

Report to Council



Date: October 23, 2023
To: Council
From: City Manager
Subject: 2024 Wastewater Rates
Department: Utility Services

Recommendation:

THAT Council receives for information the report from the Utility Services Manager dated October 23, 2023, regarding wastewater utility rates for 2024 and delegation of authority for staff to update the Septic Removal Specified Area maps;

AND THAT Bylaw No. 12587, being amendment No. 41 to Sewerage System User Bylaw 3480, be forwarded to Council for reading consideration.

Purpose:

To obtain approval for wastewater utility rates for 2024 and consider minor updates to Bylaw 3480.

Background:

Staff have conducted a review of the City wastewater utility's operations, maintenance, and capital program to determine financial revenue needs to support a sustainably funded utility. This analysis includes a pro-forma statement of revenues and expenditures based on a 10-year projection, using proposed 2024 budget figures, future capital cost projections, and expected operating expenditures to service the utility.

Wastewater collection and treatment fees paid by our users continue to be comparable with other communities in the Okanagan Valley and across BC. Our wastewater collection and treatment costs are reflective of our current facilities and level of service as well as economies of scale. A comparison of 2023 wastewater costs in BC for a typical single-family home is provided in Figure 1.

Overall, the guiding principle for the City's wastewater sector is to protect Okanagan Lake, human health and our environment through efficient collection and effective treatment of wastewater. Wastewater management is a key responsibility towards Kelowna's water security, as all treated effluent is discharged into Okanagan Lake.

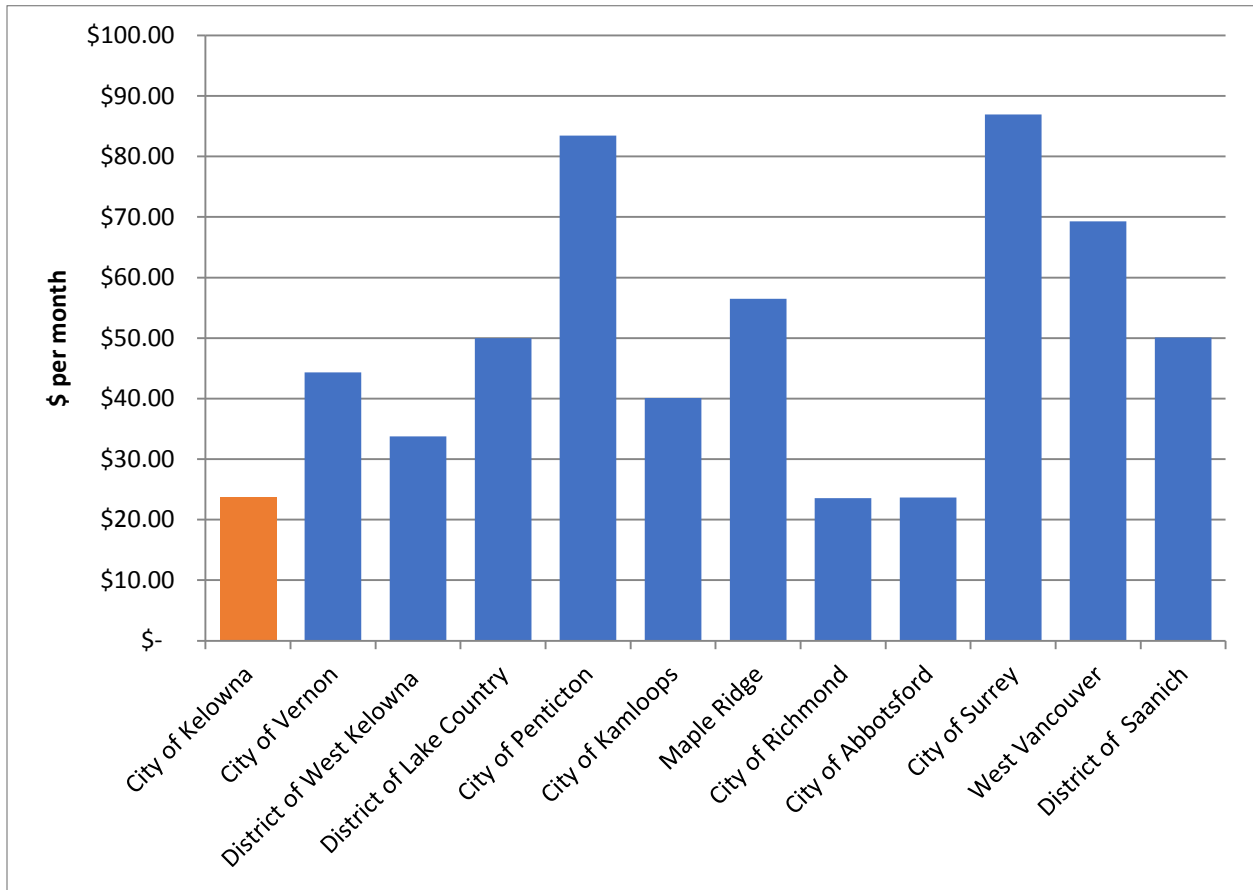


Figure 1 - 2023 Monthly wastewater cost comparison for a typical single-family home using 13.6 cubic metres per month.

