
CITY OF KELOWNA

MEMORANDUM

Date: December 3, 2003
File No.: 1824-02
To: City Manager
From: Wastewater Manager
Subject: 2004 Sewer Rates

RECOMMENDATION:

THAT Council approve an increase to Residential and Industrial/Commercial/Institutional (ICI) Sewer rates effective on January 1, 2004 and billings that occur subsequent to that date, as follows:

	<u>(Existing) 2003</u>	<u>(New) 2004</u>
Residential		
- Flat Rate	\$ 12.35 / month	\$ 13.20 / month
Commercial (I/C/I)		
- Metered base rate (per month)	\$ 8.00	\$ 8.50
- All usage (per m ³)	\$ 0.75 / m ³	\$ 0.75 / m ³
- Unmetered rate:		
- ¾" water service size	n/a	12 times the residential rate
- 1" water service size	n/a	24 times the residential rate
- 1 ½" water service size	n/a	40 times the residential rate
- 2" water service size	n/a	72 times the residential rate
- 3" water service size	n/a	135 times the residential rate
- Greater than 3" water service	n/a	based on estimated usage
Parcel Tax (all serviced parcels)	\$ 70.00 /parcel /year	\$ 60.00 /parcel /year

THAT Council direct staff to prepare an amended Sewer System User Bylaw and Sewer Service Parcel Tax bylaw for approval.

BACKGROUND:

A financial review was conducted on the Sewer Utility revenues and expenditures, based on our most recent projections. This review considered the timing and expenses of Capital improvements such as Treatment Facility expansions as well as new mains. Also considered were the expenses of ongoing infrastructure replacement, the management of our Bio-Solids program, treatment plant, lift station and pipe network operation & maintenance. The City

Financial Services Department has prepared a pro forma statement of Revenues & Expenditures for the Sewer Utility that is a 10-year projection, based on the present year Budget figures and future Capital and Operating expenditures in all areas of the Utility. This method of rate setting allows the balancing of Debt and large Capital expenditures, with the accumulated Utility surplus, to establish a stable Utility rate structure

Sewer Utility revenues from our customer base come from two types of charges; the monthly user rate and an annual parcel tax. The user rate is a flat rate per month for our residential customers. A minimum charge coupled with a volumetric usage charge is applied to Commercial (Industrial/Commercial/Institutional) customers. The annual Parcel Tax makes up the other component of our sewer charge and is presently \$70.⁰⁰ per year, per parcel that is capable of being serviced with sewer.

The recommended rate structure for 2004 will initiate the gradual elimination of the Sewer Parcel tax. It is believed that when the City installed sewers in the early days, some properties were not developed at the time; however sewer mains still needed to be extended past those properties. The Sewer Utility was small at the time and the costs of operating and maintaining the sewer that extended past the vacant properties had an impact on the rates of the users at the time. The City created a Parcel tax to charge vacant and unconnected properties an annual amount related to the O&M costs of the sewer in front of the property. Today, many decades later, the Parcel Tax amounts to approximately 30% of the full residential sewer usage charge, and customers regularly inquire why our usage charges are collected through two different processes. In the "Old City" area, there are no longer many unsewered properties, and it is not as significant an issue as it was years ago. The proposed new rates incorporate a shift from Parcel Tax billing to Utility billing, with the objective of reducing the Parcel Tax by \$10.00/year, and increasing the Utility charge by \$10.00/year for 7 years until the Parcel Tax has been eliminated. As the Parcel Tax reduces, it is proposed to phase-in a reduced multi-family dwelling rate, however, more in-depth customer impact analysis is required prior to implementing this change.

One of the issues related to the proposed Parcel Tax reduction is that properties that abut a sewer main installed by a Developer or by the Utility, and are not in a Spec Area, are not presently required to connect. If the Parcel Tax is eliminated, the owners of those properties will have immediate access to sewer service but will not be paying any annual upkeep of the mains. At the present time there are no requirements for those owners to connect, primarily because the main would have been installed by others, without the affected property owners having a say or a choice if the main went in. New areas that have been serviced via a Specified Area process are required to connect within 1 year of completion of the project.

The effect of the new rates, on residential customers, is \$0.²⁰ per year. The adjustment in rates for our Industrial/Commercial/Institutional (I/C/I) customers is again due to the shift of Parcel Tax charges to Utility billing charges. I/C/I rates have been increased less than residential rates to continue our gradual adjustment in the distribution of costs between Residential and I/C/I accounts. The overall adjustment represents virtually no increase of revenue from rates for 2004. The costs of operating the Utility will increase in 2004 and additional revenue is required, however this revenue is projected to be obtained through our substantial growth in customers.

One of the issues that must be addressed is to establish a sewer rate for un-metered Industrial/Commercial/Institutional (I/C/I) customers. Our present rate structure is set up to bill our I/C/I customers based on the volume of water they use. A water meter is required to allow

billing of the sewer use. In some situations, customers install meters that are not in accordance with City bylaws and are not suitable to be read by our contracted meter-reading company. In other situations some customers connect existing buildings, which are not in the City Water Utility service area, to the sewer system and fail to install a water meter at the same time. In both these circumstances the customer could be a substantial sewer user who we cannot bill because of the lack of a meter. When the Water Utility metered all our water customers a monthly flat charge was established for customers that, for various reasons, did not have a water meter installed. The consumption and subsequent billing, since there was no measure of what volume was actually being used, was based on a high estimated volume. The un-metered sewer charge that is proposed is based on the same estimated water volume that would be used, on a similar sized service. The un-metered rate is not intended to be "economical" for the customer, but rather serve as incentive for the customer to install an adequate water meter in a timely manner.

The following table illustrates the effect of the proposed rate adjustment for this year on residential customers:

	Annual Parcel Tax	Monthly User Rate	Total Annual Sewer Charges
2003 Rates	\$70. ⁰⁰	\$12. ³⁵ /mo.	\$218. ²⁰
2004 Rates	\$60. ⁰⁰	\$13. ²⁰ /mo.	\$218. ⁴⁰

The rates are proposed to be in effect for the sewer use after January 1, 2004 on the Tax notices of the customers who are billed for sewer only, and will appear on the January 16, 2003 sewer bill and subsequent bills for customers receiving a utility bill. We propose to provide our customers with a one-month notice of the rate increase, to be printed on our customer sewer bills, prior to the rate coming into effect.

W.J. Berry, P. Eng
Wastewater Manager

John Vos
Director of Works & Utilities

WJB/ms

cc: Revenue Manager
Financial Planning & Systems Manager