

Memo



Date: May 24, 2011
File: 0245-80
To: City Manager
From: General Manager - Community Services
Subject: 2011 Water Rates

Recommendation:

THAT Council receive, for information, the Report dated May 24, 2011 from the General Manager, Community Services with respect to the 2011 Water Rates;

AND THAT Council approve an increase in overall Water Utility revenue of 11% effective with the first billing cycle in July, 2011 for the operation, maintenance and capital improvements to the Utility;

AND THAT Council approve increases in rates to different classes of customers for 2011 based on the cost of service review as outlined in the Report of the General Manager, Community Services dated May 24, 2011;

AND THAT Council approve an increase of the Water Quality Enhancement Fee of \$2.64 per month per single family account and increasing rates for larger metered residential, commercial and industrial properties for the purpose of generating funds for water filtration requirements;

AND FURTHER THAT Bylaw No. 10550 being Amendment No. 1 to the Water Regulation Bylaw No. 10480 be forwarded to Council for reading consideration.

Purpose

To provide Council with information on water costs and revenues to obtain approval for a 2011 water rate increase.

Background:

City staff have been reviewing a number of factors that are impacting water rates for 2011 and future years. Specifically they can be broken into 3 categories:

- 1) Review of financial needs based on current service levels and capital plans
- 2) Cost of service review to ensure each class of customer is paying their share of the cost of providing water
- 3) Impact of Filtration Deferral Analysis working with IHA

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Impact of Current Service Levels and Capital Plans

A review was conducted by the Infrastructure Planning, Design and Construction, and Civic Operations Departments on the Water Utility revenues and expenditures, based on our most recent projections. This review considered the timing and expenses of capital improvements such as water treatment and pumping stations upgrades and expansions as well as new trunk mains. Also considered were the expenses of ongoing infrastructure replacement and operation and maintenance. The City Financial Services Department has prepared a pro forma statement of Revenues & Expenditures for the Water Utility that is a 10-year projection, based on the present year's 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.

The Water Utility has been experiencing significant capital cost pressures over the past number of years due to the need to replace aging infrastructure. This has used up most of the Utility's reserves and surpluses and triggered the need for debt financing. In addition to the need to replace aging cast iron water mains and participate when other roads or sanitary sewer projects occur, the most notable expenditure is the current construction of the Cedar Creek Pump Station and UV water treatment at a cost of some \$14.5M. This new pump station replaced three very small and inadequate pump stations as well as provides increased water treatment. Costs are shared between new development and existing customers. The replacement of aging infrastructure is expected to maintain financial pressures on the utility. Projects over the next five years include cast iron main replacement projects, Poplar Point chlorine system replacement, and participation in projects such as Bernard Avenue revitalization.

Last year when Council considered 2010 water rates staff advised that overall rate revenues need to increase 50% over the five year period. The results of the this year's review have found that a rate increase of closer to 55% is required to cover these capital expenses as well as increasing operating costs. This rate increase continues to place the City water utility as the second lowest of the five water purveyors in the City and well below most municipalities in British Columbia (see Attachment 1). Staff expect to conduct further analysis of water utility revenue needs annually and will bring forward further recommendations in 2012

Cost of Service Analysis

As part of this year's rate review process a comprehensive cost of service analysis was done by customer class. The attached PowerPoint presentation overviews the findings of this review. The results indicate that single family residential is subsidizing all other classes of customers. Staff recommends that the rates for all other classes be increased such that they bring in revenues in line with their respective cost of service over a five year period. Areas where this will not be achieved are where Council previously agreed to a 50% cost of service for parks and 25% cost of service for agricultural. The impact of these increases result in an average increase in 2011 of 7.8% for single family residential, 14.3% for single family strata, 11.4% for multifamily residential, and 13% for commercial. Staff recommend a rate increase for parks of 11%. For agricultural properties, when considering the fees paid by agricultural customers in the other improvement districts serving city agricultural properties, it is recognized our agricultural rates are higher. It is therefore recommended no increase for that rate group.

