



Governance & Services Committee Report

TO: Governance & Services Committee

FROM: David Komaïke
Director of Engineering

DATE: May 1, 2019

SUBJECT: Central Okanagan East Sewer Systems Bylaw Fees (Sunset Ranch)

Purpose: To provide the Committee an update on the East Sewer System User Fees Review (Sunset Ranch) and recommend amendments to the RDCO Central Okanagan East Sewer Systems Bylaw No. 1216.

Executive Summary:

The Regional District of Central Okanagan (RDCO) Central Okanagan East Sewer Systems Bylaw No. 1216, as amended, regulates the fees and charges of the Sunset Ranch community sewer system. The last review update to the fees occurred in 2015 and the fees have not changed since January 1, 2016.

The current RDCO fee structure for a residential connection is composed of a base User Fee and an Asset Renewal Fee. The commercial connection has a similar fee structure but also includes a “metered” fee based upon the volume of water used by the customer.

The User Fees are intended to cover all annual operational costs of the sewer system. The Asset Renewal Fees apply to all lots within the service area and are intended to fund capital reserves that will be utilized on capital projects.

This review’s focus is to update both the User and Asset Renewal fees to ensure operating cost recovery and the long term financial viability of the utility.

RECOMMENDATION:

THAT the Governance & Services Committee receives for information the Central Okanagan East Sewer System Fees report, and recommends the Regional Board give consideration and approve Regional District of Central Okanagan Central Okanagan East Sewer Systems Amendment Bylaw No. 1441.

Respectfully Submitted:

David Komaïke
Director of Engineering

Approved for Committee’s Consideration

Brian Reardon, CAO

Prepared by: Clarke Kruiswyk, Environmental Services Analyst

Implications of Recommendation:

Financial: Accountability and sustainability

Background:

The Regional District of Central Okanagan (RDCO) Central Okanagan East Sewer Systems Bylaw No. 1216, as amended by Bylaw No. 1378, regulates the fees and charges of the Sunset Ranch community sewer system, which includes approximately 270 residential connections and one commercial connection (Sunset Ranch Golf Course Clubhouse).

The Sunset Ranch sewer system is primarily comprised of piping and is connected to the City of Kelowna sewer trunk system and wastewater treatment plant. As a result, the City of Kelowna charges the Regional District a connection fee and flow-based fees for the commercial connection and simply a connection fee for the residential connections. Overall, the City of Kelowna expenses makes up approximately 70% of the Sunset Ranch operating expenses.

The current RDCO fee structure is consistent with those charged by the City of Kelowna. For a residential connection the current RDCO sewer fees are composed of a base User fee and an Asset Renewal fee. The commercial connection has the similar fee structure with the addition of a metered rate. The User fees are intended to cover all annual operational costs of the sewer system. The Asset Renewal fees apply to all lots within the service area and are intended to fund capital reserves that will be utilized on capital projects.

The last review updated the fees effective January 1, 2016 and fees have not changed since 2016. This review's focus is to update both the User and Asset Renewal fees.

Asset Management Investment Plan

The Regional District engaged a third party consultant, Urban Systems, to update our Asset Management Investment Plan ("AMIP") which forecasts the asset renewal needs for the Regional District Environmental Services Department. The previous AMIP was completed in 2012 and the update accounts for changes in infrastructure and in construction costs. The AMIP outlines the following:

- Current replacement value;
- Remaining value;
- Expected life remaining;
- Required improvements;
- Infrastructure deficit;
- 20 year Average Annual Investment ("AAI"); and
- Average Annual Life Cycle Investment ("AALCI").

The AMIP is included in Appendix A and outlines that the Regional District Environmental Service Department owns infrastructure with a replacement value of approximately \$159 million in water systems, sanitary systems, and solid waste assets. The table below summarizes the results for the Sunset Ranch sewer system:

Sewer System	100% Replacement Value	Expected Remaining Life	Infrastructure Deficit (Backlog)	20 Year Average Annual Investment (AAI)	Average Annual Life Cycle Investment (AALCI)
Sunset Ranch	\$ 3,872,645	87%	\$ -	\$ -	\$ 38,798

It is recommended that the AALCI be used to establish investment levels as it accounts for all assets and not just those that require replacing in the 20 year time horizon; however, the AAI should be considered if significant funds are required in the near term for immediate improvements.

The Asset Renewal reserve levels for the sewer system as of December 31, 2018 and projected to December 31, 2019 are listed in the table below:

Sewer System	Equipment and Capital Facility Reserves	
	2018 (actual)	2019 (projected)
Sunset Ranch	\$ 100,861.00	\$ 116,869.00

A portion of these reserve balances should be held for equipment replacements not included in the AMIP review (i.e., vehicle replacement, other minor replacements) but the remainder of the current reserves can be used to partially offset the required annual replacement costs.

