
MEETING TYPE: Special Council Meeting
MEETING DATE: January 26, 2023
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DEPARTMENT: Utilities
ITEM TITLE: Water Rate Increases
DESCRIPTION: Seeking Council Direction for Proposed Water Rate Increases

QUESTION

Should the water rates be increased to fund the capital improvements, renewal, and operational needs?
And
Which water rate increase scenario does Council support?

OPTIONS

- A. THAT the Water Regulation and Rates Bylaw be amended as per Attachment A – 2023-01-09-Water rate increases memo scenario [as identified by Council];
- B. THAT the Water Regulation and Rates Bylaw be amended as directed by Council;
- C. THAT the water rates not be increased;
AND THAT the Water Master Plan be revisited.

EXECUTIVE SUMMARY

Since adoption of the 2012 Water Master plan there have been numerous change drivers that required Council and staff to re-evaluate and update to the Water Master Plan. Change drivers include:

- Regulatory (water use, water quality, worker safety and environmental protection)
- Aging Infrastructure
- Environmental (climate change – floods, fires, and drought)
- Community Growth (development, agriculture)
- Community Expectations

While working through the Water Master Plan process service levels and capital projects lists has been developed in consultation with the Water Master Plan Steering Committee, the Water Service Advisory Committee, and the previous Council to address the change drivers.

Part of the Water Master Plan process includes a financial analysis, which indicates what revenue is required from the District water user rates. User rates help to fund not only identified projects, but also daily operation and maintenance costs. Significant cost increases in materials and construction have greatly impacted the cost of project delivery and daily operation and maintenance. The financial strategy analyses indicated that rates needed to be increased to fund the daily operations and maintenance, and the identified capital improvement/renewal projects.

After reviewing the rate increases with the Water Service Advisory Committee and receiving feedback, our consultant developed four water rate scenarios for Council consideration:

Scenario 1 – Under Scenario 1 the rates are increased in 2023 with another increase in 2025. The initial increase in rates of about 23% in 2023 help to generate funds required for major projects starting in 2024. The approximately 13% rate increase in 2025 is required to generate more funding for upcoming projects. Under Scenario 1 another increase of about 3% is required in 2029.

Scenario 2 – Is similar to Scenario 1 except that it includes assumed inflation. The rates are increased in 2023 and 2025. The initial increase in rates of about 29% in 2023 cover recent inflation and help to generate funds required for major projects starting in 2024. The approximately 15% rate increase in 2025 is required to generate more funding for upcoming projects with inflation. Under Scenario 2, another rate increase of about 10% is required in 2029.

Scenario 3a – Under Scenario 3a there are 5 equal 10% rate increases spread over 5 years, including assumed inflation. The rates need to continue upwards towards 2027 because the rates need to make up for the lower rates in 2023 and the gradual phase-in. Aside from regular inflationary increases, no additional jumps in rates are required in 2029. This scenario has multiple occasions where the water reserves dip negative, and the impacts of this will need to be considered including potentially borrowing from other reserves.

Scenario 3b - Under Scenario 3b the rate increases are spread over 5 years and include inflation. The increase is somewhat higher in the earlier years in order to reduce the negative impact on the reserve funds while addressing the higher assumed rate of inflation in the earlier years. The rates need to continue upwards towards 2027 in Scenario 3b because the rates need to make up for the lower rates in 2023 and the gradual phase-in. Aside from regular inflationary increases, no additional jumps in rates are required in 2029.

If Council elects scenario 1 or 2, or versions thereof, staff's intention will be to create a Water Rates and Regulation amending bylaw adjusting the water rates for 2023, and then re-evaluate the rates again in 2025. If Council elects scenario 3a or 3b, or versions thereof, staff's intention will be to create a Water Rates and Regulation amending bylaw, including rate increases for 2023 & 2024, and then re-evaluate the rates again in 2025.

Attachment A (January 9, 2023, Urban Systems, Financial Strategy) further details the financial analysis and the different scenarios for Council consideration.

KEY INFORMATION

Significant cost increases in materials and construction have greatly impacted the cost of project delivery and daily operation and maintenance. Current water rates are currently insufficient, thus requiring either a rate increase or reevaluating the master plan.

DESIRED BENEFIT

Adequate funding of the water system for improvement, renewal, and operational needs.

STRATEGIC RELEVANCE AND COMMUNITY SUSTAINABILITY

Part of Council's 2022 strategic priorities was to ensure sustainable water service delivery for the community and create infrastructure that meets the community needs. A key aspect to ensuring reliable safe delivery of water is to ensure the water system is adequately funded.

