

## SUNSHINE COAST REGIONAL DISTRICT STAFF REPORT

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**TO:** Finance Committee – November 21, 2024

**AUTHOR:** Tina Perreault, Chief Administrative Officer / Chief Financial Officer  
Alex Taylor, Manager, Budgeting and Grants

**SUBJECT:** REGIONAL WATER SERVICE AREA 2025 RATE BYLAW AMENDMENT

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### RECOMMENDATION(S)

- (1) THAT the report titled Regional Water Service Area 2025 Rate Bylaw Amendment be received for information.**
  - (2) AND THAT the Water Rates and Regulations Bylaw No. 422, Schedule B be amended to increase the Regional Water Service Area User Fees and Metered Usage Fees by 4.90% and Parcel Taxes by 17.78% for an overall rate increase of 9.87%;**
  - (3) AND THAT the Grey Creek Intake and Water Treatment Plant and PRV for Advanced Optimization of Church Road Projects be proposed to be funded 100% from Growing Communities Funds;**
  - (4) AND FURTHER THAT the 2025-2029 Draft Financial Plan be amended accordingly.**
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### BACKGROUND

The Regional Water Service Area (RWSA) consists of approximately 11,150 parcels and 11,800 billable water users.

An amendment to Water Rates and Regulations Bylaw No. 422 needs to be adopted prior to January 1, 2025, in order to meet the legislated timelines for user fees and the Parcel Tax Roll review process.

The current parcel tax and user rates per single family residential dwelling are \$449.99 and \$715, respectively.

The purpose of this report is to recommend 2025 rate increases for the RWSA which align with the current and short-term funding requirements of the service.

### DISCUSSION

The primary objective in rate determination is setting appropriate and sustainable fees that help achieve full cost recovery. This is achieved by determining the funding envelope required to service RWSA customers over the long term while maintaining financial sustainability.

The following capital and operating projects as well as staffing requests will be presented as part of the Round 1 budget meetings to be held on November 25-26, 2024. These projects were proposed at pre-budget to move forward to Round 1. Projects proposed to be funded through grants and approved at Pre-Budget are not included in this overview. Any decisions by the Board to not approve any of these projects will result in an increase in Operating Reserves and/or Capital Reserves which are significantly underfunded at this time as outlined in the Capital Plan Update.

**Operating**

	Project	Cost (Estimated)
1	Permit Requirements; Chapman & Edwards Lake Siphon Systems	235,000
2	Second Resevior Feasibility Study Engineering Support	75,000
3	Leak Detection Equipment Phase 2	63,750
4	Concrete Reservoir Maintenance	169,000
5	Cross Connection Control Program	75,600
6	Service Review - Utility Services	112,500
7	Water Service Climate Change Resilience Analysis	76,500
8	Bylaw 320 Update - Phase 2	51,000
9	RWS Base Budget Increase	110,000
10	Fleet Rate Increase	32,000
		<b>1,000,350</b>

**Capital**

	Project	Cost (Estimated)
1	PRV for Advanced Optimization Use Church Rd	274,004
2	Grey Creek Intake & WTP Phase 1	825,000
3	Lower Crown Engineering Support	250,000
4	Senior Utility Operator; Light Duty Truck	95,000
5	2024 Deferred Vehicle*	4,153
6	Forlift Replacement & [312] Repatriation	12,741
7	Utility Engineering Equipment	25,000
8	SCADA Upgrades	204,000
9	Vehicle Replacement**	9,439
		<b>1,699,337</b>

\* This represents 2 months of 5yr loan, total vehicle cost is \$110,000  
 \*\* This represents 2 months of 5yr loan, total vehicle cost is \$250,000

<b>New Staffing Requests</b>	<b>154,228</b>
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The two primary sources of revenue for the RWSA are parcel taxes and user fees. Parcel taxes are calculated as a function of parcel size and levied against all parcels within the RWSA. User fees are composed of flat rate water user fees, which are levied on all residential water users within the RWSA, as well as metered water rates that are levied on ICI (industrial, commercial and institutional) water users.

