



WESTSIDE REGIONAL WASTEWATER TREATMENT PLANT STAKEHOLDER SELECT COMMITTEE MEETING

From: Marilyn Rilkoff, Director of Financial Services

Date: Feb 6, 2021

RE: **Westside Sewer System Draft 2021-2025 Financial Plan**

Executive Summary:

Total Impacts and Cost Recovery from Each Partner/Participant:

Based on the proposed budgets for all sewer services combined, the total net increase is \$3,196, allocated as follows, taking into account the revised average 5 year flow splits:

	2020	Increase/(Decrease)	2021
City of West Kelowna	\$ 3,678,829	(\$ 43,917)	\$ 3,634,912
Westbank First Nation	1,105,986	52,273	1,158,259
Peachland	568,710	(11,552)	557,158
Total	\$ 5,353,525	\$ 3,196	\$ 5,350,329

The increases and decreases for each component of the service are explained in the report.

The financial plans are presented with reserve funding level increases from 45% to 50% of the recommended annual replacement amount. The impacts of a 55% option have also been presented, and should the committee choose that option, a net increase of \$25,441 in total would result.

Based on the 5 year average for flow splits, for the Treatment Plant, there is a 1.12% shift of all costs to WFN from West Kelowna (-1.07%) and Peachland (-0.05%), and for the RDCO Collector Systems, a shift of 1.2% to WFN from West Kelowna.

Recommendations:

THAT the Westside Regional Wastewater Treatment Plant Stakeholder Select Committee receive the Westside Sewer System Draft 2021-2025 Financial Plan Report for information; and

AND THAT the Committee recommends increasing reserve funding and capital levels from 45% to 50% of the recommended annual replacement amount, and to continue with 5% increases annually to continue to bridge the funding gap.

AND FURTHER THAT the Committee recommends the Westside Sewer System budgeted Draft 2021 – 2025 Financial Plans to the Board.

REVIEW OF BUDGET IMPACTS:

The Westside Sewer System Draft 2021 – 2025 Financial Plan is presented in the attachments. Detailed notes are provided within the budget spreadsheets.

Cost Sharing on the Basis of Flow Splits:

The 5 year average flow percentages for the Westside Regional Wastewater Treatment Plant are provided in the following table. There would be an increased shift in costs to WFN of 1.12% from West Kelowna and Peachland, even if there were no budget increase:

	2016 Data	2017 Data	2018 Data	2019 Data	2020 Data	5 Year Avg for 2021	5 Year Avg 2020	Change
City of West Kelowna	75.71%	71.00%	72.50%	72.04%	67.96%	71.84%	72.91%	-1.07%
Peachland	7.73%	9.90%	7.28%	6.59%	7.43%	7.79%	7.84%	-0.05%
Westbank First Nation	16.56%	19.10%	20.22%	21.37%	24.61%	20.37%	19.25%	+1.12%

The flow percentages for the sewer collection system budget are provided in the following table. There is a shift in costs from West Kelowna to WFN of 1.2%:

	2016 Data	2017 Data	2018 Data	2019 Data	2020 Data	5 Year Avg for 2021	5 Year Avg 2020	Change
City of West Kelowna	82.10%	78.80%	78.20%	77.30%	73.40%	77.96%	79.16%	-1.20%
Westbank First Nation	17.90%	21.20%	21.80%	22.70%	26.60%	22.04%	20.84%	+1.20%

Reserve Contribution Levels:

It is imperative that reserve and capital funding levels be increased from 45% to at least 50% and continue to increase thereafter as there are several large capital projects on the horizon listed below. The budgets attached show the 50% reserve contribution level.

- 401 – WWTP \$5m estimated:
 - 2021 - \$2m Including:
 - \$644k Completion of 2020 \$2.4 m TWAS Vault project (funded 2/3 DCC's 1/3 Capital reserves)
 - \$300k Blowers. In 2020 staff applied for a grant of approximately \$690k for a \$1m project, but were not successful. This project still needs to be done but the remainder has been moved to future years.)
 - \$226k HVAC
 - \$258k Headworks Pumps
 - \$232k Facility Renewal
 - 2022 & 2023: \$258k annually for Headworks Pumps
 - 2027: \$2m for roof replacement
- 470 – RDCO Collector System \$8.3m (Class D estimates):
 - 2021 Funding with DCC's (however, they are currently at insufficient levels to fund upcoming projects in 2023 - 2025. DCC Bylaw has been amended):

- \$800k for land and engineering and design for lift station in 2021
- \$1.175m for construction 2021 (capacity project)
- \$500k for Engineering & Design
- 2023-2025: \$5.7m – As noted last year's financial plan, 20 year financing will be required unless grants are obtained. DCC Reserves are currently insufficient. DCC Bylaw has been amended.
 - 2023 - \$500k Engineering & Design
 - 2024 - \$1.2m Lift Station
 - 2025 - \$4m Lift Station

Reserve Contribution Level Background:

In 2018 work was done by Urban Systems to prepare an Asset Management Investment Plan and DCC reports. As a by-product of this work, the Annual Capital Cost Replacement update used for calculating reserve contributions for budgeting was updated in 2019. This information was first prepared by Urban Systems in 2010 and used to set aside reserves.