The table below summarizes the 2019 budgeted Asset Renewal revenue against the annual investment contribution at different funding levels and accounts for the current available reserve balance:

Sewer System	Budgeted 2019 Asset Renewal	Annual Replacement Cost at:		
		100%	75%	50%
Sunset Ranch	\$ 28,814.00	\$ 33,798	\$ 25,349	\$ 16,899

Based on the AMIP and the current reserve levels, the Asset Renewal fees could be adjusted as outlined in the table below for various annual replacement cost funding ratios:

Sewer System - Replacement Ratio	Asset Renewal Fee Alternatives			
	Quarterly	Annual	Annual Change	Adjustment
Sunset Ranch - Current	\$ 26.10	\$ 104.40	\$ -	0.0%
Sunset Ranch - 50%	\$ 15.00	\$ 60.00	\$ (44.40)	-42.5%
Sunset Ranch - 75%	\$ 23.00	\$ 92.00	\$ (12.40)	-11.9%
Sunset Ranch - 100%	\$ 31.00	\$ 124.00	\$ 19.60	18.8%

Maintaining the current Asset Renewal fees would bring the funding replacement costs ratio to approximately 85% which is more sustainable over the long term.

User Fees

As outlined above, the User fees are intended to fund the operation of the sewer system and the fees have not changed since 2016. It is proposed that the User fees are updated in conjunction with the proposed changes to the Asset Renewal fees. The User fees review has focused on bringing revenue in line with projected operating costs.

The operating costs over the past five years for the sewer system has shown variability in total annual costs. The projected costs were based on a weighted average of the actual historical costs for the past few years and the 2019 budget. This weighted average helps alleviate the annual variability in operating costs. These weighted costs were projected forward using an inflation factor to determine the required revenue and associated fees. Although the Sunset Ranch sewer system has experienced growth in the number of connections, the major operating cost is a fee per connection charged by the City of Kelowna, so there have been limited benefits of the additional connections on the User fee per connection that would be expected due to the increased economies of scale.

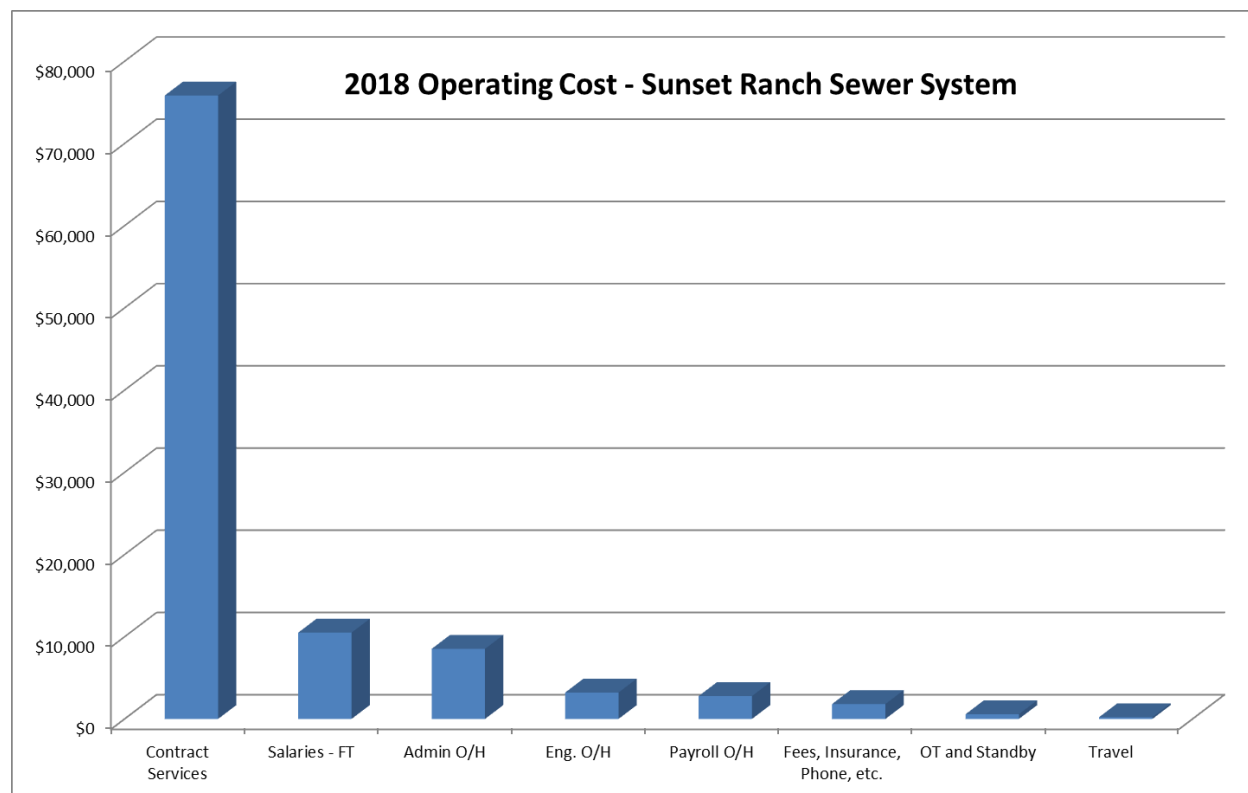
The analysis suggests that the following rate adjustments to the basic User fees are warranted:

Sewer System	Current Rate		Calculated Adjustment			
	Quarterly	Annual	Quarterly	Annual	Annual Change	Adjustment
Sunset Ranch - Residential	\$ 87.15	\$ 348.60	\$ 94.00	\$ 376.00	\$ 27.40	7.9%
Sunset Ranch - Commercial	\$ 36.00	\$ 144.00	\$ 39.00	\$ 156.00	\$ 12.00	8.3%

The Sunset Ranch Commercial flow-based fee of \$2.20 / M³ is not proposed to be change at this time.

Breakdown of Operating Costs

The figure below itemizes the 2018 cost of operating the Sunset Ranch sewer system and highlights that the major cost of operating is Contract Services (i.e., City of Kelowna charges). Sewer line flushing costs are not shown in the 2018 costs but typically represent approximately 6% of the annual operating costs.



Resident Communication

If the fee changes are approved, the residents will be informed of the actual fee changes in conjunction with the changes to the water fees. Residents would receive their third quarter invoices reflecting the new fees in the Fall of 2019.

Recommendation

The fees are recommended to change as outlined in the table below for the Sunset Ranch Sewer System. The adjustments are necessary to fund the sewer system's operation and capital reserve contributions. Please note that as the fees are proposed to be implemented mid-year 2019 the annual impact of the change will be spread over two years as can be seen in the "Annual Change" figures in the table.

For illustrative purposes, the Sunset Ranch – Commercial User metered fee is based on the 2018 average metered flow and has been included to show total costs.

The recommended Asset Renewal fees are based on maintaining the current Asset Renewal fees which would bring the funding ratio to a more sustainable level of approximately 85%. Increasing the funding ratio without increasing the fees is currently possible partially due to development and the growth in the number of parcels in the service area.

The table also includes future rate adjustments to the User fee and Asset Renewal fee to account for future inflation. These adjustments are based on an inflation factor of 2% which is approximately equivalent to the current Consumer Price Index (CPI). These annual adjustments for inflation should reduce the need for larger increases at future rate reviews. Throughout the annual budget review process the revenue will be projected to determine if specific fees need to be adjusted in advance of the next rate review. The next major review is planned for 2022. It is intended that the ratio or margin of Regional District fees over the charged City of Kelowna fees to fund Regional District operation be equivalent over the different fee types (i.e., residential, commercial – basic and metered).

It is recommended that the Sunset Ranch Sewer System Bylaw be updated with the quarterly fees outlined in the table below for July, 2019 through to December 31, 2022.

Service Area	Fee Type	Current	2019	2020	2021	2022
		Jan, 2016	Jul, 2019 ²	Jan, 2020	Jan, 2021	Jan, 2022
Sunset Ranch - Residential	User Fee	\$ 87.15	\$ 94.00	\$ 96.00	\$ 98.00	\$ 100.00
	Asset Renewal Fee	\$ 26.10	\$ 26.10	\$ 27.00	\$ 28.00	\$ 29.00
	Total	\$ 113.25	\$ 120.10	\$ 123.00	\$ 126.00	\$ 129.00
	Annual Cost	\$ 453.00	\$ 466.70	\$ 492.00	\$ 504.00	\$ 516.00
	Annual Change	N/A	\$ 13.70	\$ 25.30	\$ 12.00	\$ 12.00
Sunset Ranch - Commercial	User - Basic	\$ 36.00	\$ 39.00	\$ 40.00	\$ 41.00	\$ 42.00
	User - Metered ¹	\$ 945.40	\$ 945.40	\$ 945.40	\$ 945.40	\$ 945.40
	Asset Renewal Fee	\$ 26.10	\$ 26.10	\$ 27.00	\$ 28.00	\$ 29.00
	Total	\$ 1,007.50	\$ 1,010.50	\$ 1,012.40	\$ 1,014.40	\$ 1,016.40
	Annual Cost	\$ 4,030.00	\$ 4,036.00	\$ 4,049.60	\$ 4,057.60	\$ 4,065.60
	Annual Change	N/A	\$ 6.00	\$ 13.60	\$ 8.00	\$ 8.00

¹ - Based on 2018 annual average metered flow - Fee of \$2.20/M ³

² - Annual cost for 2019 based on July, 2019 effective date