



Regional Board Report

Request for Decision

To: Regional Board

From: Director of Engineering Services

Date: January 12, 2023

Subject: Water System Fees & Charges Bylaw Amendments

Voting Entitlement: *All Directors – Weighted Vote – Majority (LGA s.210)*
Bylaw Adoption – Weighted Vote – 2/3 Majority (LGA s.228)

Purpose: To consider amending the water system fees and charges for Regional District owned water systems.

Executive Summary:

The Regional District owns and operates six water systems which service more than 1,000 users and more than 1,600 properties. The largest has almost 300 users and the smallest only 8.

The current water fees are composed of Base Fees, Consumption Fees and Asset Renewal Fees. The User Fees (Base and Consumption) apply to all lots where the water service is turned on and are intended to cover all annual operational costs of the water 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 fees are typically increased incrementally every year.

The long-term viability of the water systems needs to be balanced with the growing infrastructure deficit and current reserve funding contributions will not be adequate.

The proposed bylaw amendments will allow phasing in larger adjustments when appropriate and/or annual inflationary adjustments over the next 5 years by the anticipated rate of inflation; 6.0% in 2023, and decreasing annually to 2% by 2027.

Recommendation #1: *All Directors – Weighted Vote – Majority (LGA s.210)*

THAT the Regional Board give first, second and third readings to Regional District of Central Okanagan Killiney Beach Water System Fees & Charges Amendment Bylaw No. 1517, 2023;

AND THAT the Regional Board give first, second and third readings to Regional District of Central Okanagan Falcon Ridge Water System Fees & Charges Amendment Bylaw No. 1518, 2023;

AND THAT the Regional Board give first, second and third readings to Regional District of Central Okanagan Sunset Ranch Water System Fees & Charges Amendment Bylaw No. 1519, 2023;

AND THAT the Regional Board give first, second and third readings to Regional District of Central Okanagan Dietrich Water System Fees & Charges Amendment Bylaw No. 1520, 2023;

AND THAT the Regional Board give first, second and third readings to Regional District of Central Okanagan Westshore Estates Water System Fees & Charges Amendment Bylaw No. 1521, 2023;

AND FURTHER THAT the Regional Board give first, second and third readings to Regional District of Central Okanagan Upper Fintry, Shalal Road and Valley of the Sun Water System Fees & Charges Amendment Bylaw No. 1522, 2023.

Recommendation #2: *Bylaw Adoption – Weighted Vote – 2/3 Majority (LGA s. 228)*

THAT the Regional Board adopt Regional District of Central Okanagan Killiney Beach Water System Fees & Charges Amendment Bylaw No. 1517, 2023;

AND THAT the Regional Board adopt Regional District of Central Okanagan Falcon Ridge Water System Fees & Charges Amendment Bylaw No. 1518, 2023;

AND THAT the Regional Board adopt Regional District of Central Okanagan Sunset Ranch Water System Fees & Charges Amendment Bylaw No. 1519, 2023;

AND THAT the Regional Board adopt Regional District of Central Okanagan Dietrich Water System Fees & Charges Amendment Bylaw No. 1520, 2023;

AND THAT the Regional Board adopt Regional District of Central Okanagan Westshore Estates Water System Fees & Charges Amendment Bylaw No. 1521, 2023;

AND FURTHER THAT the Regional Board adopt Regional District of Central Okanagan Upper Fintry, Shalal Road and Valley of the Sun Water System Fees & Charges Amendment Bylaw No. 1522, 2023.

Prepared by: Clarke Kruiswyk, Engineering Services Analyst and Travis Kendel, Engineering Services Manager

Approved by:



David Komaike, P.Eng., Director of Engineering Services

- Attachment(s):
1. BL1517, RDCO Killiney Beach Water System Fees & Charges Amendment Bylaw, 2023
 2. BL1518, RDCO Falcon Ridge Water System Fees & Charges Amendment Bylaw, 2023
 3. BL1519, RDCO Sunset Ranch Water System Fees & Charges Amendment Bylaw, 2023
 4. BL1520, RDCO Dietrich Water System Fees & Charges Amendment Bylaw, 2023

5. BL1521, RDCO Westshore Estates Water System Fees & Charges Amendment Bylaw, 2023
 6. BL1522, RDCO Upper Fintry, Shalal Road and Valley of the Sun Water System Fees & Charges Amendment Bylaw, 2023
 7. Presentation
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Strategic Plan Alignment:

Priorities: Sustainable Communities

Values: Resiliency, Good Governance

Background:

The current user fee structure is composed of a base fee and a consumption fee. The base fee is a flat fee that applies to all lots where the water service is turned on. The consumption fee is based on actual individual metered water consumption. The current water fee structure, including the 4-tiered consumption fee, is the same for all RDCO water systems and the specific fee values vary by community.