Filtration Deferral Requirements

As a separate report to Council (Filtration Deferral and Drinking Water Source Protection) outlined the City's requirement to set aside funds for future water filtration as part of approval of filtration deferral as required by IHA and the Province of BC. The cost of future filtration is approximately \$129 M in capital costs. Assuming 2/3 funding from the Federal and Provincial governments, staff recommend the City generate its share by increasing the current Water Quality Enhancement Fee. These fees will generate a portion of the total required funds over the next 10 to 30 years. Fees will vary based on meter size, with an increase in single family residential charge of \$2.64 per month. In future reviews of water rates this fee will be further reviewed to ensure the city share of funding is available when filtration works are required.

Water Utility revenues from our customer base come from two types of charges; the monthly user rate and an annual parcel tax. The user rate for all customer classes is based on a combination of a fixed monthly rate plus a variable rate per month based on actual consumption. The annual Parcel Tax makes up the other component of our water charge and is presently \$50.⁰⁰ per year, per parcel that is capable of being serviced with water. The proposed new rates incorporate a continuation of the Parcel Tax component of the Utility billing recognizing the funding needs of the Utility.

One aspect that is proposed to change in the rates is the charge for differing meter sizes. Currently that fee is based on the maximum potential demand that location can place on the system. The rates for the meter size is proposed to be adjusted over a five year period to reflect customer and meter service related charges only. This results in a reduction in the fixed rate charges for all classes.

These rate increases are significant when considered on a percentage basis. However, when one considers rates charged by other water improvements districts in the City and other municipalities throughout the Province as outlined in the attached surveys, we are the second lowest of all surveyed and consistently well below most other jurisdictions.

The new rates are proposed to be in effect for the first billing cycle in July and will appear first on the July 16th utility bill and subsequent bills for customers receiving a utility bill. Our customers will be provided with notice of the rate change, to be printed on our customer utility bills, prior to the rate coming into effect.

INTERNAL CIRCULATION TO:

Director of Financial Services, Revenue Manager, City Clerk, Director Infrastructure Planning, Director of Community & Media Relations

FINANCIAL/BUDGETARY CONSIDERATIONS:

The recommended rates are consistent with the 10-year Utility Financial Plan

COMMUNICATIONS CONSIDERATIONS:

Notification to customers will go out through media advertising and / or utility billing.

Considerations that were not applicable to this report:

PERSONNEL IMPLICATIONS:

EXISTING POLICY:

TECHNICAL REQUIREMENTS:

EXTERNAL AGENCY/PUBLIC COMMENTS:

ALTERNATE RECOMMENDATION:

LEGAL/STATUTORY AUTHORITY:

LEGAL/STATUTORY PROCEDURAL REQUIREMENTS:

Submitted by:

A handwritten signature in cursive script that reads "John Vos".


John Vos, General Manager - Community Services

Attachments

cc: All internal circulations
Financial Planning Manager
Revenue Manager



City of Kelowna, British Columbia Water Cost of Service / Rate Strategy (2011-2015)



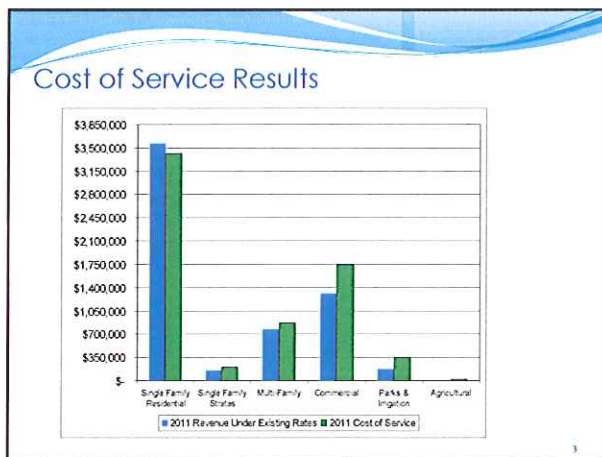
Presented by:
Karyn Johnson,
FCS GROUP
CONSULTANTS INC.