REQUISITES

Depending on the direction received from Council, staff will return with a Water Rates and Regulation amending bylaw for Council's consideration. Public communications, in regard to the rate increases, will be completed as part of the 2023 budget process.

UNINTENDED OUTCOMES

Higher cost of water may be viewed as unaffordable.

BACKGROUND/HISTORY

An update to the 2012 Water Master Plan was initiated in 2020. Although at the time the exercise was viewed as an update to the existing plan, the revised draft is now a stand-alone document. While working through the Water Master Plan process service levels and capital projects lists has been developed in consultation with the Water Master Plan Steering Committee, the Water Service Advisory Committee, and the previous Council to address the change drivers. Part of the Water Master Plan process includes a financial analysis, which indicates what revenues are required. The initial analysis identified required rates of about 23% in 2023, 13% in 2025 and 3% in 2029 (Not including future inflation).

When the rate increases were discussed with the Water Service Advisory Committee, the group passed resolutions recommending Council consider increasing the rates over a five-year period. Because the intent of the initial analysis was to complete a rate increase in 2023 and the re-evaluate in 2025, staff thought it prudent to include estimated future inflation in the 5-year analysis. Four scenarios were created (1,2,3a,3b) for Councils consideration.

DISCUSSION/ANALYSIS

The revised Water Master Plan looks to address 4 key issues within our water system-

- Water Quality
- Water availability
- System expansion
- Ageing infrastructure

The water quality improvements are mandated by the interior health authority, and are not viewed as optional. Water availability needs are largely met in the community, and there is little in way of costs for this item in the capital plan. System expansion is assumed to be paid for by the benefiting party, and thus has no added cost. Therefore, the only area that could be left underfunded is replacement of aging infrastructure. Some communities do run infrastructure deficits, but it is not recommended as the ramifications and cost to replace at the point of failure far exceed than if replacement is planned and budgeted.

When considering the required rate increase scenarios, it really comes to a question of Council preference. A larger rate increase now may result in greater community unrest initially, but also puts rates where they need to be quicker thus making the District reserves less vulnerable to unforeseen issues. Spreading the rates over time ultimately cost more in the long run, but could be considered more tolerable.

APPLICABLE LEGISLATION AND POLICIES

None

IMPACT ON INFRASTRUCTURE OR MUNICIPAL SERVICES

Not adjusting rates impacts the District's ability to fund capital projects and operations.

IMPACT ON STAFF CAPACITY AND FINANCIAL RESOURCES

Not adjusting rates impacts the District's ability to fund capital projects and operations.

COMMENTS FROM EXTERNAL AGENCIES, COMMITTEES AND STAKEHOLDERS

N/A

CONSULTATION AND COMMUNICATION

Public communications, in regard to the rate increases, will be completed as part of the 2023 budget process.

ANALYSIS OF OPTIONS FOR CONSIDERATION

Scenario 1 requires two fairly significant rate increases in 2023 & 2025, and neither factor in inflation. Intention would be to complete the 2023 increase now, and then reevaluate the capital plan and market conditions in 2025.

Scenario 2 requires two fairly significant rate increases in 2023 & 2025, and factors in inflation. Intention would be to complete the 2023 increase now, and then re-evaluate the capital plan and market conditions in 2025.

Scenario 3A looks to smooth the required increases over 5 years, as recommended by the Water Service Advisory Committee. A 10% jump per year over 5 years appears to work once implemented, but there are years early in the increases where the capital reserve is insufficient. If this scenario is chosen, internal borrowing or delaying some projects will be required.

Scenario 3B looks to increase the water rates over five years, but sets increases that attempts to keep the reserves cash positive by having larger increases in earlier years than in later years.

Both scenarios 3 A&B require the rates to continue upwards towards 2027, because the rates need to make up for the lower rates in 2023 and the gradual phase-in.

Respectfully Submitted,
Kiel Wilkie, Utilities Manager

Report Approval Details

Document Title:	Water Rate Increases.docx
Attachments:	- Attachment A- 2023-01-09-Water rate increases memo.pdf
Final Approval Date:	Jan 13, 2023

This report and all of its attachments were approved and signed as outlined below:

Greg Buchholz, Director of Utilities - Jan 12, 2023 - 8:53 AM

No Signature found

Trevor James, CFO, Director of Finance & Administration - Jan 13, 2023 - 9:05 AM

Tanya Garost, Chief Administrative Officer - Jan 13, 2023 - 3:22 PM