

Report to Council



Date: May 17, 2021
To: Council
From: City Manager
Subject: South East Kelowna Large Lot Properties - Potable Water Supply
Department: Utility Services

Recommendation:

THAT Council receives for information the report from Utility Services dated May 17th, 2021, pertaining to Large Lot Water Supply servicing.

Purpose:

To update Council on completed work and planned efforts to engage this customer group.

Background:

On March 22nd, 2021 a report was presented to Council for amendments to Water Regulation Bylaw 10480 regarding:

1. Farm Properties outside Southeast Kelowna that have alternate sources of water for irrigation
2. Large residential properties in Southeast Kelowna that only have access to potable water
3. Properties pursuing developing farm status.

This report provides an update and reference information regarding properties in southeast Kelowna that are greater in size than one acre and are only serviced with the potable water supply. These properties are using City potable water for both indoor and outdoor use. This report focuses on implementing water rates for large residential properties that only have access to potable water. Any changes to the rate structure and its application would be applied to all City customers.

Council directed staff to ensure direct engagement occurs for those large residential properties that only have access to potable water supply with the anticipated largest impacts. As some properties may see substantive increases in their cost of water in 2021 it is important to ensure impacts are understood, even for a relatively small number of property owners.

The City water utility has roughly 20,000 customers. Over 14,500 are in the Single-Family Residential rate class. There are currently 105 properties in Southeast Kelowna that are over one acre in size and do not have access to non-potable (inexpensive) water for irrigation. This is not unique, however, as there are roughly 200 properties over one acre in other areas of the City that have always been on Residential Class tiered water rates.

Discussion:

Water Integration Project:

The Kelowna Integrated Water project separated agricultural and domestic water systems in most of Southeast Kelowna and now delivers sustainable, clean drinking water to approximately 2,000 households; meeting Interior Health's 2025 clean water mandate earlier than planned in Southeast Kelowna.

Throughout the implementation of the project significant public engagement related to water rate structure and values in water pricing took place. In 2017, an online survey for input was available and continued with stakeholder and public input in 2018 and 2019. Public engagement was a key part of the project and developing a water rate structure to meet long term agricultural needs.

Council Policy:

Based on the Water Integration project objectives and stakeholder input, Council passed Water Supply Policy 383 on October 28, 2019 that established its support for agriculture and providing the non-potable water system based on the best overall value to the utility. Policy 383 lists the following ranked priorities for water supply:

1. Safe water for human health and sanitation;
2. Fire suppression, emergency response and risk mitigation;
3. Commercial, Industrial and Agricultural use;
4. Irrigation and aesthetics.

On March 22, 2021 Council amended the Water Regulation Bylaw to assist large residential lots (over 1 acre) in the former SEKID service area to adjust to paying tiered water rates. Tier 4 rates were set equal to Tier 3 water rates for 2021. Staff were directed to adjust Tier 4 rates annually for this group such that by 2024 the tiered water rates would again be consistent across the City water utility.

The reduction of the Tier 4 domestic water rate for these properties allows time for customers to implement landscaping changes and alter water use habits. Permanent changes to the rate structure are not being considered as this would create an inequity with other existing customers in the utility and would require a significant increase in revenues from other customers.

Stakeholder/Public Engagement:

A majority of the participants of the survey indicated that agriculture rates should only be available to properties with farm status for legitimate agriculture activities. There was little support for lower water rates for recreational or park properties. There was support for properties that may have access to the non-potable source for irrigation at reduced rates but higher than agriculture rates.

At the March 2021 meeting Council directed staff to continue to look at the rate impacts on large lot potable-only customers and engage directly with them. This group represents 105 properties in total. The cost impact of using domestic water for irrigation and other outdoor uses will depend on the extent of their water consumption, the efficiency of their irrigation systems and their ability to change their water use patterns. To date Utility Services has held small group discussions, consulted with City and other government agencies and replied to questions while developing an approach with appropriate communications for all affected properties.

Affected Properties in the Group:

Large residential use lots are the main type of properties within the group. These are properties that range in acreage but are, for the most part, estate-type homes. Some have modest landscape design with low outdoor water usage while some of these properties have extensive landscaping and heavy water consumption. Most of the newer developed properties are large lot residential estates.