May 30, 2011

Richmond Town Center, 2525 66th Avenue NE, Suite 10-215,
Richmond, WA 98147, T: (425) 867-9603, F: (425) 867-9327, www.fcsgroup.com

Cost of Service Analysis

- Incorporates all costs that should be recovered by the water utility
- Provides a rational basis for distributing the full costs of utility service to each class of customer in proportion to the distinct demands they place on the system
- Takes into consideration:
 - Number of customers
 - Meter size
 - Annual water use
 - Seasonal use patterns
 - Fire flow requirements

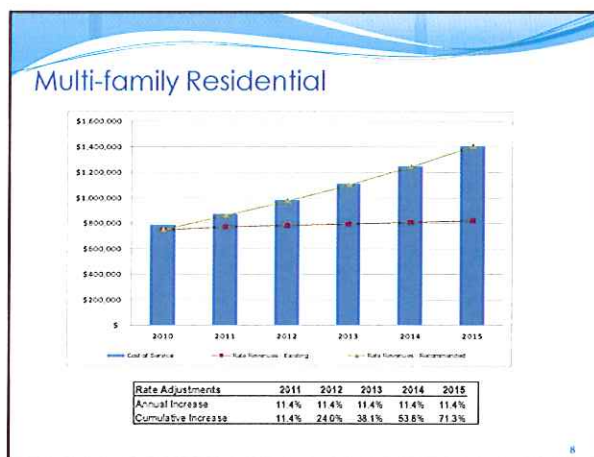
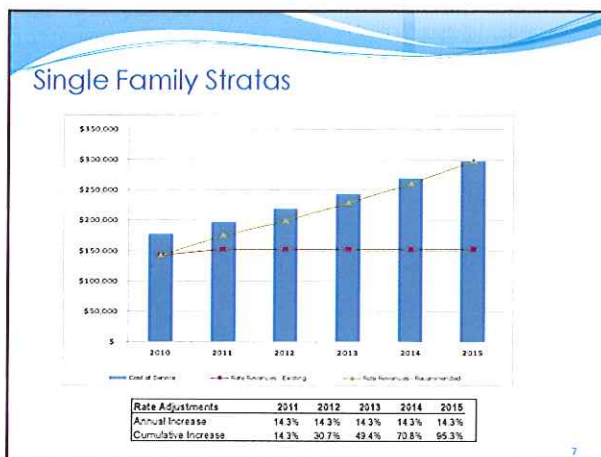
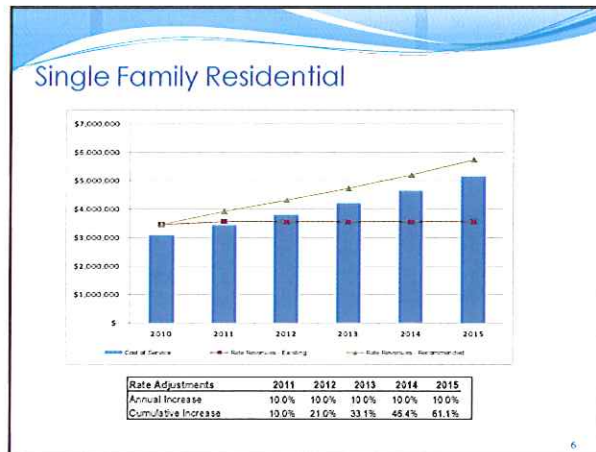


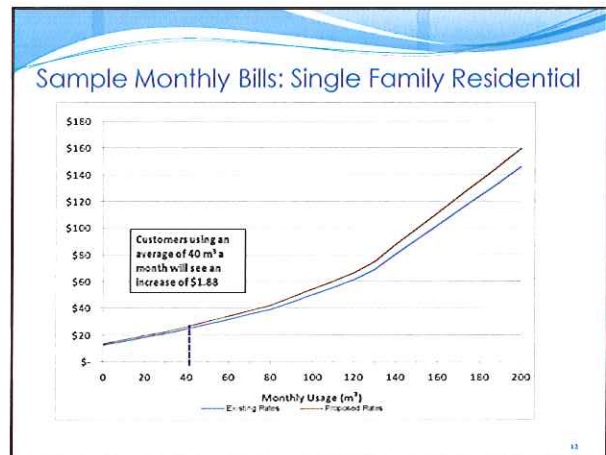
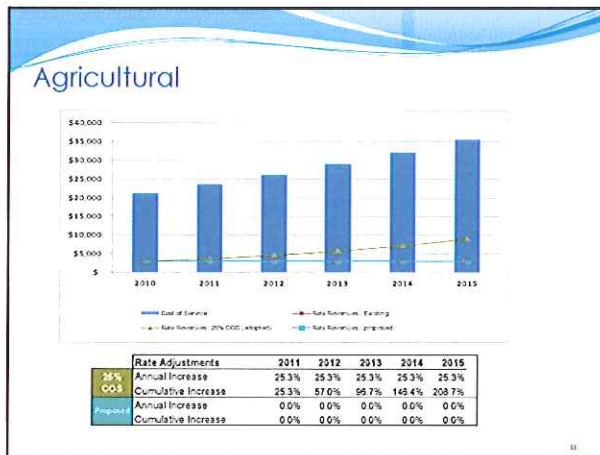
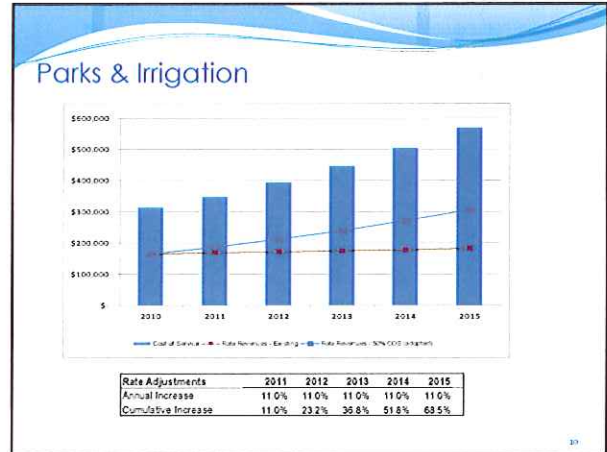
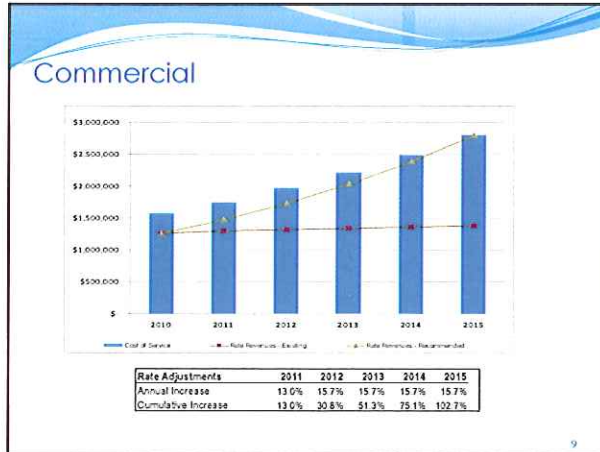
Cost of Service Results

Customer Classes	2011 Rate Revenue under Existing Rates	2011 Cost of Service
Single Family Residential	\$ 3,562,302	\$ 3,416,825
Single Family Stratas	152,455	198,168
Multi-Family	770,935	859,847
Commercial	1,299,962	1,735,780
Parks & Irrigation	168,103	346,946
Agricultural	2,876	23,396
TOTAL	\$ 5,993,510	\$ 6,652,796

Cost of Service Phase-in Strategy

- Single family residential – 10% annual increases over the study period (2011-2015); continues subsidies resulting from other class phase-in strategies
- Parks & Irrigation – Set annual increases equal to system average increase of 11% per year over the study period
- Agricultural – No increase
- All other classes – Smooth annual increases over study period to achieve full cost of service by 2015





Fixed Monthly Meter Charge Reductions Commercial Customers

Meter size	2010 flat rate	2011 flat rate
5/8"	\$ 9.55	\$ 7.69
3/4"	\$ 13.94	\$ 10.67
1"	\$ 18.51	\$ 14.08
1 1/2"	\$ 39.02	\$ 27.90
2"	\$ 62.95	\$ 45.01
3"	\$ 148.84	\$ 112.80
4"	\$ 241.65	\$ 177.20
6"	\$ 509.35	\$ 360.42
8"	\$ 620.13	\$ 444.08

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Volumetric Charges Commercial Customers

- Total of 936 commercial customers
- 486 accounts will realize a rate reduction of 1% to 12.4% on their volume charge
- 225 accounts will see an increase of between 0% and 10% on their volume charge
- 225 commercial accounts will see an increase of >10% on volume their charge

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Current Kelowna Water Purveyors Residential Rates Based on 41m³ per month*

Purveyor		Charge Type	Rate \$	Monthly Cost of 41m ³
City of Kelowna (May 2011)	Metered	Monthly flat rate plus	7.69	29.21
		First 30 cubic meters	.301/m ³	
		Next 50 cubic meters	.397/m ³	
		Next 45 cubic meters	.602/m ³	
		Consumption in excess of 125 cubic meters	1.204/m ³	
	Parcel Tax	Yearly	50.00	
	Water Quality Charge	Monthly (5/8" meter)	3.96	
BMID (2010)	Parcel Tax	Yearly flat rate	68.00	38.37
	Residential	Monthly flat rate	32.70	
	Residential with Suite	Monthly flat rate	52.25	
GEID (2011)	Water Tax Levy	Quarterly flat charge	9.30	38.30
	Residential	Quarterly flat charge	105.60	
SEKID (2011)	Annual Water Tax	Yearly flat rate	67.00	42.83
	Residential	Quarterly flat charge	111.75	
	Hall Road Special	Monthly flat charge		52.83
RWW (2011)	Annual Water Tax	Grade A parcels	27.00	25.05
	Metered	Per <i>Quarter</i> for the first 57 cubic meters	44.10	
		for the next 91 cubic meters	.368/m ³	
		for the next 114 cubic meters	.410/m ³	
		for every cubic meter thereafter	.550/m ³	
	Unmetered	Quarterly flat charge	73.50	

* 41m³ is the City Utility's average monthly residential water usage per single family dwelling**Current Kelowna Water Purveyors ICI Water Rates**

Purveyor		Charge Type	Rate \$
City of Kelowna (May 2011)	Metered - ICI	Per cubic meter	0.283
	Monthly flat rate	As per meter size	7.69 - 444.08
	Water Quality Enhancement	Fee per meter size	3.96 - 632.61
BMID (2010)	Unmetered Commercial Low Usage	Monthly flat rate	37.60
	Unmetered Commercial Medium Usage	Monthly flat rate	47.90
	Unmetered Commercial High Usage	Monthly flat rate	75.95
	Metered Commercial/Recreational/Car Wash	Minimum monthly charge for first 76 m ³	298.70
		for every cubic meter thereafter	.26/m ³
GEID (2011)	Metered - ICI	Monthly base rate for first 30m ³	35.20
		for every cubic meter thereafter	.25/m ³
RWW (2011)	Metered - Commercial/Churches	Per Quarter - for the first 34 cubic meters	39.00
		for the next 182 cubic meters	.37/m ³
		for the next 114 cubic meters	.41/m ³
		for every cubic meter thereafter	.55/m ³

BC Municipalities Water Utility Residential Rates (metered)			
Municipality	Charge Type	Rate \$	Monthly Cost of 41m³
City of Vernon (2010)	Per Quarter for the first 20 cubic meters	50.17	49.86
	for every cubic meter thereafter	.92/m ³	
	Summer surcharge - during the 3rd quarter for every m3 above the 20m3 base	.18/m ³	
District of West Kelowna – WID (2010)	Quarterly flat charge	70.00	35.83
	Per Quarter for the first 100 cubic meters	.2600/m ³	
	for the next 200 cubic meters	.5000/m ³	
	for every cubic meter thereafter	.8000/m ³	
City of Kamloops	Base rate per year	256.40	43.32
	Rate per cubic meter	.5355/m ³	
District of Saanich	Monthly charge	3.75	51.02
	Rate per cubic meter	1.153/m ³	
Maple Ridge	Base Rate per Quarter	31.85	39.70
	Rate per cubic meter	.7094/m ³	
City of Richmond	Quarterly meter rent & operating fee	30.00	48.04
	Rate per cubic meter	.9277/m ³	
City of Abbotsford (2011)	Rate per cubic meter	1.02/m ³	41.82
City of Surrey (2011)	Charge per 4 months	20.00	36.78
	Rate per cubic meter	.775	
West Vancouver (2010)	Meter Fee and Base Charge(quarterly)	61.99	57.93
	0-60 cubic meters (quarterly)	.74/m ³	
	61 – 180 cubic meters (quarterly)	1.07/m ³	
	Over 180 cubic meters (quarterly)	1.40/m ³	

BC Municipalities Water Utility ICI Rates (metered)		
Municipality	Charge Type	Rate \$
City of Vernon (2010)	Per Quarter basic charge	31.77
	Quarterly charge based on meter size	55.25 - 1140.59
	Rate per cubic meter	.92/m ³
District of West Kelowna – WID (2010)	Quarterly charge based on meter size	70.00 – 2800.00
	Rate per cubic meter	.4600/m ³
City of Kamloops (2008)	Base rate per year	256.40 - 21,794
	Rate per cubic meter	.5355/m ³
District of Saanich (2010)	Monthly base charge	2.80 -335.00
	Rate per cubic meter	1.153/m ³
Maple Ridge (2010)	Base Rate per Quarter	31.85 – 570.30
	Rate per cubic meter	.7094/m ³
City of Richmond (2010)	Quarterly meter rent & operating fee	11.50 – 662.00
	Quarterly minimum charge	95.00
	Rate per cubic meter	.93/m ³
City of Abbotsford (2010)	For a 12 month billing period: 1 - 10,000 m ³	.82/m ³
	10,001 - 100,000m ³	.75/m ³
	100,001m ³ +	.61/m ³
City of Surrey (2011)	Charge per 4 months	20.00 -213.00
	Rate per cubic meter	.775/m ³
West Vancouver (2010)	Meter Fee (quarterly)	16.67
	Water Base Charge (Quarterly) based on meter size	129.80 – 3,794.91
	Rate per cubic meter	.88/m ³

Kelowna Water Purveyors (CI, MULTIFAMILY Water Rates (metered and un-metered))			Updated: March 14/2011	
PURVEYOR	DEVELOPMENT TYPE	CHARGE TYPE	RATE	
CITY OF KELOWNA (2010)	ICI Metered	Base Rate - based on meter size	\$9.55 - \$620.13	
		Consumption per cubic meter	\$0.218	
	Multifamily Metered	Base Rate - based on meter size	\$7.69 - \$602.73	
		Consumption per cubic meter	\$0.229	
	Strata Metered	Base Rate - based on meter size	\$7.69 - \$602.73	
		Consumption per cubic meter	\$0.245	
	EMID (2010)	Multifamily Unmetered	Medium Density (Duplex, triplex, fourplex) per unit per month	\$30.90
			High Density (Apartments, Condominiums) per unit per month	\$27.55
		ICI Unmetered	Mobile Home, Park per unit per month	\$28.30
			Commercial Low Usage	\$37.60
GEID (2010)	ICI Metered	Commercial Medium Usage	\$47.90	
		Commercial High Usage	\$75.95	
	Commercial/Recreational/Car Wash	Minimum monthly charge for first 76m ³	\$298.70	
		for every cubic meter thereafter	\$0.26	
SEKID (2011)	Apartment dwellings (metered)	Quarterly flat rate for first 90m ³ /unit	\$81.00	
		Consumption per cubic meter in excess of 90m ³ /unit	\$0.25	
	Strata and Multifamily (metered)	Quarterly flat rate for first 90m ³ /unit	\$105.60	
		Consumption per cubic meter in excess of 90m ³ /unit	\$0.25	
RWWW (2011)	ICI (metered)	Monthly base rate for first 30m ³	\$35.20	
		Consumption per cubic meter in excess of 30m ³	\$0.25	
	Commercial buildings (metered)	Monthly flat rate	\$37.25	
		Metered rate per cubic meter	\$0.64	
Unmetered	Duplex, Triplex (Strata Included) Metered	Metered minimum rate	\$37.25	
		per QUARTER for the first 57 cubic meters for the next 91 cubic meters	\$44.10	
	Duplex, Triplex (Strata Included) Unmetered	for the next 114 cubic meters	\$0.37	
		Consumption in excess of 262 cubic meters	\$0.41	
Unmetered	Annual rate for grade A parcels	Annual rate for grade A parcels	\$0.55	
		Quarterly flat charge	\$27.00	