In the past, the 2010 recommended annual rates of replacement cost recovery were used as the base line for annual contributions to reserves, plus annual capital additions, annualized over 40 years for the WWTP, and annual capital additions annualized over 20 years for the Collection Systems.

From 2010 - 2015, contrary to staff recommendations for higher contributions, the Stakeholder Committee recommended that funding levels be set at 30% of the annual amount in Urban Systems Report.

In 2016, the Committee agreed to and recommended an increase to 35% and that was supported by the Board.

In 2019, the current committee recognized the absolute importance of increasing reserve levels, and an annual contribution level of 40% was approved, and in 2020 45% was approved.

Staff recommends that these contribution levels continue to increase annually by at least 5% to build much needed reserves for the future, and to gain years of lost ground. Engineering Staff are continuing work to identify all projects.

2021 Options to increase percentage amounts transferred to reserves 50% or 55%:

The 50% level, which is a 5% increase, is recommended and shown in the budget based on prior discussions to gradually do annual increases. In 2020, there was a large surplus of \$350k, in large part, due to reductions in purchasing contacts savings for biosolids management costs. In the current budget presented, \$100,000 is recommended as a transfer to the Operating Reserves for emergency repairs and studies. This reserve offers flexibility in that a transfer could later be done into the capital reserve if necessary. The current reserve balance before the transfer is \$226k.

However, the committee is also asked to consider a 55% option in 2021. A regional biosolids facility has also been mentioned by other local governments. While savings have been achieved in the 2020 budget, the committee may wish to take the opportunity to set aside additional reserves as a result of these savings.

Reserve contributions at the various levels for each of the cost centres is shown in the next table, with differences from the 2020 45% level.

	2020 45%	2021 50%	2021 55%	100%
WRWW Treatment Plant (401)	\$816,759	\$907,510	\$998,261	\$1,815,021
<i>Increase over 2020 45% level</i>		90,751	181,502	
Collection Systems:				
RDCO Sewer Collectors (470)	\$141,617	\$157,353	\$173,088	\$314,705
<i>Increase over 2020 45% level</i>		15,736	31,471	
Peachland Sewer (472)	\$19,367	\$21,519	\$23,670	\$43,037
<i>Increase over 2020 45% level</i>		2,152	4,304	

If the 55% option is chosen staff would reduce the transfer to the operating reserve from \$100k to \$20k and the difference could then be used to gain ground on reserve transfers and move from 45% to 55%. The caution would be that if there is no surplus from 2021 carried forward to 2022, there could be a larger tax impact in 2022. Historically, there have been surpluses.

The total difference to each partner in 2021 at a 55% option would then be as follows:

	2020	Increase/(Decrease)	2021
City of West Kelowna	\$ 3,678,829	(\$ 23,926)	\$3,654,903
Westbank First Nation	1,105,986	57,931	1,163,917
Peachland	568,710	(8,563)	560,147
Total	\$ 5,353,525	\$ 25,441	\$ 5,378,966

This would have a beneficial impact for the Treatment Plant reserves in particular:

Estimated Reserve Balance Differences at 55% Level:		2021	2025
401 -- WWTP			
	50%	(1,015,502)	(3,945,469)
	55%	(1,106,253)	(4,408,390)
Estimated Increase at 55% level		(90,751)	(462,921)
470 -- RDCO Lift Stns/Collectors			
(Note: \$8m in lift station projects)	50%	(675,319)	(340,491)
Some reserves used.	55%	(691,054)	(420,756)
Estimated Increase at 55% level		(15,735)	(80,266)
472 -- Peachland Lift Stns/Collectors			
	50%	(200,832)	(296,360)
	55%	(202,983)	(307,335)
Estimated Increase at 55% level		(2,152)	(10,975)

Current Budget Presented (with 50% contribution levels):

Overall Impacts and Cost Recovery from Each Partner/Participant:

Based on the proposed budgets for all sewer services, the total net increase is **\$3,196** allocated as follows, taking into account the revised average 5 year flow splits:

- City of West Kelowna \$43,917 Decrease
- Westbank First Nation \$52,273 Increase
- Peachland \$11,552 Decrease

The table below compares the actual 2020 costs and projected 2021 costs for each partner / participant and for each sewer system-related budget, and the overall net total increase or decrease including collection systems (at the 50% level as presented).