The best practice methodology for the allocation of expenditures and revenues within the RWSA is based on the principle that parcel tax revenues fund capital expenditures (and associated

debt principal payments) and that user fee revenues fund operating related expenditures. This also aligns with the Boards Financial Sustainability Policy.

In considering the rates for 2025, it is important to consider the current state of the infrastructure for this water system and its water supply. The infrastructure associated with the water supply and distribution system for this water system is extensive and there is an ongoing need to address performance issues with aging infrastructure and to improve its asset management. Significant financial investments have been made and will continue to be required to expand the water supply. As the SCR D transitions to volumetric billing it is vital that operating reserves are sufficient to cover any operational shortfalls that may be the result of incorrect user forecasts.

Historical Rates

Historical rates and annual increases for the past 5 years are detailed in the table below:

	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
Parcel Tax	276.94	290.79	305.33	392.05	449.99
User Fee	410.85	468.37	526.92	651.49	715
Total	687.79	759.16	832.25	1043.54	1164.99
Total \$ Increase	137.48	71.37	73.09	211.29	121.45
Total % Increase	24.98%	10.38%	9.63%	25.39%	11.64%

Historical Reserve Activity

Net contributions/(withdrawals) from the reserve funds for the past 5 years are detailed in the table below:

	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Operating	229,220	173,142	331,977	-93,180	1,060,275
Capital	631,826	2,562,309	1,579,725	-593,266	2,666,142

*Options and Analysis*

Three rate increase options are presented below for consideration. Note that the rates and increases presented are applicable to a single-family residential dwelling on a parcel up to 1 acre in size.

All amounts are estimates and will change based on final budget allocations (wage rates, support service allocation etc.) and 2024-year end surplus/deficit values. It should be noted that the capital cost to construct the Langdale Wellfield Construction and its associated operational costs are not included below. Should this initiative proceed, the ending uncommitted capital and operating reserves may differ.

Total annual capital funding is equal to parcel tax revenue less any amount required to fund operations. The budgeted transfer to capital reserves is calculated by deducting existing and proposed base budget capital expenditures, debt principal repayments from total annual capital

funding. The budgeted transfer to operating reserves is calculated by deducting existing and proposed base budget operating expenditures inclusive of operational salaries and wages, support service costs, and operational costs from total User Fee funding.

For every 1% (\$7.15) increase to User Fees and 1% (\$4.50) increase to Parcel Tax it results in approximately \$89,899 and \$52,763 increase to the Operating and Capital Reserve balance respectively.

During Round 1 budget deliberations staff will present the use of Growing Communities funds as an alternative funding option for the PRV for Advanced Optimization Use of Church Road (PRV) and Grey Creek Intake and WTP Phase 1 (Gray Creek) projects. The options that have been presented below outline the required Parcel Tax increase required to move toward obtaining more a sustainable Capital Reserve balance depending on the use of Community Works funds for these two projects.

**Option 1 –\$115.01 overall rate increase (\$35 increase to user fees, \$80.01 increase to parcel taxes)**

Option #1 proposes that both the PRV and Gray Creek projects are 100% funded from Growing Communities Funds.

<b>Fee Summary</b>	<b>User Fee</b>	<b>Parcel Tax</b>	<b>Overall</b>
Current Rate	\$715	\$449.99	\$1,164.99
Proposed Increase	\$35	\$80.01	\$115.01
<b>2025 Rate</b>	<b>\$750</b>	<b>\$530</b>	<b>\$1,280</b>
	<b>4.90%</b>	<b>17.78%</b>	<b>9.87%</b>
<b>Reserve Summary</b>	<b>Operating Reserve</b>	<b>Capital Reserve</b>	
Opening Uncommitted Balance	\$3,821,075	\$7,559,863	
Projected 2024 Surplus/(Deficit)	770,144	449,837	
Budgeted Transfers to Reserves	2,395,824	2,044,822	
Budgeted Transfers from Reserves	(1,011,600)	(1,580,598)	
<b>Ending Uncommitted Balance</b>	<b>\$5,975,443</b>	<b>\$8,473,924</b>	
Total Annual Capital Funding from Parcel Taxes: \$6,214,423			
Parcel Taxes Required to Fund Operations: \$NIL			