Discussion:

The wastewater utility continues to provide efficient and cost-effective service for ratepayers. To ensure that the wastewater utility continues to be sustainably self-funded, a general rate increase of three (3) per cent is recommended for 2024.

The proposed 2024 rate increase of three (3) percent keeps the City wastewater utility rate reasonable for Kelowna customers. The 2024 rate increase will cost residential homes an additional \$0.71 per month to a total monthly fee of \$24.33. The City’s benchmarking efforts compares our operations with other municipalities across Canada, and we continue to show that Kelowna provides very cost-effective tertiary wastewater treatment and collection. This rate increase assumes that the strong current utility fund reserve can sustain the short term high inflationary cost pressures encountered in the last three (3) years.

The City continues to advance its goal of eliminating septic systems in urbanized areas. Policy adjustments are recommended to facilitate some of the new processes and bylaws now in place to facilitate administration of this process. Each time a sewer connection project is completed, an amendment to Schedule 1 of bylaw No. 3480 is required to leverage the Septic Removal Spec Area fee.

Staff are recommending that a delegation of authority to update the mapping in Schedule 1 of the bylaw be provided. The map in Schedule 1 would be removed from the bylaw and replaced with an Administrative Policy. In general, properties will be added to Administrative Policy map once it is pre-serviced through a Sewer

Connection Area Project (as defined in the Sewer Connection Area Prioritization Bylaw No. 12343), and lots shall be removed from the map once the owner has paid the Septic Removal Specified Area sewer development charge.

Council should also be aware of the following notable initiatives that will have some impact on the wastewater utility and utility rates over the coming decade:

Solids management

The wastewater utility continues to develop management strategies to manage the biosolids generated from our wastewater treatment process. Our biosolids compost facility in Vernon is at capacity. Kelowna is now sending some biosolids to a private compost facility and Vernon has implemented a project to reduce solids coming from their largest wastewater customer. Our current strategy is to use a portfolio of solids management options to ensure resiliency and disposal options. This includes generally operating the Regional compost facility at 75% capacity, and diverting solids to other facilities in the valley that are accepting organic matter for mine reclamation. Given the portfolio of medium and longer term options available the timing of a City owned digestion facility has been deferred in the capital plan to beyond 2033.

Wastewater influent concentration

The success of the City's water conservation activities is resulting in unintended challenges to our current wastewater treatment processes. The reduced water use by customers due to more efficient fixtures is producing higher nutrient concentrations in our raw wastewater stream, potentially impacting our ability to meet regulated target nutrient levels in our effluent. Staff are currently assessing options for adjusting the treatment process, and likely foresee emerging capital budget items over the next 5-7 years.

Aging system

On average, our wastewater assets are relatively young, reflecting the growth rate of our community. However, we are beginning to see assets in the older areas of town depreciating faster than they are being renewed. Our proposed 2024 renewal rate is roughly 0.8 percent of our asset replacement value. This means our renewal funding is adequate to renew assets every 125 years on average. In the long run, sustainable renewal funding will need to be closer to 1.5 percent of system replacement cost (equal to 67-year average life cycle). The renewal rate in the approved 10-year capital plan has no substantial renewal funding increases. In addition to increasing capital expenditures for renewal in the future, we can expect operating costs to rise as the average age of our infrastructure increases.

Impact of inflation

Since 2020, we have experienced energy and construction cost inflation significantly higher than the inflation referenced by the Consumer Price Index (CPI). This results in added pressure on rates to meet our expected level of service. Since 2021, we have seen renewal costs increase by 20 to 40 percent which has put budgetary pressures on our current capital plan and will shift us further from sustainable funding if it continues.

The wastewater utility has significant reserves to address planned infrastructure renewal over the 10-year capital plan horizon. In the short term, reserves can address the shock impact of cost increases, allowing time to assess the longer-term renewal costs and adjust the capital plan and rates as necessary.

Conclusion:

To ensure that the wastewater utility continues to be sustainably self-funded, a general rate increase of three (3) per cent is recommended for 2024. Rates will take effect January 1, 2024, pending amendments to the bylaw.

To limit future amendments to Bylaw No. 3480, staff are proposing that schedule 1 maps be removed from this bylaw and the authority to amend the maps be delegated to the General Manager of Infrastructure.

Internal Circulation:

Financial Planning
Revenue Services
Communications

Considerations applicable to this report:

Communications Comments:

A note on the utility bill will inform customers of the adjusted rates.

Financial/Budgetary Considerations:

The proposed rate adjustment supports the approved ten-year capital plan. Budget impacts will be included in the 2024 Financial Plan.

Considerations not applicable to this report:

Legal/Statutory Authority:
Legal/Statutory Procedural Requirements:
Existing Policy:
External Agency/Public Comments:

Submitted by: K. Van Vliet, Utility Services Manager

Approved for inclusion: M. Logan, Infrastructure General Manager

Attachment 1: Wastewater Utility 2024 Rates Presentation

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