

Report

Date January 9, 2024
Subject 2024 – 2028 Utility Rate Review

File:

PURPOSE

To review proposed utility rate expenditure plans and rates for the 2024 – 2028 Financial Plan. The Director of Financial Services, Teri Vetter, will be providing a presentation.

BACKGROUND

The Municipality has seven utility funds (three water systems and four sewer systems). Each of these systems is accounted for as a separate entity with user fees and parcel taxes to cover each of the utility systems' operating and capital expenditures. Council reviewing the proposed revenues and expenditures for each system is part of the annual budget process. Any utility rate changes are amended in the Fees and Charges Bylaw, as well as with an amendment to the Sewer and Water Parcel Tax Bylaw.

The focus of this year's utility rate review is on asset management and the need for the Municipality to establish a sustainable funding model that will allow North Cowichan to be in a place where staff can be proactive rather than reactive when it comes to managing our assets and providing core services to our residents.

Talitha Soldera did a presentation on asset management and where the Municipality was on its asset management journey in November 2023. The presentation included the amount needed for repairs and/or maintenance on infrastructure past its useful life that has not taken place, which is referred to as backlog. Additionally, the amounts for Average Annual Life Cycle Investment (AALCI) represent the annual investment needed to sustain existing infrastructure over its service life. A long-term financial plan (at least 10 years) is needed in order to reach a sustainable funding model that allows the repair and replacement of assets when required.

DISCUSSION

Water Utilities

Chemainus Water

The 2024 Maintenance and Administration budget totals \$1,311,983, which is a 3.06% decrease from the prior year (\$1,327,829 - 2023), and this can be attributed to a decrease in one-time expenditures for studies.

There are several projects slated for the next five years totaling \$6.38M which include Smiley Road watermain, River Road Reservoir Stage 2, Willow Street watermain, Bannon dredging and Bare Point Road and various pipe replacements throughout the water system.

In 2024 and future years, the proposed expenditures for Chemainus Water exceed the revenues collected. The resulting deficit will be funded through accumulated surplus and temporary borrowing from the Development Cost Charges (DCC).

The backlog for Chemainus Water is \$17.35M and the AALCI is \$2.24M. For this backlog to be cleared by 2037, a 6% increase to the annual parcel tax is needed for the next ten years. Additionally, in an effort to promote water conservation, staff are proposing raising the metered water excess charges from 3% to 6% in 2024 and 0.5% very year thereafter for nine years. The excess water charge revenue is minimal at an estimated \$7,374 (assuming usage remains the same). If usage drastically reduces, Council can revisit rates.

Increasing the water parcel tax from 5% to 6% in 2024 is only \$3 more for a total increase of \$35 over 2023 (\$371 annually). The water minimum user fee remains at \$299.

Crofton Water

The 2024 Maintenance and Administration budget totals \$565,602, which is a 23% decrease from the prior year (\$737,357 - 2023), and this can be attributed to a decrease in one-time expenditures for studies.

Several projects are slated for the next five years totalling \$1.74M, including Roberts Street Hypo upgrade, Crofton Road, Osbourne Pump station, Chilco Reservoir decommissioning and various pipe replacements throughout the water system.

The backlog for Crofton Water is \$740K, and the AALCI is \$560K. This backlog can be cleared by 2026, keeping the 5% increase to parcel taxes that Council previously approved, and the AALCI can be achieved by 2030, reaching a sustainable funding model in this system. Continuing in the effort to promote water conservation, staff are proposing raising the metered water excess charges from 3% to 6% in 2024 and 0.5% every year thereafter for nine years for Crofton Water. The excess water charge revenue is very minimal at an estimated \$938 (assuming usage remains the same).

The water parcel tax with Council's approved 5% increase in 2024 is \$259 with an annual increase of \$37. The water minimum user fee remains at \$516.

South End Water

The 2024 Maintenance and Administration budget totals \$2,020,798, which is an 8.26% decrease from the prior year (\$2,202,783 - 2023), and this can be attributed to a decrease in one-time expenditures for studies.

