

# Report to Council



**Date:** May 14, 2018  
**File:** 1890-20  
**To:** City Manager  
**From:** R. Westlake, Senior Engineer, Infrastructure  
**Subject:** Budget Amendment – Kelowna Integrated Water Supply Plan Phase One

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## **Recommendation:**

THAT Council receives for information, the report from the Senior Engineer, Infrastructure dated May 14, 2018, with respect to a Budget Amendment – Kelowna Integrated Water Supply Plan Phase One;

AND THAT the 2018 Financial Plan be amended to include additional costs of \$22,163,076 associated with this project of which \$666,338 will come from South East Kelowna Irrigation District contributions, \$15,342,226 will come through City internal financing and recovery from a Local Area Service charge in Southeast Kelowna, and the City's portions of \$2,400,260 will come from the Water Utility and the remaining \$3,754,252 will come from the Water Quality Enhancement Fee Reserve.

## **Purpose:**

To amend the 2018 Financial Plan to include additional costs associated with the Kelowna Integrated Water Supply Project Phase One, SEKID/SOMID Transition and Infrastructure Project.

## **Background:**

In May 2017, Council approved a budget of \$63.7M for a multi-year project to extend City water services to the entire South East Kelowna Irrigation District (SEKID) and South Okanagan Mission Irrigation District (SOMID) service areas. The project would bring clean drinking water to Southeast Kelowna and agricultural irrigation water to the SOMID customer on the south bench of the City.

The City successfully applied for and received senior government funding for the project in the amount of \$43.9M.

## **Project Update**

The 2017 budget was prepared using preliminary or planning information that was available at that time. Since then, the City has completed additional work, including geotechnical, legal surveys, archeological and land acquisitions.

The City initiated the procurement phase for selecting a design/build project Contractor in the fall of 2017. Design/build submissions were received on March 1, 2018. Review and negotiations followed with the lead proponent. On April 27<sup>th</sup> staff awarded an initial contract for upgrades to its south end water infrastructure within the current budget. The award of the remaining work is pending Council approval of this budget amendment.

The budget required to complete this project is now \$85.9M of which SEKID will fund \$666,338 from its capital replacement reserve, leaving a net budget increase of \$21.5M. The rise in project cost is due in part to the level of activity with the construction industry resulting from the significant amount of senior government grant funding for municipal infrastructure projects and the relatively short period of time (two construction seasons) to complete these works. Also impacting project costs was the need to use higher domestic demand design criteria than was used for the preliminary design.

Portions of the project costs and shortfalls are allocated based on the transition agreement between the City and SEKID.

#### Financing the Plan

SEKID's share of the overall project cost is anticipated to be approximately \$58.2M of which \$51.4M, is attributed to the new drinking water distribution system that will effectively separate domestic from irrigation water.

In order to continue to support the integration project the City has deferred some of its infrastructure and redirected \$8.8M of senior government grant funding to SEKID's share. The total senior government grant applied to SEKID's share is now approximately \$35.4M representing 60 per cent of SEKID's portion and 80 per cent of the entire grant. SEKID has reserves of \$7.5M applied to this project leaving a budget shortfall at about \$15.3M.

It is proposed that the City self-finance the shortfall. A Local Area Service will be established over the benefitting SEKID area to recover \$15.3M. The City will internally finance this component of the project by deferring projects within our 10 Year Capital Plan. The recovery of this amount will be through a project fee to SEKID ratepayers.

The City's budget shortfall for its own infrastructure upgrades is about \$6.2M. This amount will be financed through the Water Utility and Water Quality Enhancement Fee Reserve as set out in the 10 Year Capital Plan.

#### Cost to SEKID Ratepayers

SEKID's Board has agreed to introduce a project fee to their ratepayers of \$32/month starting in July, 2018 to be applied against the \$15.3M. This monthly rate will continue until 2021 at which time, it will increase to \$40/month until 2038. SEKID domestic ratepayers however will transition to the City water rate starting in 2021 and so at the time, the total monthly water bill will have minimal change overall to their SEKID water bill.

## Agricultural Customers

The integration of SEKID and SOMID will see the City Utility delivering irrigation water to support substantial existing agricultural areas of the City. Agriculture is an important part of our community and local economy. The City has been engaging agricultural stakeholders in water rate structure consultations over this past year. A separate staff report will review this work.

The water project has important benefits for agriculture. Once the new domestic system is in place, the existing distribution system in SEKID will become a dedicated supply of treated water for irrigation and some fire protection. SOMID will receive a sustainable supply of irrigation water to replace their non-sustainable supply and storage facilities.

## 2017 Integrated Water Supply Plan

This plan is the result of an independent value planning study of previous water integration plans. Undertaking this study was a condition of accessing senior government grants. The plan calls for integrated, city-wide water systems (domestic and agriculture) to achieve the best and lowest cost solution for water supply in Kelowna.

The SEKID and SOMID integration project is Phase 1 of a longer term strategy for integration of the remaining independent water systems.

## Project Information

Emil Anderson Construction (EAC) Inc. will be the lead contractor of the SEKID/SOMID design/build contract. A design/build delivery approach was chosen as it is optimal to coordinate and condense project length as design and construction will occur concurrently. This approach is also used to control costs and reduce the risk of budget escalation over the duration of the project.

The project will span much of the south end of the City in building major water transmission infrastructure from the City's Cedar Creek lake intake. However, the bulk of the work involves the installation of a new separated domestic water system throughout southeast Kelowna. Construction is expected to start as early as July, 2018.

## Transition

The City of Kelowna and SEKID have been working closely on a transition plan over the past year to ensure a seamless transition to the City. As a legislative requirement of self-financing, SEKID Board of Trustees will dissolve at the Province's direction earlier than originally anticipated.

In the short-term, all operations, billing and customer service will remain as per usual for SEKID ratepayers.

## **Internal Circulation:**

Division Director, Corporate Strategic Services  
Financial Planning Manager  
Utilities Services Manager

**Financial/Budgetary Considerations:**

The additional costs and required funding associated to upgrade the south-end major water systems infrastructure and a new domestic water distribution system to serve existing customers of SEKID is not part of the City's current financial plan. The 2018 Financial Plan will require an amendment as detailed in the Recommendations section of this report.

The 2018 10 Year Capital Plan that will be presented to Council in early June 2018, has been adjusted to reflect the changes necessary to accommodate the City's internal financing and recovery from a Local Area Service charge in Southeast Kelowna.

**Communications Comments:**

A project update was sent to all SEKID ratepayers the week of May 7 and an Open House is scheduled for Thursday May 17 from 3 – 7 pm at the East Kelowna Hall. Project information is available on both SEKID and City of Kelowna websites. Citizens are encouraged to sign up for project updates at [kelowna.ca/water](http://kelowna.ca/water).

**Considerations not applicable to this report:**

Existing Policy:

Alternate Recommendation:

Legal/Statutory Authority

Legal/Statutory Procedural Requirements

Personnel Implications

External Agency/Public Comments

Submitted by:

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Approved for inclusion:



A. Newcombe, Infrastructure Divisional Director

cc: Division Director, Financial Services  
Divisional Director, Corporate Strategic Services  
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