

Order No. 76/19

**THE MUNICIPALITY OF BOISSEVAIN-MORTON
BOISSEVAIN WATER AND WASTEWATER UTILITY
2017 ACTUAL OPERATING DEFICIT RECOVERY**

June 4, 2019

**BEFORE: Marilyn Kapitany, Panel Chair
Carol Hainsworth, Member**

By law, Manitoba utilities are not allowed to incur deficits. In the event that a deficit does occur, a Utility is required to obtain Board approval for recovery methodology.

The Public Utilities Board (Board) issued Order No. 151/08 on November 7, 2008 requiring all water and/or wastewater utilities to report an actual year-end deficit to the Board if the utility:

1. had not received prior approval for the deficit from the Board and such deficit either exceeds \$10,000 or represents 5% of the utility's operating budget; or
2. had received prior approval for the deficit from the Board and the actual deficit:
 - a. exceeds the previously approved amount by either \$10,000 or 5% of the utility's operating budget; or
 - b. is caused as a result that differs from that upon which said approval was granted.

1.0 Deficit Application

On April 5, 2019, the Board received an application from the Municipality of Boissevain-Morton (Municipality), Boissevain Water and Wastewater Utility (Utility) for approval the 2017 utility operating deficit in the amount of \$119,798.

The Municipality submitted Council Resolution No. 2019-058, requesting the deficit be recovered by a levy on the 2019 property taxes. The Municipality stated this is a one time request for recovery on taxes to minimize the impact to utility users. Utility users have recently experienced utility rate increases, implementation of a rate rider for five (5) years for previous deficit recovery, and a tax increase. The application stated the deficit was due to operating cost increases and a debenture debt that should have been issued, but was not.

Rates were last approved in Board Order No. 121/18 on September 6, 2018. This Board Order also approved the recovery of the 2014, 2015 and 2016 deficits through a rate rider of \$1.68 per 1,000 gallons over five (5) years.

Working Capital Calculation

Board Order No. 93/09 established that utilities should maintain a minimum working capital surplus, in an amount equal to 20% of annual expenses. The working capital surplus/deficit is defined as the Utility fund balance, excluding any capital related items plus Utility reserves.

As per the 2017 audited financial statements for the Utility, the most recent information available, the working capital deficit at December 31, 2017 is as follows:

	2017	2016
Utility Fund Accumulated Surplus	\$694,511	\$754,568
Deduct Tangible Capital Assets	(\$2,174,911)	(\$2,193,664)
Add Long Term Debt	\$329,220	\$424,242
Add Utility Reserves	\$65	\$29
Equals Working Capital Surplus (Deficit)	(\$1,151,115)	(\$1,014,825)
Expenses	\$588,718	\$634,735
20% of Expenses (Target)	\$117,744	\$126,948

The above-noted working capital calculation for the Utility is below the Board's recommended 20% target and insufficient to absorb the Utility's 2017 deficit. As a result, there is no surplus available to offset any deficit.

In the 2018 water and wastewater rate study submitted by the Municipality, the working capital deficit was forecasted to continue until 2021. The working capital deficit is a result of annual operating deficits and a debenture that was issued for \$1.3 million in 2000. The

debenture's annual payments were to be funded by property taxes, which through an oversight, had never been levied.

2.0 Board findings

The Board reviewed the deficit application and the 2017 audited financial statements. The Board finds that when calculated for regulatory purposes, the Municipality did not account for amortization of Capital Grants. Therefore, the deficit incurred in 2017 is \$68,800 which is much less than the Municipality's stated amount of \$119,818.

The calculation is as follows:

Net Operating Surplus (Deficit) before grant adjustment	(\$115,130)
Deduct Capital Grants Current Year	\$4,688
Deduct Contributed TCAs Current Year	\$0
Add Amortization of Capital Grants	\$51,018
Add Amortization of Contributed TCAs	\$0
Net Revenue (Deficit)	(\$68,800)

The Board supports the principle of user-pay utility rates; this principle also applies to rate riders/surcharges. It is only when rates are set on a user pay basis they send the right signal to ratepayers and allow ratepayers to make decisions about their use of the services.

In addition, the Municipality stated that if levied on taxes it would not be recovered from all Utility users, but only from the Town of Boissevain ratepayers, not the whole Municipality. This is an issue of fairness, as the deficit was incurred in 2017 in which all

current users contributed to, and therefore should be recovered from all users on a consumption basis.

The Board approves the recovery of the recalculated 2017 deficit of \$68,800 and varies the recovery method from a tax levy to a rate rider of \$1.23 per 1,000 gallons over two (2) years, or until the amount of \$68,800 is fully recovered or which ever comes first. This rate rider is in addition to the current rate rider of \$1.68 per 1,000 gallons over five (5) years approved in Board Order No. 121/18, resulting in a combined rate rider of \$2.91 for two (2) years. This rate rider is effective July 1, 2019. This rate rider will revert back to \$1.68 per 1,000 gallons on July 1, 2021 or once \$68,800 has been recovered.

The Board maintains that the user-pay principle is best for this recovery method and again varies the recovery methodology as applied for by the Town. The Town has metered water services and therefore should be recovering the deficit based on consumption.

The Board directs the Municipality to review the 2018 audited financial statements as soon as they are available, and directs the Municipality to submit a PUB Schedule 9 and deficit application, should a deficit materialize.

The Board acknowledges the Municipality's continuing efforts in correcting administrative issues within the Utility and with its compliance to Board directives.

3.0 IT IS THEREFORE ORDERED THAT:

1. The recovery of the 2017 operating deficit in the amount of \$119,818 through a tax levy applied for by the Municipality of Boissevain-Morton, Boissevain Water and Wastewater Utility, BE AND IS HEREBY DENIED.
2. The 2017 actual operating deficit, when calculated for regulatory purposes, incurred in the Municipality of Boissevain-Morton, Boissevain Water and Wastewater Utility, is HEREBY VARIED from \$119,818 to \$68,000.
3. The application by the Municipality of Boissevain-Morton to recover the 2017 actual operating deficit through a tax levy BE AND IS HEREBY VARIED to be recovered through a rate rider of \$1.23 per 1,000 gallons per customer per quarter, over two (2) years or until the deficit is paid in full, whichever comes first. The rate rider is effective July 1, 2019.
4. The Municipality of Boissevain-Morton provide a notice to its customers, including the decisions found in this Order, in next quarterly billing with a copy provided to the Public Utilities Board.
5. The Municipality of Boissevain-Morton review its 2018 Audited Financial Statements and submit deficit application, if required, as soon as the statements are available.

Fees payable upon this Order - \$150.00

Board decisions may be appealed in accordance with the provisions of Section 58 of *The Public Utilities Board Act*, or reviewed in accordance with Section 36 of the Board's Rules of Practice and Procedure (Rules). The Board's Rules may be viewed on the Board's website at www.pubmanitoba.ca.

THE PUBLIC UTILITIES BOARD

"Marilyn Kapitany"

Panel Chair

"Rachel McMillin, B.Sc."

Assistant Associate Secretary

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issued by The Public Utilities Board



Assistant Associate Secretary