There are several projects slated for the next five years totaling approximately \$16M which include Calais Road watermain, South End Water Trunk main, Trillium Terrace watermain, South End Hyprescon Trunk main, Maple Bay Road watermain, Fairview Way Watermain and various pipe replacements throughout the water system.

In 2024 and future years, the proposed expenditures for South End Water exceed the revenues collected. The resulting deficit will be funded through accumulated surplus and temporary borrowing from the DCC.

The backlog for South End Water is \$660K and AALCI is \$3.68M. Due to the low amount of backlog, it can be cleared in 2024. However, to achieve the AALCI, a 7% increase to the annual parcel tax is needed for the next ten years. If parcel taxes are increased to 7%, the AALCI will be achieved in 2036, reaching a sustainable funding model in this system. Staff are proposing the same 3% to 6% increase to excess water charges in 2024 and 0.5% every year thereafter for nine years. The excess water charge revenue is minimal at an estimated \$10,859 (assuming usage remains the same). If usage drastically reduces, Council can revisit rates.

Increasing the water parcel tax from 3% to 7% in 2024 is only \$9 more for a total increase of \$21 (\$230 annually). The water minimum user fee remains at \$194.

Sewer Utilities

Chemainus Sewer

The 2024 Maintenance, Administration and Treatment budget totals \$966,350, which is a 30.3% decrease from the prior year (\$1,386,399 - 2023), and this can be attributed to a decrease in one-time expenditures for studies.

There are several projects slated for the next five years totalling \$1.72M, which include Willow Street Sewer replacement, Croft Street upgrades and various pipe replacements throughout the sewer system.

The backlog for Chemainus Sewer is \$6.52M, and the AALCI is \$1.37M. For this backlog to be cleared by 2034, a 4% increase to the annual parcel tax is needed for the next ten years. The AALCI would be achieved by 2040, at which time the Municipality would achieve a sustainable funding model for this sewer system.

Increasing the sewer parcel tax from 2% to 4% in 2024 is only \$9 more for a total increase of \$22 over 2023 (\$500 annually). Sewer user fees remain at \$155.

Crofton Sewer

The 2024 Maintenance, Administration and Treatment budget totals \$608,693, which is a 7.7% decrease from the prior year (\$659,577 - 2023), and this can be attributed to a decrease in one-time expenditures for studies.

There are several projects slated for the next five years totaling \$5.65M which include Babine Sanitary Sewer extension, Laneway Sewer replacement, Dyke Road Pump Station replacement, Sewer Treatment Plant Clarifier and various pipe replacements throughout the sewer system.

The backlog for Crofton Sewer is \$1.77M and the AALCI is \$560K. A 6% increase to the annual parcel tax is recommended for the next ten years in order to clear the backlog by 2029 and achieve the AALCI to reach a sustainable funding model for this sewer system.

Increasing the sewer parcel tax from 3% to 6% in 2024 is \$15 more for a total increase of \$38 over 2023 (\$508 annually). Sewer user fees remain at \$318.

South End Sewer

The 2024 Maintenance, Administration and Treatment budget totals \$1,808,123, a 15% decrease from the prior year (\$2,128,715 - 2023), which can be attributed to a decrease in one-time expenditures for studies.

There are several projects slated for the next five years totalling \$15.26M, which include Canada Avenue Complete Streets sewer, Dingwall and Alexander Streets sewer, Howard Avenue sewer, Joint Utility Board (JUB) Sequence Batch Reactor Conversion, JUB diffusers and various pipe replacements throughout the sewer system. Please note that the total of \$15.26M does not include any estimated costs for the JUB Outfall project, and this will require a large capital contribution over many years.

The backlog for South End sewer is \$270K, and the AALCI is \$3.28M. Due to the low amount of backlog, it will be cleared in 2024. However, in order to achieve the AALCI, a 7% increase to the annual parcel tax is needed for the next ten years. If parcel taxes are increased to 7%, the AALCI will be achieved in 2035, reaching a sustainable funding model in this system.