The intention of the basic fee is to fund the fixed costs to operate each system (i.e.: administration, wages, permits, insurance, and testing). The consumption fee is to fund the variable operating costs of each system (i.e.: electricity to pump water, treatment, equipment maintenance and repairs). In general, the consumption fee for an average user is approximately 20% of the basic fee which is the approximate ratio of variable operating costs to fixed operating costs.

The last fee review updated the Base User Fees and the Asset Renewal Fees effective July 1, 2019 and the bylaws included inflationary adjustments of approximately 2% each January with rates set until the end of 2022. The next major fee review occurred in 2022, with rates proposed within this report to be effective in 2023.

Since the last review in 2019, some major items have impacted operating costs/revenue including:

- Supply chain issues and higher inflation:
 - Operating costs for water systems typically increasing higher than general inflation.
 - Fees have increased 2% while combined water system operating costs have increased on average 6% annually.
 - This differential over 3 years would result in a 15% increase.
- Shift of costs from capital to operating (i.e., water meters, pump replacements, etc.):
 - Increases annual operating cost variability.
 - An operating deficit reduces the Asset Renewal revenue transferred to reserves which is required for the eventual infrastructure replacement and improvements in addition to shifting the cost of operation to properties that may not necessarily be water users.
- Number of users – impacting required fee increase:
 - Killiney Beach – 9% decrease in users in 2021 due to homes lost in wildfire
 - Sunset Ranch - 6% annual increase in users since 2019
 - Westshore – 3% annual increase in users since 2019
 - Upper Fintry - 14% annual increase in users since 2019

Specific issues impacting individual water systems:

- Killiney Beach, Westshore and Valley of the Sun: White Rock Lake Wildfire
 - 2021 user fee discount during evacuation period:
 - Over \$110,000 in 2021 budgeted revenue not received for three water systems combined.
 - Increased operating costs during fire event (i.e., staff, lab testing, etc.).
 - Loss of approximately 30 properties connected to Killiney Beach Water System reduces ongoing revenue:
 - Reduced annual user fee revenue by approximately \$18,000.
- Falcon Ridge:
 - Increased costs with new water treatment equipment (i.e., filter changes).
 - Planned service area expansion influencing a reduction in fee intensity.
- Dietrich:
 - Higher than projected operating costs to maintain service levels.

As outlined above, the user fees have increased by approximately 2% annually to account for the previously projected inflation; however, operating costs have increased significantly higher than that. Over the past few years, operating costs for all water systems combined have increased 6% annually. This difference in revenue compared to costs is compounded over time. If there is no other revenue growth (i.e.: increase in number of users, additional fee adjustments), an increase of approximately **15%** would be required to cover the inflationary increase in costs.

The total operating costs for the water systems over time are summarized below:

Operating Costs	2018	2019	2020	2021	2022
	Actual	Actual	Actual	Actual	Budget
Killiney Beach	\$ 153,691	\$ 159,937	\$ 211,217	\$ 228,201	\$ 290,943
Falcon Ridge	\$ 45,433	\$ 62,800	\$ 79,363	\$ 83,490	\$ 88,704
Sunset Ranch	\$ 114,088	\$ 127,313	\$ 137,763	\$ 138,958	\$ 191,647
Dietrich	\$ 24,464	\$ 26,556	\$ 29,621	\$ 23,743	\$ 28,137
Westshore	\$ 161,430	\$ 203,770	\$ 262,948	\$ 199,319	\$ 275,179
Upper Fintry	\$ 96,626	\$ 98,002	\$ 113,305	\$ 115,360	\$ 132,050
All Water	\$ 595,731	\$ 678,379	\$ 834,216	\$ 789,071	\$ 1,006,660

Details of the operating costs by year are included in Attachment “A”, All Water Systems – Operating Cost Breakdown. Notable changes include:

- “Salary and Wages” is typically the highest cost item for water systems followed by “Electricity and Fuel” costs.
- Some major repairs (i.e., pump replacements, etc.) now included as operating expenses and is the largest cost item in 2022 budget. Operating Reserve will help buffer variability of large replacement costs.
- Water meters (new and replacement) now included as an operating expense.
- “Admin O/H” costs increase proportion to total operating costs.
- Collection fees related to utility bill payments have increased nearly 3500% in 5 years and now represents 2% of the operating budget (from 0.09%).
- Wildfire Recovery Expenses, although funded 80% by through Disaster Financial Assistance, are included in 2022 expenses.