Extension of the non-potable system into these areas is not cost effective due to the distances involved, historic use, and small number of benefitting properties. The City's Watersmart program is available for customers to gain input from water conservation specialists and obtain rebates for some water conservation initiatives.

A smaller number of properties in this group have some form of agriculture or hobby farm activities without access to the non-potable water supply system. Like elsewhere in the city, property owners choosing to pursue hobby farm activities such as having animals for recreation or growing food for personal / family consumption should do so with the understanding that neither the City's Water Supply Policy, the local agriculture stakeholders, nor the BC Farm Assessment process supports this practice through agriculture-based water rates. The only instance where the City would support using potable water for irrigation at City agriculture rates would be properties obtaining Farm Status. The determination of Farm Status includes, among other qualifications, a financial income threshold that is set by BC Assessment and not the City.

There are differences affecting the ability for a property to be classed Farm Status from BC Assessment. One of the main factors is the size of the property and the required farming income. Properties of two acres or more are required to generate an annual income of \$2,500 from the farming activity.

Properties under two acres are required to generate an annual income of \$10,000 to obtain Farm Status. Residents have expressed significant concern for this level of required income from a small property and state this would be very difficult if not impossible to achieve. Based on not being able to obtain Farm Status, these properties will be heavily impacted.

Staff are further evaluating the cost-benefit of expanding the irrigation system. Such expansion would be based on an operational upgrade and benefit to the non-potable system. Twinning the system for other reasons is deemed too expensive.

Conclusion:

The City of Kelowna has one of the highest per capita water consumption rates in Canada while being in a semi-arid climate. City Council passed the Water Supply Policy while prioritizing objectives that ensure the community's water needs are met – and aim to balance scarcity against high demand. Large lot fully irrigated landscapes in southeast Kelowna will be impacted the most now that billing accurately reflects consumption and aligns with billing for similar-sized properties elsewhere in the city. These properties will now be charged for high water consumption practices consistent with the four priorities listed above. While billing will also result in lower water costs for many customers in the former SEKID area, primary opposition to the rate structure will be from:

1. Properties with significant water consumption for landscaping irrigation needs, resulting in high water bills.
2. Properties with small hobby farms that use significant amounts of water resulting in high water bills but will not achieve farm status.

Properties that have Farm Status or Developing Farm Status are able to use potable water for irrigation needs at the agricultural rate.

Some customers have paid significant amounts of money for water allotments under SEKID. Although the City has not revoked customers' water allotments it may be assumed it has, due to our pricing structure. Staff are exploring the possibility of purchasing water allotments from interested customers and making them available to other customers on the non-potable system. This could help ease the transition to implement water conservation landscaping.

The City's water rate structure follows accepted principles in the industry based on cost of service delivery. Water rates are structured to support the City's priorities as well as promote water conservation. It is important the Utility applies its rate structure fairly across all customer types and that rates accurately reflect the cost of delivery.

To date, Utility Services has acted consistently with Council's direction, the Water Regulation Bylaw and the BC Assessment process to determine Farm Status eligibility for application of agriculture rates.

While it is possible for the City to lower irrigation rates by identifying a distinct customer segment, it should be understood that any such change could have impacts for the remainder of the City's customers (in the form of higher rates). This would be inconsistent with the established priorities for water use and could promote high water consumption on large lots.

The BC Farm Assessment process is intended to support Agricultural producers that contribute to agricultural production for the greater community and not individual consumption or recreation. The vast majority of residents surveyed favour this approach over subsidizing rates for non-agricultural (aesthetic) use.

A letter with a FAQ package was sent to each property in this group on May 6th, 2021. Based on enquiries some form of virtual meetings may be held. Additionally, the City's Water Smart program is ready to assist individual residents with water conservation tips and techniques specific to their properties.

Internal Circulation:

Communications
Utility Planning
Finance - Controller

Considerations applicable to this report:

Legal/Statutory Authority:
Legal/Statutory Procedural Requirements:
Existing Policy:
Financial/Budgetary Considerations:
External Agency/Public Comments:
Communications Comments:

Considerations not applicable to this report:

Submitted by:

A. Weremy, Water Operations Manager

Approved for inclusion:



J. Creron, Deputy City Manager

cc: