



The Corporation of the District of Saanich

Report

To: Mayor and Council

From: Harley Machielse, Director of Engineering and Paul Arslan, Director of Finance

Date: October 17, 2024

Subject: 2025 Water and Sewer Utility Rate Restructuring

File:

RECOMMENDATIONS

That Council approve apportioning the increased budget requirement for the 2025 Water and Sewer Utility rates to the flat portion of the rate, keeping the consumption rate unchanged, and

That Council instruct staff to prepare the 2025 Water and Sewer Utility rates and bylaws to reflect this change in approach.

PURPOSE

The purpose of this report is to seek Council's endorsement to adjust the approach in the design of the 2025 Water and Sewer Utility rates whereby the flat rate is increased to account for the incremental increase in budget funding required to support all asset expenditures in the coming year. This is the first step in modernizing the utility rates from a 90:10 ratio of consumption to flat rate apportionment, to a more balanced 50:50 split to provide consistent funding for known expenses and in support of achieving overall sustainable funding levels.

BACKGROUND

Water

The Water Utility system is comprised of over 550km of watermain, almost 30,000 services, 18 pump stations and 4 reservoirs. Bulk water is purchased from the Capital Regional District and then distributed to customers via the municipal distribution network. The system is maintained by the Engineering Department and is financed from water charges on a user pay basis.

Saanich's water utility rates are updated annually to account for the expenses of operating the water system through increase to the consumption portion of the rate. The flat portion of the rate has remained stagnant on the basis that it is a rental charge for the water meter that tracks the consumption.

Through the Water System Master Plan Update (2022), it was highlighted that the water utility consumption rate is disproportionately higher than the flat rate (90:10) and that the volatility of the consumption volumes is reflected in the challenges being experienced in predicting revenues year over year. It also limits the District's ability to consider tiered rates to promote

conservation, as it is already inflated in comparison to others. Municipal water consumption rates are typically seen between sub-\$1.00 to \$2.00 per cubic meter, where the District is at \$2.11 (2024). This is not to say the District is overcharging; those municipalities with lower consumption rates are often collecting hundreds of dollars per year in flat rate charges compared to the District's collection of \$45 (2024) for the average home. The overall result for the customer remains similar in both cases. The benefit of a more balanced rate design is to reduce the uncertainty in the revenue collection making that much more sustainable for known costs.

Sewer

The Sewer Utility system collects and conveys sewage through almost 30,000 services over to 570km of mains and 36 lift stations. The sewage is transferred to the Capital Regional District at 8 transfer points around the municipality and is treated at the CRD Core Area Wastewater Treatment prior to discharge into the Pacific Ocean. The municipal system is maintained by the Engineering Department and is financed from sewer charges on a user pay basis.

Saanich's sewer utility rates are updated annually to account for the expenses of operating the sewer system through increase to the consumption portion of the rate. The flat portion of the rate has remained stagnant since 2009.

Through the Sanitary Sewer Master Plan Update (2023), it was highlighted that the sewer utility consumption rate is structured like that of the Water Utility rate and experiences the same volatility challenges when trying to predict revenues. This rate structure is part of the same project to establish a strategy to bring the flat rates and consumption rates to a more balanced state to ensure fixed costs are better supported by consistent, predictable revenues. This is best practice approach for utility operations established through the American Water Works Association (AWWA).

DISCUSSION

Water

The recent Long Term Financial Plan Update (February 2024) for the water utility identified substantial infrastructure replacement pressures over the next decade and a strategy to achieve the necessary funding. In support of achieving that plan, staff began actioning the Master Plan recommendations which included developing a strategy to make intentional changes to the water rate design through increasing the flat rate towards a 50:50 revenue split. The strategy is still in draft form and is intended to be discussed at the Finance and Governance Committee in the new year for decisions around the pace of rate adjustments and future opportunities for elements such as tiered rates for customer classes and seasonal charges.

The general mechanism for shifting the rate expenses to the flat rate over the consumption rate will bring the District in line with most other municipalities over time. In the interest of starting to turn the dial in this direction, staff are proposing the first step begin with the 2025 Water Utility whereby the flat rate is increased as needed to account for the increased expenses projected for the coming year, while the consumption rate remains unchanged.

The flat rate for the water utility is based on service connection size. This is common practice and reflects the consumption habits of different users and their relative impact on the system operations. Most residential service connections are at 19mm pipe size with some at 12mm. Table 1 is an example of how the 2023 annual flat rate would have increased in 2024 if the total expenditure adjustment was recovered through the flat rate and not through the consumption

rate. The \$44.37 annual increase to the 19mm service connection would have translated to a \$14.79 trimester increase to the water portion of the utility bill.

Table 1 – Annual Water Charges

| Water Service Size | 2023 Annual Charge (\$) | Estimated 2024 Annual Charge (\$) | Net (\$) |
|---------------------------|--------------------------------|--|-----------------|
| 12mm | 33.60 | 66.73 | 33.13 |
| 19mm* | 45.00 | 89.73 | 44.37 |
| 25mm | 83.40 | 165.63 | 82.23 |
| 37mm | 160.80 | 319.35 | 158.55 |
| 75mm | 256.80 | 510.00 | 253.20 |
| 100mm | 800.40 | 1,589.59 | 789.19 |
| 150mm | 1,596.00 | 3,169.66 | 1,573.66 |
| 200mm | 2,556.00 | 5,076.22 | 2,520.22 |
| 250mm | 4,020.00 | 7,983.72 | 3,963.72 |

*Most common service size

Sewer

Like the water utility, the Long-Term Financial Plan (February 2024) for the sewer utility identified substantial infrastructure replacement pressures over the next decade and a strategy to achieve the necessary funding. In support of achieving that plan, staff began actioning the Master Plan recommendations which included developing a strategy to make intentional changes to the sewer rate design through increasing the flat rate towards a 50:50 revenue split. In the interest of starting to turn the dial in this direction, staff are proposing the first step begin with the 2025 Sewer Utility rate whereby the flat rate is increased as needed to account for the increased expenses projected for the coming year, while the consumption rate remains unchanged.

While the sewer system has various service connection sizes, the dominant size in the District is 100mm, which can accommodate many different users. Where sewer utilities often adjust charges for users are for the quality (or lack thereof) of the waste being discharged as opposed to by service size, i.e. premium charges for high strength waste. The District's customer base is primarily residential today, hence the single flat fee charge is the same for all sizes.

Table 2 is an example of what the annual flat rate would have been if the total 2024 expenditure increase was recovered through the flat rate only. The \$52.44 annual increase per service connection translates to a \$17.48 trimester increase to the sewer portion of the utility bill.

Table 2 – Annual Sewer Charges

| Sewer | 2023 Annual Charge (\$) | Estimated 2024 Annual Charge (\$) | Net (\$) |
|-------------------|--------------------------------|--|-----------------|
| All Service Sizes | 30.96 | 83.40 | 52.44 |

Staff recognize that the net increases shown in Table 1 and Table 2 of this report are not identical to the sums shown as the “average” projected increases noted in the 2024 bylaw rate reports. This is in part a demonstration of the volatility experienced in setting the consumption rate to address the many factors and decision balancing built into the background. In turn, the variation in consumption habits from year to year, leads to revenue deficits or unintended profits that then result in further blending of the consumption rate moving it further away from a consistent scientific approach. Through changing to the process identified in this report, staff are attempting to remove some of this volatility and enhance confidence in projecting revenue needs to bring a balance for both financial certainties and for customers to be able to better predict their expenditures.

Staff recommend proceeding with this incremental change in 2025. The pace of subsequent changes along with other future opportunities, will be presented and discussed with the Finance and Governance Committee in the new year.

COUNCIL OPTIONS

1. That Council approve apportioning the increased budget requirement for the 2025 Water and Sewer Utility rates to the flat portion of the rate keeping the consumption rate unchanged, and

That Council instruct staff to prepare the 2025 Water and Sewer Utility rates and bylaws to reflect this change in approach.

2. That Council does not approve the recommendation as outlined in the staff report and the 2025 Water and Sewer Utility rates are to be calculated per normal design parameters.
3. That Council provide alternate direction to Staff.

FINANCIAL IMPLICATIONS

The benefit of these change is that the flat rate adjustments begin to embed more revenue certainty for the District by reducing reliance on actual levels of water/sewer consumption. It also brings more certainty to the user in predicting their costs as billing is not so dependent on consumption. The end-user continues to have the inherent ability to influence/control their total cost of service through their consumption habits that is consistent with best practice.

Continually relying on the consumption volume to produce the revenue doesn't permit the District to bring forward more modern approaches like tiered rates based on volume consumed or summer use rates to encourage water conservation. The volatility of introducing a tiered rate will further exacerbate financial planning challenges that exist with the current model.

STRATEGIC PLAN IMPLICATIONS

The proposal presented in this report, directly reflects objectives and initiatives in Council's 2023 – 2027 Strategic Plan, as follows:

Objective 6.2 – *We base financial decisions on predictability, consistency, prudence and long-term sustainability.*

Initiative 6.2.4 – *Modernize the utility rates to promote water conservation, sustain service delivery and provide equity amongst users.*

CONCLUSION

Council's Strategic Plan identifies an initiative to modernize the utility rates; this is in response to the recommendation in the Water Master Plan Update (2022) and the Sanitary Sewer Master Plan Update (2023) to increase the flat rate for enhanced revenue certainty and equity from a 90:10 consumption to flat rate structure to a 50:50 approach. Staff have embarked on a project to complete a strategy to define the approach to achieve this change, including the pace of change and future options for tiered rates and seasonal charges. Staff propose the first step begin with apportioning the rate increase for 2025 to the flat rate while maintaining the consumption rate at current levels. Staff recommend proceeding with this change to start balancing out the rate structure and will bring forward the utility rate strategy for discussion at the Finance and Governance Committee in the new year.

Prepared by: Lesley Hatch , Senior Manager Water Resources

Approved by: Paul Arslan, Director of Finance

Approved by: Harley Machielse, Director of Engineering

Attachments: none.

ADMINISTRATOR'S COMMENTS:

I endorse the recommendation from the Director of Engineering.

Brent Reems, Chief Administrative Officer