	West Kelowna		Westbank First Nation		Peachland	
	2020	2021	2020	2021	2020	2021
WRWW Treatment Plant (401)	\$3,282,883	\$3,238,094	\$866,760	\$918,216	\$353,008	\$350,934
	\$44,789 Decrease		\$51,455 Increase		\$2,074 Decrease	
RDCO Sewer Trunk (470)	\$395,946	\$ 396,818	\$ 104,238	\$ 112,184	N/A	N/A
	\$872 Increase		\$7,946 Increase			
WFN Sewer (471)	N/A	N/A	\$134,988	\$127,859	N/A	N/A
			\$7,129 Decrease			
Peachland Sewer (472)	N/A	N/A	N/A	N/A	\$215,702	\$206,224
					\$9,478 Decrease	
Total	\$3,678,829	\$3,634,912	\$1,105,986	\$1,158,259	\$568,710	\$557,158
Total Difference	\$43,917 Decrease		\$52,273 Increase		\$11,552 Decrease	

Budget Highlights – Refer to detailed Budget Pages:

	2020	2021	Change
WRWW Treatment Plant (401)	\$4,502,652	\$4,507,244	\$4,592 increase
Collection Systems:			
RDCO Sewer Trunk (470)	\$500,184	\$509,002	\$8,818 increase
WFN Sewer (471)	\$134,988	\$127,859	\$7,129 decrease
Peachland Sewer (472)	\$215,702	\$206,224	\$9,478 decrease

1. WRWWTP (401):

Overall cost increase to partners is \$4,592.

The 2020 Surplus swing of \$253k offset increased reserve transfers.

Increase to Operating Costs:

- The \$28.6k increase to the operations line is primarily due to increases for payroll, chemicals, equipment, bio filters maintenance, biosolids management, and other minor line items, offset by decreases in biosolids removal costs, and vehicle operations.

Increase in Transfers to Reserves:

- As discussed earlier, it is imperative to increase the reserve and capital level funding from 45% to 50% as a result of several new capital projects that have been identified. The increase is \$82,225.
- \$100k of the increased surplus was transferred to the operating reserves.

Capital Projects:

- Total capital projects are \$2m in 2021. Note - \$2m on the horizon in 2027 for roof.
 - Various projects including:
 - \$644k for completion of \$1.4m TWAS Vault Expansion

- \$300k for Blowers (\$700k on the horizon)
 - \$258k Headworks Pumps, \$225.5k HVAC, \$184k vehicles, \$232k Facility Renewal, and other minor projects.
2. The annual Engineering Overhead Rate has been increased from 3.3% to 3.8%. Administration Overhead has been increased from 14.5% to 15.4% in accordance with Board Policy.
 3. RDCO Lift Stations / Collector Systems (470):
 - \$8.8k budget increase to partners/participants.
 - Operating Cost increase \$13k primarily for Repairs & Maintenance.
 - Increase in transfer to reserves \$16.7k.
 - Total capital projects \$2.56m in 2021 with \$5.7m from 2023 – 2025, lift stations.
 - Note: Class D estimates for projects. More information required from Engineering and Design studies. These are capacity projects and would therefore qualify for DCC funding, however there are currently insufficient DCC reserves for the 2023 - 2025 projects, and \$4.4m in financing would be required if grants could not be obtained.
 4. WFN Lift Stations / Collector Systems (471): \$7.1k Decrease for WFN for siphon flushing.
 5. Peachland Lift Stations / Collector Systems (472): Decrease of \$9.5k for Peachland. Operations costs decrease by \$9.3k for odor control & contract services. Reserves up by \$2k and increase to previous year's surplus offsets some of the increase.

Alternative Recommendations:

THAT the Westside Regional Wastewater Treatment Plant Stakeholder Select Committee receive the Westside Sewer System Draft 2021-2025 Financial Plan Report for information; and

AND THAT the Committee recommends increasing reserve funding and capital levels from 45% to 55% of the recommended annual replacement amount, and to continue with 5% increases annually to continue to bridge the funding gap.

AND FURTHER THAT the Committee recommends the Westside Sewer System budgeted Draft 2021 – 2025 Financial Plans to the Board with adjustments made by staff for the 55% funding option.

This is for the committee's consideration.

Attachments:

- Draft 2021 - 2025 Financial Plan pages for cost centres 401, 470, 471, and 472.