Staff recommend this option for the following reasons:

- Provides for a projected increased ending uncommitted capital reserve balance. Working toward building a healthy capital reserve balance is important as the RWS expects significant financial investments associated with replacement of existing infrastructure and water supply expansion projects under development. Given that the cost of proposed projects funded from capital reserves are 21% of the opening reserve balance, this option provides for a sufficient contribution in order to achieve a healthy reserve balance. Based on information included in the draft Capital Plan for this service it can be

concluded that a healthy reserve balance for this service would be in excess of \$15 million. A more detailed amount can be confirmed once these capital plans are finalized.

- The projected ending uncommitted operational reserve balance improves the financial capacity to respond to emergency situations and components of the capital investment required in the upcoming years including feasibility studies and engineering design.

The Regional Water service will continue to require significant financial investments in the years to come; therefore, it is important to strengthen both the operating and capital reserves. Consequently, additional long-term loans might be required to fund these projects with the associated debt servicing costs being funded by Parcel Taxes.

**Option 2 –\$160.01 overall rate increase (\$35 increase to user fees, \$125.01 increase to parcel taxes)**

Option #2 proposes that both the PRV and Gray Creek projects are 50% funded from Growing Communities Funds.

<b>Fee Summary</b>	<b>User Fee</b>	<b>Parcel Tax</b>	<b>Overall</b>
Current Rate	\$715	\$449.99	\$1,164.99
Proposed Increase	\$35	\$125.01	\$160.01
<b>2025 Rate</b>	<b>\$750</b>	<b>\$575</b>	<b>\$1,325</b>
	<b>4.90%</b>	<b>27.78%</b>	<b>13.73%</b>
<b>Reserve Summary</b>	<b>Operating Reserve</b>	<b>Capital Reserve</b>	
Opening Uncommitted Balance	\$3,821,075	\$7,559,863	
Projected 2024 Surplus/(Deficit)	770,144	449,837	
Budgeted Transfers to Reserves	2,395,824	2,572,451	
Budgeted Transfers from Reserves	(1,011,600)	(2,149,622)	
<b>Ending Uncommitted Balance</b>	<b>\$5,975,443</b>	<b>\$8,432,530</b>	
Total Annual Capital Funding from Parcel Taxes: \$6,742,052			
Parcel Taxes Required to Fund Operations: \$NIL			

- This option presents the minimum User Fee required to start building toward a sustainable Operating Reserve whereby the RWSA is able to respond to unexpected emergencies
- This is the minimum Parcel Tax required to work toward building a healthy Capital Reserve to fund future infrastructure replacement and water supply expansion.

Option 3 –\$210.01 overall rate increase (\$35 increase to user fees, \$175.01 increase to parcel taxes)

Option #3 proposes that both the PRV and Gray Creek projects are not funded from Growing Communities Funds but require a substantial increase to Parcel Tax as a result.

<b>Fee Summary</b>	<b>User Fee</b>	<b>Parcel Tax</b>	<b>Overall</b>
Current Rate	\$715	\$449.99	\$1,164.99
Proposed Increase	\$35	\$175.01	\$210.01
<b>2025 Rate</b>	<b>\$750</b>	<b>\$625</b>	<b>\$1,375</b>
	<b>4.90%</b>	<b>38.89%</b>	<b>18.03%</b>
<b>Reserve Summary</b>	<b>Operating Reserve</b>	<b>Capital Reserve</b>	
Opening Uncommitted Balance	\$3,821,075	\$7,559,863	
Projected 2024 Surplus/(Deficit)	770,144	449,837	
Budgeted Transfers to Reserves	2,395,824	3,158,753	
Budgeted Transfers from Reserves	(1,011,600)	(2,718,647)	
<b>Ending Uncommitted Balance</b>	<b>\$5,975,443</b>	<b>\$ 8,449,807</b>	
Total Annual Capital Funding from Parcel Taxes: \$7,328,354			
Parcel Taxes Required to Fund Operations: \$NIL			

This option is not recommended as it would put a greater financial burden on the Regional Water rate payers.

*Financial Implications*

The following table highlights the additional revenue and net capital funding increase that will result under each of the three options presented:

	<b>Option 1</b>	<b>Option 2</b>	<b>Option 3</b>
Additional User Fee Revenue	\$440,057	\$440,057	\$440,057
Additional Parcel Tax Revenue	\$938,126	\$1,465,755	\$2,052,057
<b>Total Additional Revenue</b>	<b>\$1,378,183</b>	<b>\$1,905,812</b>	<b>\$2,492,114</b>
<b>Net capital funding increase over prior year</b>	<b>\$938,126</b>	\$1,465,755	\$2,052,057

The following table summarizes the net operating and net capital impact from each of the proposed options, including a \$0 increase to both User Fees and Parcel Taxes.

**Operating**

	2024	No Change	Option 1	Option 2	Option 3
User Fee Revenue	8,989,938	8,989,938	9,429,995	9,429,995	9,429,995
Expenses					
Administrative	(1,206,100)	(1,377,017)	(1,377,017)	(1,377,017)	(1,377,017)
Salaries & Wages	(3,788,158)	(3,730,382)	(3,730,382)	(3,730,382)	(3,730,382)
Operating Costs	(1,848,136)	(1,926,772)	(1,926,772)	(1,926,772)	(1,926,772)
Funding Required from PT	-	-	-	-	-
Operating Project Costs*	(890,905)	(1,011,600)	(1,011,600)	(1,011,600)	(1,011,600)
<b>Net Operating Surplus/ (Deficit)</b>	<b>1,256,639</b>	<b>944,167</b>	<b>1,384,224</b>	<b>1,384,224</b>	<b>1,384,224</b>

\*Excludes carryforward projects approved in prior years

**Capital**

	2024	No Change	Option 1	Option 2	Option 3
Parcel Tax Revenue	5,276,297	5,276,297	6,214,423	6,742,052	7,328,354
Expenses					
Long Term Debenture Debt	(704,309)	(741,960)	(741,960)	(741,960)	(741,960)
Equipment Financing Loans	(158,727)	(276,057)	(276,057)	(276,057)	(276,057)
LUA Short-Term Debt	(61,326)	(472,309)	(472,309)	(472,309)	(472,309)
Base Budget Expenses	(1,508,940)	(1,508,940)	(1,508,940)	(1,508,940)	(1,508,940)
Salaries & Wages	(760,619)	(1,183,978)	(1,170,335)	(1,170,335)	(1,170,335)
Funding of Operations	-	-	-	-	-
Transfer to Reserves	2,082,376	1,093,053	2,044,822	2,572,451	3,158,753
Capital Project Costs*	(1,593,815)	(2,718,647)	(1,580,598)	(2,149,622)	(2,718,647)
<b>Net Capital Surplus/( Deficit)</b>	<b>488,561</b>	<b>(1,625,594)</b>	<b>464,224</b>	<b>422,829</b>	<b>440,106</b>

\*Excludes carryforward projects approved in prior years

**Future Implications**

In Q4 2024 a second draft Water Strategy will be presented to the Board. The Water Strategy will be the strategic plan for the SCRD Water Services. It identifies strategic priorities, objectives, and actions that will guide the future planning and delivery of SCRD Water Services, and acts as a workplan for SCRD staff. The Water Strategy supports SCRD Board priorities, provides context for policy making, strategic planning, and aligns with other SCRD strategies and management plans. The Water Strategy should be reviewed and updated at a minimum every 5 years, with a planning horizon of 10 years. There are four Strategic Priorities identified in the draft Water Strategy:

- Water Supply;
- Water Infrastructure;
- Water Efficiency;
- Source Water Protection.

