

SUNSHINE COAST REGIONAL DISTRICT STAFF REPORT

TO: Finance Committee – November 21, 2024

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SUBJECT: NORTH PENDER HARBOUR WATER SERVICE AREA 2025 RATE BYLAW AMENDMENT

RECOMMENDATION(S)

- (1) THAT the report titled North Pender Harbour Water Service Area 2025 Rate Bylaw Amendment be received for information;**
 - (2) AND THAT the Water Rates and Regulations Bylaw No. 422, Schedule D be amended to increase the North Pender Harbour Water Service Area User Fees and Metered Usage Fees by 3.62% and Parcel Taxes by 20.45% for an overall rate increase of 8.90%;**
 - (3) AND FURTHER THAT the 2025-2029 Draft Financial Plan be amended accordingly.**
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BACKGROUND

The North Pender Harbour Water Service Area (NPHWSA) consists of approximately 775 parcels and 580 billable water users. The current parcel tax and user rates per single family residential dwelling are \$440.01 and \$965.03, respectively.

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

The purpose of this report is to recommend 2025 rate increases for the NPHWSA 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 the utility achieve full cost recovery. This is achieved by determining the funding envelope required to service NPHWSA customers over the long term while maintaining financial sustainability.

The following capital and operating projects as well as new staffing requests will be presented as part of the Round 1 budgeting meetings to be held on November 25-26, 2024. 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.

Operating

| | Project | Cost (Estimated) |
|---|--|------------------|
| 1 | Water Service Climate Change Resilience Analysis | 4,500 |
| 2 | Service Review - Utility Services | 7,500 |
| 3 | Bylaw 320 Update - Phase 2 | 3,000 |
| 4 | Leak Detection Equipment Phase 2 | 3,750 |
| 5 | Cross Connection Control Program | 4,500 |
| 6 | Base Budget Increase | 30,000 |
| | | 53,250 |

Capital

| | Project | Cost (Estimated) |
|---|----------------------|------------------|
| 1 | SCADA Upgrade | 51,000 |
| 2 | Minor Capital Budget | 30,000 |
| | | 81,000 |

| | |
|-----------------------|---|
| New Staffing Requests | - |
|-----------------------|---|

The two primary sources of revenue for the NPHWSA are parcel taxes and user fees. Parcel taxes are calculated as a function of parcel classification (Residential, Institutional, Commercial) and levied against all parcels within the NPHWSA. User fees are composed of flat rate water user fees, which are levied on all residential water users within the NPHWSA.

The best practice methodology for the allocation of expenditures and revenues within the NPHWSA 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. Since the system takeover by the SCRCD in 2006, substantial efforts have been made to improve the condition of the infrastructure. The current condition of the infrastructure is such that additional effort will be required to bring the distribution system up to current day standards and reduce the daily maintenance cost of the service. 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 address the current water supply situation. As the SCRCD 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-annual increases for the past 5 years are detailed in the table below:

| | 2020 | 2021 | 2022 | 2023 | 2024 |
|-------------------|-------------|-------------|-------------|-------------|-------------|
| Parcel Tax | 326.63 | 326.63 | 341.00 | 385.33 | 440.01 |
| User Fee | 416.61 | 624.92 | 711.16 | 918.12 | 965.03 |
| Total | 743.24 | 951.55 | 1052.16 | 1303.45 | 1405.04 |
| Total \$ Increase | \$138.87 | \$208.31 | \$100.61 | \$251.29 | \$101.59 |
| Total % Increase | 22.98% | 28.03% | 10.57% | 23.88% | 7.79% |

Historical Reserve Activity

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

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|-----------|-------------|-------------|-------------|-------------|-------------|
| Operating | 13,668 | 119,842 | 114,724 | 32,985 | 197,301 |
| Capital | -110,276 | -7,338 | 209,353 | 185,239 | 254,668 |

Options and Analysis

Three rate increase options are presented below for consideration. Note that the rates and increases presented are the applicable rates for a residential parcel containing one dwelling unit.

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.

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% (\$9.65) increase to User Fees and 1% (\$4.40) increase to Parcel Tax it results in approximately \$6,142 and \$3,427 increase to the Operating and Capital Reserve balances respectively.

Option 1 – \$124.96 overall rate increase (\$34.97 increase to user fees, \$89.99 increase to parcel taxes)

| Fee Summary | User Fee | Parcel Tax | Overall |
|---|--------------------------|------------------------|----------------|
| Current Rate | \$965.03 | \$440.01 | \$1,405.04 |
| Proposed Increase | \$34.97 | \$88.99 | \$124.96 |
| 2025 Rate | \$1,000 | \$530 | \$1,530 |
| | 3.62% | 20.45% | 8.89% |
| | | | |
| Reserve Summary | Operating Reserve | Capital Reserve | |
| Opening Uncommitted Balance | \$547,540 | \$998,010 | |
| Projected 2024 Surplus/(Deficit) | 137,375 | 7,238 | |
| Budgeted Transfers to Reserves | 27,782 | 188,500 | |
| Budgeted Transfers from Reserves | (26,800) | (51,000) | |
| Ending Uncommitted Balance | \$685,897 | \$1,142,748 | |
| | | | |
| Total Annual Capital Funding from Parcel Taxes: \$412,753 | | | |
| Parcel Taxes Required to Fund Operations: \$NIL | | | |

Staff recommend this option for the following reasons:

- 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 such as feasibility studies and engineering design.
- This option allows the projected uncommitted Capital reserve to increase to a more sustainable level given the required cost to replace the infrastructure within the NPHWSA.

The North Pender Water service will require significant financial investments in the years to come; therefore, it is important to strengthen both the operating and capital reserves. The Ending Uncommitted Capital Reserve Balance is still considered low compared to the major capital investment required in the upcoming years associated with the water mains and the water treatment system.

Consequently, additional long-term loans might be required to fund these projects with the associated debt servicing being funded by Parcel Taxes.

Option 2 –\$224.96 overall rate increase (\$94.97 increase to user fees, \$129.99 increase to parcel taxes)

| Fee Summary | User Fee | Parcel Tax | Overall |
|---|--------------------------|------------------------|----------------|
| Current Rate | \$965.03 | \$440.01 | \$1,405.04 |
| Proposed Increase | \$94.97 | \$129.99 | \$224.96 |
| 2025 Rate | \$1,060 | \$570 | \$1,630 |
| | 9.84% | 29.54% | 16% |
| | | | |
| Reserve Summary | Operating Reserve | Capital Reserve | |
| Opening Uncommitted Balance | \$547,540 | \$998,010 | |
| Projected 2024 Surplus/(Deficit) | 137,375 | 7,238 | |
| Budgeted Transfers to Reserves | 65,968 | 219,652 | |
| Budgeted Transfers from Reserves | (26,800) | (51,000) | |
| Ending Uncommitted Balance | \$724,083 | \$1,173,901 | |
| | | | |
| Total Annual Capital Funding from Parcel Taxes: \$443,905 | | | |
| Parcel Taxes Required to Fund Operations: \$NIL | | | |

This option is not recommended due to its burden on the rate payers of the service. It should be noted that rates reflected above may be required in the future to ensure proper funding of operations and capital infrastructure.

Option 3 –\$44.96 overall rate increase (\$14.97 increase to user fees, \$29.99 increase to parcel taxes)

| Fee Summary | User Fee | Parcel Tax | Overall |
|---|--------------------------|------------------------|----------------|
| Current Rate | \$965.03 | \$440.01 | \$1,405.04 |
| Proposed Increase | \$14.97 | \$29.99 | \$44.96 |
| 2025 Rate | \$980 | \$470 | \$1,450 |
| | 1.55% | 6.82% | 3.20% |
| | | | |
| Reserve Summary | Operating Reserve | Capital Reserve | |
| Opening Uncommitted Balance | \$547,540 | \$998,010 | |
| Projected 2024 Surplus/(Deficit) | 137,375 | 7,238 | |
| Budgeted Transfers to Reserves | 15,051 | 141,773 | |
| Budgeted Transfers from Reserves | (26,800) | (51,000) | |
| Ending Uncommitted Balance | \$673,166 | \$1,096,021 | |
| | | | |
| Total Annual Capital Funding from Parcel Taxes: \$366,026 | | | |
| Parcel Taxes Required to Fund Operations: \$NIL | | | |

This option is not recommended due to its lower contributions to Operating and Capital Reserves, which are vital to ensure that the proper Capital infrastructure is sufficiently funded.