Increasing the sewer parcel tax from 5% to 7% in 2024 is \$4 more for a total increase of \$25 over 2023 (\$246 annually). Sewer user fees remain at \$191.

Maple Bay Sewer

The 2024 Treatment budget totals \$78,350, which is a 5.9% increase from the prior year (\$73,950 - 2023), and this can be attributed to inflationary increases in chemicals for treatment. No capital projects are slated for this sewer system in the next five years.

The sewer parcel tax has an annual increase of \$49 with the approved 3% increase (\$3,717 annually). Sewer user fees remain at \$1,148.

OPTIONS

1. **(Recommended Option)** THAT the Committee of the Whole direct staff to prepare the Five-Year Financial Plan Bylaw, a Fees and Charges Amendment Bylaw and a Water and Sewer Parcel Tax Amendment Bylaw to:
 - a) Increase Chemainus water parcel tax by 6% per year for ten years;
 - b) Increase South End water parcel tax by 7% per year for ten years;
 - c) Increase Chemainus sewer parcel tax by 4% per year for ten years;
 - d) Increase Crofton sewer parcel tax by 6% per year for ten years;

- e) Increase South End sewer parcel tax by 7% per year for ten years; and,
 - f) Increase metered water rates (amounts over minimum) for all water utility systems by 6% in 2024 and an additional 0.5% per year for nine years.
- By approving multi-year increases, Council is working towards a sustainable funding model for asset management within the utility systems. It also provides certainty and stability to ratepayers, and by increasing parcel taxes, not user fees, people who qualify could defer these increases.
2. THAT the Committee of the Whole suggest alternate increase amounts and/or timeframes for any or all of the utility systems.
- Depending on the approved increases, staff may need to re-evaluate capital replacement plans, prioritize projects according to their available funds, or seek approval to borrow if sufficient funds are unavailable for necessary works.
 - Should Council approve fewer years of rate increases, the backlog will remain in most utility systems, and the Municipality will continue to utilize available surplus and borrow from DCCs, which is not a long-term or sustainable solution.

IMPLICATIONS

The recommended increases are necessary to be proactive rather than reactive when it comes to maintaining and replacing assets, planning for future replacements and/or major repairs rather than reacting to emergencies as they arise. Borrowing from DCC's and always utilizing surplus is not a long-term or sustainable option for the Municipality. If Council approves the proposed increases and the proposed timeframe, North Cowichan will have a sustainable funding model for all its utility systems within the next thirteen years.

Staff realize that it is a hard decision to increase rates at a time when inflation is rising and some residents are struggling however, thinking long-term and planning today is necessary so that residents can continue to have clean drinking water and sewer services long into the future. Once all systems meet their AALCI, North Cowichan can confidently say that a sustainable funding model for asset management has been achieved as the annual investment needed to sustain existing infrastructure over its service life will be realized.

RECOMMENDATION

THAT the Committee of the Whole direct staff to prepare the Five-Year Financial Plan Bylaw, a Fees and Charges Amendment Bylaw and a Water and Sewer Parcel Tax Amendment Bylaw to:

- a) Increase Chemainus water parcel tax by 6% per year for ten years;
- b) Increase South End water parcel tax by 7% per year for ten years;
- c) Increase Chemainus sewer parcel tax by 4% per year for ten years;
- d) Increase Crofton sewer parcel tax by 6% per year for ten years;
- e) Increase South End sewer parcel tax by 7% per year for ten years; and
- f) Increase metered water rates (amounts over minimum) for all water utility systems by 6% in 2024 and an additional 0.5% per year thereafter for nine years.

Report prepared by:

Teri Vetter

Teri Vetter
Director, Financial Services

Report reviewed by:



Talitha Soldera
General Manager, Corporate Services

Approved to be forwarded to Council:



Ted Swabey
Chief Administrative Officer

Attachment 2024 – 2028 Utility Rate Review