Work is underway to identify action plans for each of the Strategic Priorities within the water strategy. These plans will include both initiatives that are currently underway as well as identify

new ones. The following information and initiatives should be considered in setting rates for 2025:

- The SCRD is collaborating with the shíshálh Nation to confirm the feasibility of a Lower Crown Raw Water Reservoir on Nation owned land. Pending the funding confirming for the actual construction of this reservoir by the Nation, the reservoir could be operational in 2026. The financial implications for the SCRDs operating and maintenance of this reservoir are not yet considered in the rate analyses as they are to be confirmed.
- The infrastructure associated with the water supply and distribution system for this water system is extensive and aging and there is an ongoing need to address performance issues with aging infrastructure such as pump stations, valves, water supply and treatment infrastructure.
- A preliminary finding of the water modelling analyses is that substantial investments in watermains replacements and upgrades are required to improve the fire flow in parts of this water system.
- Significant financial investments have been made and will continue to be required to address the current water supply situation in 2025 and beyond. This will include further studies to confirm the feasibility of additional water supply sources, the technical studies in support of the design and permitting of new supply sources as well as the funding of the actual construction of the infrastructure for these new water supply sources from capital reserves and long-term debt.
- Climate change is resulting in unanticipated consequences for our water supply, including performance issues that could result in the need to undertake major upgrades to the water treatment. Additionally, climate change results in increased damage to our infrastructure resulting from more intense storms.
- The Asset Management plans under development for this system will guide the future rates required to adequately operate and maintain the system and replace the infrastructure components in a timely manner. Therefore, staff recognize that it is likely that user fee and parcel tax rates will increase sufficiently to grow reserves balances to service future water supply and asset management projects.
- Staff are working on the implementation of volumetric billing for all SCRD water services. The current schedule for the implementation of this rate structure within the Regional Water Service is January 1, 2027.
- While the SCRD is continuing to monitor for grants to reduce the financial burden of the required investments to the Regional Water Service, most of these grants are heavily oversubscribed which impacts the likelihood of being successful in obtaining grants.

*Timeline for next steps or estimated completion date*

Once approval is received to amend the user rates and parcel taxes, the Water Rates Bylaw 422, Schedule B will be amended to increase the Regional Water Service Area User Fees and Parcel Taxes and forwarded to the December 12, 2024 Board Meeting for three readings and adoption. This is to allow for readings after the Round 1 Budget deliberations.



*Communications Strategy*

The increase to these user fees will be communicated as part of a comprehensive communication effort regarding the 2025 Utility rates. This will include advertisement in news papers, a mail-out to all service participants, virtual information sessions, through the SCRD social media and website, budget documentation as well as additional information included with the utility bill when distributed.

**STRATEGIC PLAN AND RELATED POLICIES**

Annual reviews and adjustments of fees and charges is consistent with Section 4.2.2 of the Financial Sustainability Policy.

**CONCLUSION**

In the Regional Water Service Area, parcel taxes are intended to fund capital expenditures (acquiring or maintaining fixed assets), and user fees are intended to fund operational expenditures (ongoing costs of running the service).

For 2025, staff recommend a 4.90% increase to user rates and a 17.78% increase to parcel tax rates for an overall rate increase of 9.87% and the PRV and Gray Creek projects be 100% funded from Community Growing funds. Pending Board direction, Water Rates and Regulations Bylaw No. 422, Schedule B will be updated and forwarded to the December 12, 2024, Board Meeting for three readings and adoption.

Reviewed by:			
Manager		Finance	
GM	X – R. Rosenboom	Legislative	
CAO / CFO	X - T. Perreault	Other	