of the area rates.

The regional sewer DCC was to be assessed by municipalities on new development, and assessed revenues were to be remitted to the regional district on a prescribed schedule. It was expected that municipalities would collect the charge from developers; however, they were permitted to opt out of collecting from developers and, instead, fund the DCC from municipal sources. On December 8, 1997, City Council directed staff to opt out of collecting the charge from developers and fund the DCC from the sewer utility.

Analysis

Until 2004, the GVS&DD DCCs were funded from the Regional Sewer Debt Levy charge and collected through property taxes as part of general revenue. In 2004, staff was directed by the former GM of Finance & Corporate Services to discontinue this practice in preparing the 2004 budget. Since 2004, the regional sewer DCC has been funded through the sewer utility's rate stabilization account (appropriated surplus).

The City of Richmond is divided into three sewerage areas for levy purposes. The regional sewer DCCs in each of these areas are as follows:

Area 1: Lulu Island West

- single family residential : \$1,077 per unit
- townhouse : \$942 per unit
- apartment : \$673 per unit
- non-residential use : \$0.505 per sq ft of gross building area

Area 2: Vancouver Sewage Area (Sea Island and Mitchell Island)

- single family residential : \$944 per unit
- townhouse : \$826 per unit
- apartment : \$590 per unit
- non-residential use : \$0.443 per sq ft of gross building area

Area 3: Fraser Sewage Area (East Richmond and Fraser Seaport Lands)

- single family residential : \$1,731 per unit

- townhouse : \$1,515 per unit
- apartment : \$1,082 per unit
- non-residential use : \$0.811 per sq ft of gross building area

The sewer utility rate stabilization fund is used to ensure that any large increases required to the sewer utility rates can be introduced gradually. Increases to the sewer utility budget (and consequent increases to the sewer rates) over the past ten years have been driven primarily by dramatic increases in the charges paid to the GVS&DD for sewer discharge and treatment, over which the City has no control. The cost to the City of funding the regional sewer DCC for each of the past 2 years has been approximately \$2 million; at current usage, therefore, the current balance of \$8 million in the rate stabilization fund will be expended within the next 4 years. Given that development has increased significantly in the past year, that fund may very well be spent more quickly with the current practice. Continuing to use the rate stabilization fund in this manner is a short-term solution at best.

Staff have identified three other options for funding the regional sewer DCC:

- One option is to increase the sewer utility rates to cover the regional sewer DCC. The current sewer flat rate for a single family dwelling is \$231.24. Adding the expected regional sewer DCC of \$2 million to the rates would require an increase in the single family residential sewer rate to \$257.54 an increase of 11.4%.
- A second option would be to increase the sewer utility rates over a longer period, say four years, to pay for the regional charge, and fund only the yearly shortfall from the rate stabilization fund; such a mechanism would require an annual increase in the sewer rates of about 2.7%, and leave a balance in the rate stabilization fund of an estimated \$2 million at the end of four years. However, the remaining balance in the fund would allow little flexibility in mitigating the effect of large unexpected demands on the sewer utility budget.
- Richmond is the only municipality in the regional sewer district that currently funds the regional sewer DCC from own sources; all others collect the charge from developers and remit the revenue to the regional district. The charge is clearly related to new development and, yet, in Richmond, is being funded by ratepayers within the sewer utility. A final option is to begin collecting the regional DCC from developers and leave the sewer utility to fund city responsibilities. In the Lulu Island West sewer area, for example, such a change would have the following impact:

<i>Development type</i>	<i>Current DCC</i>	<i>GVS&DD DCC</i>	<i>% increase</i>
Single family	\$14,845	\$1,077	7.3
Townhouse	\$11,470	\$942	8.2
Apartment	\$8,831	\$673	7.6
Non-residential	\$3.24/ft*	\$0.505/ft	15.6

*estimated includes drainage DCC, which is charged per acre.

The City currently has a contract with the GVS&DD to continue paying for the sewer DCC from municipal sources; any changes to the terms, or termination, of this contract would require the City

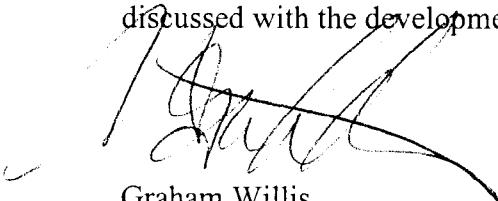
to give two months written notice of the change to the regional district. City officials have discussed the proposed change with their counterparts at the GVS&DD. In addition, the proposed change has also been discussed with the Urban Development Institute.

Financial Impact

Continuing to fund the regional sewer DCC from the sewer utility rate stabilization fund will exhaust that fund within the next four years. Funding the DCC from the sewer utility rates would require an increase in the rates of about 11.4% in one year, or approximately 2.7% annually for four years while dramatically reducing the balance of the rate stabilization fund.

Conclusion

The sewer utility cannot continue to fund the regional sewer DCC without a significant impact on sewer rates and/or the sewer rate stabilization fund. Richmond is the only municipality in the region funding the DCC from own sources. The regional sewer DCC is clearly development-related and should be borne by new development. Two months notice is required to terminate the existing contract with the GVS&DD. Given that the proposed change has already been discussed with the development community, an effective date of July 1, 2006 is appropriate.



Graham Willis
Manager, Special Projects
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