

Report to Council



Date: April 1, 2019
File: 1890-01
To: City Manager
From: Kevin Van Vliet, Utility Services Manager
Subject: Water Utility Rates 2019 and 2020

Recommendation:

THAT Council receives for information the report from the Utility Services Manager dated April 1, 2019, regarding Water utility rates for 2019 and 2020;

AND THAT Bylaw No. 11774 being amendment No. 9 to Water Regulation Bylaw 10480 be forwarded to Council for reading consideration;

AND FURTHER THAT the 2019 Financial Plan be amended to reflect the increase in Water revenue of up to \$278,900 for the 4 per cent rate increase and an increase in the Water Quality Enhancement Fee Revenue of up to \$43,400 for the 3 per cent rate increase that are effective May 6, 2019.

Purpose:

To obtain approval for water utility rates for 2019 and 2020 as well as to suggest minor administrative adjustments to the Water Regulation Bylaw.

Background:

The City Water Utility provides domestic water to more than half of the City's population and now, with the integration of the South East Kelowna Irrigation District (SEKID), provides irrigation water in southeast Kelowna. The balance of the City is serviced by three large Improvement Districts and two dozen minor systems. The City drinking water supply comes from Okanagan Lake and our water fully meets Canadian Drinking Water Quality Guidelines and Interior Health Authority water quality requirements.

Staff have conducted a review of the City water utility's operations, maintenance, and capital costs to determine financial revenue needs to support a sustainably funded utility. This analysis includes a pro-forma statement of revenues and expenditures that is a 10-year projection, based on present budget figures, future capital, and operating expenditures in all areas of the utility. Revenues and costs of the

former SEKID system are included in this analysis and form part of the new utility rates. The utility is fully self-funded.

As was reported to Council when rates were adjusted in 2017 there remain several factors that drive rate adjustments higher than inflation. This trend will continue over the coming years as we move towards fully funding all water utility costs. These factors are:

1. Water assets are currently depreciating faster than they are being renewed. This issue was also identified by the Auditor General for Local Government's audit. Our current renewal rate is adequate given the relatively young age of our assets, but renewal will need to increase in the longer term as the system ages. The financial model assumes that renewal rates increase stepwise in 2023 through 2030.
2. We can expect operating costs to rise as the average age of our infrastructure increases.
3. The construction cost inflation rate typically exceeds general consumer inflation.

The Water Utility has been building reserves to address planned infrastructure replacement, such as water meters, in the short and medium terms. In order to continue on a sustainably funded path without future large rate increases there is a need for a general four per cent rate increase to water user fees and three per cent increase to the Water Quality Enhancement Fee for both 2019 and 2020. This means that the average single-family household water cost will rise \$1.52 per month from \$44.57 to \$46.09 (assuming that the average home uses 41 cubic metres per month).

There remain two rate structure anomalies that staff intended to address but have not had the opportunity due to the workload driven by the SEKID integration and the expansion of the City's domestic water supply into south east Kelowna:

1. **Beaver Lake Industrial Area.** Transitioning to the same rate structure as other commercial / industrial properties will not affect the Utilities overall revenue, but would have a significant impact on a few large volume customers. Staff will consult with these customers before recommending any changes to their water rate structure.
2. **Agricultural Customers.** The City's rate structure is significantly different than that of the Improvement Districts. Staff began the process of consulting with the agricultural community in 2018 and expect to complete that work and bring forward substantial bylaw changes to address the new Irrigation system (SEKID) and how agricultural customers pay for water.

The proposed rate increases, including the Water Quality Enhancement Fee, continues to keep the City water utility rate for single family residential customers in a very competitive position with the other three water purveyors in the City and well below most municipalities in British Columbia (see Attachment 1). The City's benchmarking efforts which compare our operations with other municipalities across Canada continue to show that Kelowna provides some of the least expensive water in the country.

Internal Circulation:

Divisional Director, Infrastructure
Financial Planning Manager
Financial Services Supervisor
Revenue Supervisor
Utility Planning Manager,

Infrastructure Engineering Manager,
Communications Consultant

Financial/Budgetary Considerations:

The 2019 Financial Plan will need to be amended to include up to \$278,900 in revenue for the 4 per cent Water rate increase and up to \$43,400 for the 3 per cent Water Quality Enhancement Fee Revenue increase that are effective May 6, 2019.

Communications Comments:

Our water customers will be notified of the rate changes on their utility bills and via the City's website.

Considerations not applicable to this report:

Legal/Statutory Authority:

Legal/Statutory Procedural Requirements:

Existing Policy:

Personnel Implications:

External Agency/Public Comments:

Alternate Recommendation:

Submitted by:

K Van Vliet, P.Eng., Utility Services Manager

Approved for inclusion:



J. Creron, Deputy City Manager

cc:

Revenue Supervisor

Utility Planning Manager,

Infrastructure Engineering Manager