User Fees:

The User fees are intended to fund the operation of the water systems based on the fees established in 2019 with annual inflationary adjustments. The operating costs have increased significantly since the last review and adjustments are required to bring the revenue in line with the costs. Where larger increases are required, they are proposed to be phased in over two years. The table below shows the current and proposed 2023 base user fees:

Water System	Current Base User Fee (2022)		Proposed Base User Fee (2023)			
	Quarterly	Annual	Quarterly	Annual	Annual Change	Adjustment
Killiney Beach	\$ 137.00	\$ 548.00	\$ 162.00	\$ 648.00	\$ 100.00	18.2%
Falcon Ridge	\$ 212.00	\$ 848.00	\$ 225.00	\$ 900.00	\$ 52.00	6.1%
Sunset Ranch	\$ 101.00	\$ 404.00	\$ 110.00	\$ 440.00	\$ 36.00	8.9%
Dietrich	\$ 556.00	\$ 2,224.00	\$ 638.00	\$ 2,552.00	\$ 328.00	14.7%
Westshore	\$ 153.00	\$ 612.00	\$ 162.00	\$ 648.00	\$ 36.00	5.9%
Upper Fintry	\$ 210.00	\$ 840.00	\$ 223.00	\$ 892.00	\$ 52.00	6.2%

Subsequent annual adjustments will be based on a combination of phasing larger increases over multiple years and projected inflation. The base user fees and the consumption fees will be adjusted equivalently annually for each water system. Fees will be established until 2027; however, through the annual budget process, the revenue for each water system will be projected to determine if specific fees need to be adjusted in advance of the next major fee review.

These proposed adjustments do not sustainably fund all water systems in one year but are projected to bring fees closer to the required level over time. Moderating the adjustments over time can delay capital projects as Asset Renewal reserves are used to fund operating rather than infrastructure renewal and improvement.

Water fees differ between each of the RDCO water systems and amongst water systems throughout the region for numerous reasons including, but not limited to:

- Factors that impact economies of scale (e.g., number of users, service area),
- Types and cost of water treatment,
- Population density,
- Age and efficiency of infrastructure,
- Elevation of water source and users (i.e., pumping vs. gravity), and
- Funding, asset replacement planning, and subsidizations.

Given the range of different water rate structures and funding methods in the region, it is difficult to do an accurate comparison of fees, particularly at different levels of water consumption. It is anticipated that water systems that are older have or require additional treatment, or that have fewer number of connections will have higher fees.

As an alternative to a community water system, residents could source water through an alternate water source such as a private well or through a water hauler and cistern. For example, based on the average annual water consumption for the Falcon Ridge and Dietrich, it is estimated that the cost to haul water would be between \$6,200 - \$9,300 / year¹ for Falcon Ridge and \$11,700 - \$17,531 / year for Dietrich. This does not include the cost of a cistern or other equipment required by the homeowner.

¹ Based on private hauler rates and consumption for an average water user.

Alternatively, residents could pursue a private well. There are a lot of variables involved in the cost of drilling a well; however, it is suggested that an average cost is between \$25,000 - \$30,000 in addition to the ongoing operation and maintenance costs.

Water Service provided through the RDCO, inclusive of proposed rate increases, is the most economical option available to many property owners to obtain regulatory-compliant drinking water.

Asset Renewal Fees:

The Asset Renewal fees are intended to build capital reserves that will partially fund capital projects and infrastructure renewal. In 2018, the projects were forecasted by a third-party consultant in an Asset Management Investment Plan (“AMIP”) including 2018 total water system replacement values over \$62 million. The current Asset Renewal Fees are based on this AMIP, funding at a 50% level, and adjusting those 2018 figures annually for inflation (2% annually). It was assumed that the remainder of the remaining 50% costs would be funded through grants or borrowing. Although fully funding asset replacement is the goal, due to the significant increase to User fees, the proposed Asset Renewal fees maintain the 50% level including a more current 6% annual inflation level.

