



COUNCIL REPORT

To: Mayor and Council

Date: March 14, 2023

From: Paul Gipps, CAO

Subject: **Utility Fee Amendments Bylaw No. 0028.76, 2023**

Report Prepared By: Lisa Siavashi, Financial Services Manager and Warren Everton,
Chief Financial Officer

RECOMMENDATION to Consider and Resolve:

THAT Council give first, second and third reading to “City of West Kelowna Fees and Charges Amendment Bylaw No. 0028.76, 2023”.

STRATEGIC AREA(S) OF FOCUS

Financial planning is an integral component in achieving the objectives of Council’s Strategic Priorities: Invest in Infrastructure, Economic Growth and Prosperity, Strengthen Our Community and Foster Safety and Well-Being. Careful management of the City’s revenues, expenses, capital and reserves ensures a healthy and progressive community.

EXECUTIVE SUMMARY

The City has been on a trend of increasing water rates to fund the construction of the new Rose Valley Water Treatment Plant and upgrades to the Powers Creek Treatment Plant. As we look to testing and commissioning of the new Rose Valley facility later in 2023, we must turn our funding focus to ramping up operations and the associated operational costs. This includes several new staff, materials and supplies required for the operation that will need to be in place prior to the plant opening.

Staff reviewed the anticipated costs for the operations of this new plant and recommend a phased in fee structure beginning in 2022. For 2023, the operating flat rate has remained as previously forecasted, with an increase to \$403 from \$353 per year. The overall increase for the Rose Valley system in 2023 is 7.5% or an estimated \$17.70 per quarter for a single-family residence.

Powers Creek water rates are proposed to increase 6.4% or an estimated \$15.15 per quarter for a single-family residence. This adjustment is mostly due to the need to acquire short-term debt to fund replacement of aging infrastructure components, but also inflationary increases in costs required to operate the treatment plant.

Sewer rates were adjusted for the first time in 2022 after being unadjusted since 2017. For 2023 the fees are proposed to increase 6% or \$5.73 per quarter for a single-family residence. 3% of this increase is needed to build the sewer fund reserves and to fund debt payments necessary for capital upgrades to the system, which were projected last year. The additional 3% is mostly due to the increase in the projected costs from the Regional District of Central Okanagan who operates the wastewater treatment plant and a series of lift stations and collector systems.

Solid Waste service costs is scheduled to be reduced again in 2023 by \$2 per year. The reduction is the result of the internal cart purchase loan being fully repaid.

BACKGROUND

Operations, maintenance and capital improvements to support the cost of the water utilities are reviewed to ensure a system that meets all Canadian Drinking Water Quality Guidelines and Interior Health water quality requirements for West Kelowna utility customers. Adjustments are required to account for these factors as we meet the growth demands of the community and capital costs to maintain the City's utility systems.

Sewer Rates (Schedule 7)

Sewer rates were last adjusted in 2017. Staff have worked hard to keep increases in the operating expenses minimal and continue to do so. As discussed last year, rates have not kept pace with the aging infrastructure and the sewer reserves are extremely low. 3% of the proposed increase will help cover an increase in transfer to reserve and help pay for debt required to upgrade current infrastructure as well as support needed growth.

The Regional District of Central Okanagan operates the wastewater treatment plant, their lift stations and the main collector line in West Kelowna. Their budget for 2023 increased operation costs by 5.5%, with a 7.5% increase overall. The contract amount charged to West Kelowna would require an additional 3% to the current rates to cover this amount.

Water Rates (Schedule 8)

For 2022 and beyond Finance has analyzed current costs and future needs of each system and determined that Powers Creek and Rose Valley should carry their own rates based on their projected operating and capital costs. Though there are several common operating cost drivers between the systems each is at a different stage of its useful life with divergent capital and operating needs going forward.

The average rate increase for 2023 is 7.5% (\$17.70 per quarter / \$71 per year) for Rose Valley water customers and 6.4% (\$15.15 per quarter / \$61 per year) for Powers Creek water users. Rates are consistent with what was projected in 2022, however with interest rates remaining high, it is unknown if the projected amount for the debt cost for the Rose Valley Water Treatment Plant will be enough to cover the elevated interest costs.

Temporary borrowing is expected to convert to long-term debt by the fall of 2024 and staff are hopeful that rates will decrease by that time.

Garbage Rates (Schedule 9)

In 2009, with the new garbage service, the City purchased garbage, recycling and yard bins worth \$1.3 million. This amount has been funded by user fees over the last 14 years and was paid down completely at the end of 2022. Due to this reduction in expenses, the garbage rate is proposed to be reduced by 1.12% (\$0.50 per quarter/ \$2 per year). Transfers to reserves and expenses included in the operating budget, are expected to cover replacements of bins in the future.

FINANCIAL IMPLICATIONS

The proposed sewer and water rates are designed to meet the financial needs of the City for 2023 and will be reviewed as part of our annual budget process and amended as required. During the review of the 10-Year Capital Plan, it was noted that the reserve balances and funding levels, in both systems, were not sufficient to cover the plan in future years.

Any delay to the water rate increases for 2023 would adversely affect expected revenues in both systems. For Powers Creek it would create a deficit of approximately \$331,000, funds needed to cover increases in maintenance costs and to fund reserves for much needed capital replacements. For Rose Valley, deferring an increase would under fund the system by approximately \$590,000 which is needed for operating expenses to get the plant up and running.

Delaying sewer rate increases for 2023 would reduce expected revenues for the sewer fund by approximately \$360,000 annually. Foregoing these funds would require a reduction in spending thus jeopardizing maintenance of sewer infrastructure and leading to larger rate increases in the future.

Staff will continue to review the timing of capital requests and operating needs year over year as well as prepare a new rate schedule for Council to review in 2024.

The combined financial implications for the average residential customer are:

	Powers Creek	Rose Valley
Sewer	\$ 5.73	\$ 5.73
Water	\$ 15.15	\$ 17.70
Garbage	\$ (0.50)	\$ (0.50)
Total Quarterly Utility Increase	\$ 20.38	\$ 22.93
Total Annual Utility Increase	\$ 81.52	\$ 91.72

Alternate Recommendation to Consider and Resolve:

That Council direct staff to amend the bylaw under consideration.

REVIEWED BY

Corinne Boback, Legislative Services Manager / Corporate Officer

APPROVED FOR THE AGENDA BY

Paul Gipps, CAO

PowerPoint: Yes No

Attachments: Bylaw Amendment No. 0028.76
Annual Water Rates 2019-2023