Apartment Buildings (Fourplexes and up, Strata included)	per QUARTER for the first 34 cubic meters for the next 34 cubic meters	\$39.00	
	for the next 114 cubic meters	\$0.36	
	Consumption in excess of 182 cubic meters	\$0.41	
		\$0.55	
Apartment Buildings (Fourplexes and up, Strata included) Unmetered	Quarterly flat charge	\$73.50	
	Per Quarter - for the first 34 cubic meters for the next 182 cubic meters	\$39.00	
	for the next 114 cubic meters	\$0.37	
	Consumption in excess of 330 cubic meters	\$0.41	
		\$0.55	
BC Water Purveyors ICI, MULTIFAMILY Water Rates (Metered and Unmetered)			
City of Vernon (2010)	Updated: March 14/2011		
City of Vernon (2010)	Multifamily Metered	per QUARTER for the first 20 cubic meters	\$50.17
		Rate per cubic meter	\$0.92
	Multifamily Unmetered	Summer surcharge - during the 3rd quarter for every m ³ above the 20m ³ base	\$0.18
		QUARTERLY flat rate where metering is not possible	\$131.23
	Commercial Metered	QUARTERLY flat rate where metering is possible	\$167.86
		Quarterly Basic Charge in addition to charge based on meter size	\$31.77
		Rate per cubic meter	\$0.92
	Commercial Unmetered	Quarterly charge based on meter size	\$55.25 - \$1140.59
		Quarterly Rate	\$167.86 and up
	District of West Kelowna - WID (2010)		Quarterly charge based on size
City of Kamloops (2008)	ICI Unmetered	Charge per cubic meter (in addition to basic charge based on meter size)	\$0.46
		User Rate - For each light use commercial unit	\$363.00
		User Rate - For each medium use commercial unit	\$1,090.00
		User Rate - For each heavy use commercial unit	\$2,167.20
	ICI Metered	Annual Irrigation Rate for each 1,000 m ² of property or portion thereof	\$122.00
		Annual Base Rate - based on meter size	\$256.40 - \$21,794
District of Seanieh (2010)	ICI Metered	Rate per cubic meter	\$0.5355
		Monthly flat charge based on meter size	\$2.8 - \$335
		Rate per cubic meter	\$1.53
Maple Ridge (2010)	Multifamily Metered	Monthly flat charge per unit	\$1.44
	ICI Unmetered	Annual flat charge per unit	\$413.65

	Multifamily Unmetered	Annual flat charge per unit	\$392.65
	ICI Multifamily Metered	Quarterly base charge based on meter size	\$31.85 - \$570.30
		Rate per cubic meter	\$0.7094
City of Richmond (2010)	Multifamily Unmetered	Annual flat rate for townhomes	\$429.96
		Annual flat rate for apartments	\$277.06
	ICI Multifamily Metered	Quarterly minimum charge	\$95.00
		Rate per cubic meter	\$0.93
		Quarterly meter rent charge	\$11.50 - \$662.00
City of Abbotsford (2010)	Commercial, Industrial	For a 12 month billing period: 1 - 10,000 m3	\$0.82
		10,001 - 100,000m3	\$0.75
		100,001 +	\$0.61
City of Surrey (2011)	ICI Multifamily Metered	Base charge for 4 months based on meter size	\$20 - \$213.00
		Rate per cubic meter	\$0.775
	Multifamily Unmetered	Annual per unit rate	\$254.00
West Vancouver (2010)	ICI Metered	Meter Fee (quarterly) per unit	\$16.67
		Water Base Charge (Quarterly) based on meter size	\$129.80 - \$3,794.91
		Rate per cubic meter	\$0.88
	Multifamily Metered	Meter Fee (quarterly) per unit	\$16.67
		Water Base Charge (Quarterly) based on meter size	\$96.80 - \$2,742.56
		Rate per cubic meter	\$0.88