The Asset Renewal reserve levels for the water systems as of December 31, 2021 are listed in the table below:

Water System	Equipment and Capital Facility Reserves
	2021 (Actual)
Killiney Beach	\$ 1,399,413
Falcon Ridge	\$ 45,144
Sunset Ranch	\$ 661,193
Dietrich	\$ 8,027
Westshore	\$ 2,127,043
Upper Fintry	\$ 570,675
All Water	\$ 4,811,495

Killiney Beach and Westshore do not currently meet drinking water guidelines. A strategic plan on how to meet these guidelines was presented to and approved by the Regional Board on September 26, 2022. With the approval, the project will continue with concept refinement leading to updating the AMIP for Killiney Beach and Westshore Estates for the required improvements. Once complete, the associated Asset Renewal fees can be adjusted accordingly to account for the infrastructure costs more accurately.

Recommendation:

Overall, the fees are recommended to change as outlined in Attachment ‘B’, Recommended Adjustment Table for all water systems. For illustrative purposes, the User consumption fee for an “average” user has been included to show total costs. The adjustments are necessary so that the water systems are more financially sustainable. The table outlines the fees until 2027 which includes phasing in when appropriate and/or annual inflationary adjustments. Throughout the annual budget process, the revenue for each water system will be projected to determine if specific fees need to be adjusted in advance of the next major fee review planned for 2027.

Although this review has focused on the User fees of the systems to help cover operating costs, it is anticipated that further adjustments to the Asset Renewal fees may be required when a detailed asset replacement plan is updated. The current Asset Renewal fees are based on 2018 estimated replacement costs adjusted for 2% annual inflation and only funded at a 50% ratio. The 2023 to 2027 fees include a proposed 6% annual inflationary adjustment. Due to the increased infrastructure construction costs over and above general inflation and a suggestion to increase the asset replacement funding ratio, increases to all fees will likely be proposed at the next review. Information on the asset renewal plan for Killiney Beach and Westshore will be available next as part of the review to meeting drinking water guidelines.

Each water system has their own Fees and Charges Bylaw. It is recommended that the bylaws be approved with the quarterly fees as presented through to December 31, 2027.

Considerations:

Organizational/External:

If the fee changes are approved, the residents will be informed of the fee changes through:

- Direct mail through water utility bills;
- Email notification to those subscribed to e-notification services at rdco.com;
- Updated rates provided at rdco.com/water;
- Notification via RDCO social media channels
- Detail in the next Water Talk newsletter; and
- Advertising in local news outlets.

Residents would receive their first quarter invoices reflecting the new fees in the Spring of 2023.

Legal/Statutory Authority:

Local Government Act, Imposition of fees and charges, s. 397

Financial:

- Rates as proposed align with existing Capital funding and rate development strategies.
- Deviation from the proposed rates will require operational impacts to Service Levels

Alternate Recommendation:

THAT the Regional Board receive the Water System Fees and Charges Bylaw Update report from the Director of Engineering Services, dated January 12, 2023 for information.