Financial Implications

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

| | Option 1 | Option 2 | Option 3 |
|---|-----------------|------------------|-----------------|
| Additional User Fee Revenue | \$22,259 | \$60,445 | \$9,528 |
| Additional Parcel Tax Revenue | \$70,080 | \$101,232 | \$23,353 |
| Total Additional Revenue | \$92,339 | \$161,677 | \$32,881 |
| Net capital funding increase over prior year | \$70,080 | \$101,232 | \$23,353 |

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 | 614,216 | 614,216 | 636,475 | 674,661 | 623,744 |
| Expenses | | | | | |
| Administrative | (75,437) | (98,709) | (98,709) | (98,709) | (98,709) |
| Salaries & Wages | (305,773) | (354,676) | (354,676) | (354,676) | (354,676) |
| Operating Costs | (124,944) | (155,308) | (155,308) | (155,308) | (155,308) |
| Funding Required from PT | - | - | - | - | - |
| Operating Projects* | (100,000) | (26,800) | (26,800) | (26,800) | (26,800) |
| Net Operating Surplus (Deficit) | 8,062 | (21,277) | 982 | 39,168 | (11,749) |

*Excludes carryforward projects approved in prior years

Capital

| | 2024 | No Change | Option 1 | Option 2 | Option 3 |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Parcel Tax Revenue | 342,673 | 342,673 | 412,753 | 443,905 | 366,026 |
| Expenses | | | | | |
| Long Term Debenture Debt | (27,050) | (26,450) | (26,450) | (26,450) | (26,450) |
| Equipment Financing Loans | (13,771) | (17,058) | (17,058) | (17,058) | (17,058) |
| Base Budget Expenses | (21,000) | (51,000) | (51,000) | (51,000) | (51,000) |
| Salaries & Wages | (74,499) | (129,745) | (129,745) | (129,745) | (129,745) |
| Funding of Operations | - | - | - | - | - |
| Transfer to Reserves | 206,353 | 118,420 | 188,500 | 219,652 | 141,773 |
| Capital Project Costs* | (62,819) | (51,000) | (51,000) | (51,000) | (51,000) |
| Net Capital Surplus (Deficit) | 143,534 | 67,420 | 137,500 | 168,652 | 90,773 |

*Excludes carryforward projects approved in prior years

Future Implications

In Q4 2024 a second draft of 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 10years. 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 infrastructure associated with the water supply and distribution system is extensive, aging, and there is an ongoing need to address performance issues such as pump stations, valves, water supply and treatment infrastructure. The replacement of old or undersized watermains that are not scheduled yet to be replaced are estimated to be multi-million dollars projects.
- A preliminary finding of water modelling analyses suggests that substantial investments in watermains replacements and upgrades are required to improve the fire flow in parts of this water system.
- Climate change is resulting in unanticipated consequences for our water supply, including performance issues for our North Pender Water System that could result in the need to undertake major upgrades to the Garden Bay water treatment system. Preliminary estimates for those upgrades are estimated at in excess of \$9,000,000.
- 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 North Pender Harbour Water Service Area is January 1, 2026.
- While the SCRD is continuing to monitor for grants to reduce the financial burden of the required investments to the North Pender Harbour 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 D will be amended to increase the North Pender Harbour Water Service Area User Fees and Parcel Taxes and forwarded to the December 12, 2024, Board Meeting for three readings and adoption. This aligns with the conclusion of the 2025 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 and in-person information sessions, through the SCR D 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 are consistent with Section 4.2.2 of the Financial Sustainability Policy.

CONCLUSION

In the NPHWSA, 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 3.62% increase to user rates and 20.45% increase to parcel tax rates for an overall rate increase of 8.89%. Pending Board direction, Water Rates and Regulations Bylaw No. 422, Schedule D will be updated and forwarded to the December 12, 2024, Board Meeting for three readings and adoption.

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