Approved for Agenda



Brian Reardon, CAO

Attachment “B” Recommended Adjustment Table

Water System	Fee Type	Current Bylaw Jan, 2022	Proposed Bylaw Jan, 2023	Proposed Bylaw Jan, 2024	Proposed Bylaw Jan, 2025	Proposed Bylaw Jan, 2026	Proposed Bylaw Jan, 2027
Killiney Beach	User - Basic	\$ 137.00	\$ 162.00	\$ 173.00	\$ 180.00	\$ 185.00	\$ 189.00
	User - Consumption ¹	\$ 23.22	\$ 27.40	\$ 29.32	\$ 30.49	\$ 31.40	\$ 32.03
	Asset Renewal	\$ 174.00	\$ 184.00	\$ 195.00	\$ 207.00	\$ 219.00	\$ 232.00
	Total	\$ 334.22	\$ 373.40	\$ 397.32	\$ 417.49	\$ 435.40	\$ 453.03
	Annual Cost	\$ 1,336.89	\$ 1,493.60	\$ 1,589.28	\$ 1,669.96	\$ 1,741.60	\$ 1,812.12
	Annual Change	N/A	\$ 156.71	\$ 95.68	\$ 80.68	\$ 71.64	\$ 70.52
Falcon Ridge	User - Basic	\$ 212.00	\$ 225.00	\$ 236.00	\$ 245.00	\$ 252.00	\$ 257.00
	User - Consumption ¹	\$ 33.62	\$ 35.63	\$ 37.41	\$ 38.91	\$ 40.08	\$ 40.88
	Asset Renewal	\$ 147.00	\$ 156.00	\$ 165.00	\$ 175.00	\$ 186.00	\$ 197.00
	Total	\$ 392.62	\$ 416.63	\$ 438.41	\$ 458.91	\$ 478.08	\$ 494.88
	Annual Cost	\$ 1,570.47	\$ 1,666.52	\$ 1,753.64	\$ 1,835.64	\$ 1,912.32	\$ 1,979.52
	Annual Change	N/A	\$ 96.05	\$ 87.12	\$ 82.00	\$ 76.68	\$ 67.20
	Water System Buy-In Charge	N/A	\$ 9,750.00	\$ 9,750.00	\$ 9,750.00	\$ 9,750.00	\$ 9,750.00
Sunset Ranch	User - Basic	\$ 101.00	\$ 110.00	\$ 116.00	\$ 121.00	\$ 125.00	\$ 128.00
	User - Consumption ¹	\$ 23.41	\$ 25.52	\$ 26.80	\$ 27.87	\$ 28.71	\$ 29.28
	Asset Renewal	\$ 58.00	\$ 61.00	\$ 65.00	\$ 69.00	\$ 73.00	\$ 77.00
	Total	\$ 182.41	\$ 196.52	\$ 207.80	\$ 217.87	\$ 226.71	\$ 234.28
	Annual Cost	\$ 729.65	\$ 786.08	\$ 831.20	\$ 871.48	\$ 906.84	\$ 937.12
	Annual Change	N/A	\$ 56.43	\$ 45.12	\$ 40.28	\$ 35.36	\$ 30.28
Dietrich	User - Basic	\$ 556.00	\$ 638.00	\$ 670.00	\$ 697.00	\$ 718.00	\$ 732.00
	User - Consumption ¹	\$ 118.28	\$ 135.67	\$ 142.45	\$ 148.15	\$ 152.59	\$ 155.64
	Asset Renewal	\$ 274.00	\$ 290.00	\$ 307.00	\$ 325.00	\$ 345.00	\$ 366.00
	Total	\$ 948.28	\$ 1,063.67	\$ 1,119.45	\$ 1,170.15	\$ 1,215.59	\$ 1,253.64
	Annual Cost	\$ 3,793.13	\$ 4,254.68	\$ 4,477.80	\$ 4,680.60	\$ 4,862.36	\$ 5,014.56
	Annual Change	N/A	\$ 461.55	\$ 223.12	\$ 202.80	\$ 181.76	\$ 152.20
Westshore	User - Basic	\$ 153.00	\$ 162.00	\$ 173.00	\$ 180.00	\$ 185.00	\$ 189.00
	User - Consumption ¹	\$ 25.65	\$ 27.19	\$ 29.09	\$ 30.25	\$ 31.16	\$ 31.78
	Asset Renewal	\$ 184.00	\$ 195.00	\$ 207.00	\$ 219.00	\$ 232.00	\$ 246.00
	Total	\$ 362.65	\$ 384.19	\$ 409.09	\$ 429.25	\$ 448.16	\$ 466.78
	Annual Cost	\$ 1,450.59	\$ 1,536.76	\$ 1,636.36	\$ 1,717.00	\$ 1,792.64	\$ 1,867.12
	Annual Change	N/A	\$ 86.17	\$ 99.60	\$ 80.64	\$ 75.64	\$ 74.48
Upper Fintry	User - Basic	\$ 210.00	\$ 223.00	\$ 234.00	\$ 243.00	\$ 250.00	\$ 255.00
	User - Consumption ¹	\$ 23.49	\$ 24.90	\$ 26.15	\$ 27.20	\$ 28.02	\$ 28.58
	Asset Renewal	\$ 63.00	\$ 67.00	\$ 71.00	\$ 75.00	\$ 80.00	\$ 85.00
	Total	\$ 296.49	\$ 314.90	\$ 331.15	\$ 345.20	\$ 358.02	\$ 368.58
	Annual Cost	\$ 1,185.95	\$ 1,259.60	\$ 1,324.60	\$ 1,380.80	\$ 1,432.08	\$ 1,474.32
	Annual Change	N/A	\$ 73.65	\$ 65.00	\$ 56.20	\$ 51.28	\$ 42.24

¹ - Based on 2020 annual average consumption per connection by water system