

April 19, 2013

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**Council to consider utility rate increases to meet demand for water and sewer renewal**

To fully recover the costs of providing water and sewer services, Campbell River City Council will consider utility rate increases at its April 23 meeting.

Water and sewer rate increases are proposed across all property types – approximately 10 per cent for water and six per cent for sewer, each year over the next five years. The increase would result in fees of \$22 per month for water and \$21 per month for sewer in 2013 for flat user fees (up from the current rates of \$20 per month for water and \$20 per month for sewer).

*“Currently, fees charged for water and sewer services cover only operating expenses, and approximately one kilometre of system renewal in both water and sewer,”* explains Ron Neufeld, the City’s general manager of operations. *“And, in both cases, we do not have enough funding to renew our aging system as fast as it needs replacing.”*

*“Since water and sewer are fundamental services municipalities provide to protect public health, it is vital that this funding is available to keep these services running properly,”* adds Laura Ciarniello, the City’s general manager of corporate services. *“That means Council needs to fund daily operations as well as collect enough money to meet the need for renewal and put funds into reserves that can be used in case of an emergency caused by a system failure.”*

The replacement of aging infrastructure is the City’s most challenging financial issue, and the City’s current financial plan was developed with a necessary utility user fee adjustment as part of the municipal financial strategy. Along with replacing aging infrastructure, funding is needed to expand and improve the water and sewer system in anticipation of future growth and development.

At today’s costs and funding levels, Campbell River is able to replace approximately one kilometre of water and one kilometre of sewer line per year.

*“With about 50 kilometres of line that already need replacing, there’s a significant gap in infrastructure replacement. And that gap between what we’re able to replace today, and what will be at the end of its lifespan in the coming years is growing,”* Neufeld says. *“Increasing user fees will help us manage that financial gap.”*

*“The proposal to increase user fees at a flat rate over the next five years will help provide a stable and reliable funding stream to cover costs associated with increased water and sewer system renewal beginning in 2015,”* Ciarniello sums up. *“Fee changes will enable both the completion of the operational and capital work plans for the next five years and allow the City to begin to accelerate the renewal pace of existing infrastructure that is at the end of its serviceable life.”*

*“Water and sewer are funded through user fees rather than property taxation, and Council has directed that we should move toward funding these services as a user pay system that fully recovers the costs related to providing these services,”* Ciarniello says. *“Staff will prepare the annual tax notices, which include the utility user fees for 2013, based on Council’s decision.”*

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***Backgrounder follows***

## What's the scope of the problem?

Today, approximately 50 kilometres of aging water and sewer infrastructure needs replacing, and over the next 15-20 years the gap between what's being renewed and what's coming to the end of its life span will continue to grow.

## Why do the water and sewer system need replacing? And why so much so quickly?

The City's water and sewer system was built in pieces over time, with sections being extended or added to over the years. Depending on the original time of installation, different pipe types were used. Materials include: concrete, steel, asbestos cement and plastic. Erosion rates and life spans differ for each material. Based on the number of pipe breaks/failures, video inspections of pipes and industry standards for serviceable life of pipe materials, the City develops reliable information on how long each section of pipe can be expected to last. This information shows us that we need to replace more than 200 kilometres of pipe over the next 20 years.

## How do we know how much we have to replace, and how much we'll have to expand the water and sewer system?

For several years, the City has been reviewing and discussing approaches to achieve financial stability/sustainability within its utilities. The City has also undertaken several infrastructure studies that complement the Official Community Plan to ensure that the infrastructure needs of the community are clearly understood and provided for as the community grows and as the City's current infrastructure ages and requires replacement.

## How much does it cost to replace water and sewer infrastructure?

At today's costs, \$1 million will replace about one kilometre of pipe. This cost includes all incidental costs such as restoration of the road surface, new service connections, inspection chambers, meters (if applicable) and restoration to private property (landscaping, driveways, etc.).

## How much money is needed for a financially sound water and sewer system?

To support the operational and capital work plan for the sewer and water utilities as previously approved by Council within the 2013 – 2017 Financial Plan, the City will require to take on up to \$15 million in new debt over the next five years, \$4.9 million in senior government grants (as yet unsecured), \$13 million in contributions from third parties, \$28.6 million from reserves and increases to user fees.

The minimum increases needed to support the current financial plan, assuming all other components listed above are secured are an annual average 10% increase to all fees related to water for each of the years 2013 – 2017 and an annual average 6% increase to all fees related to sewer for the same period.

## How much would user fees increase?

In the first year, the increase would result in fees of \$22 per month for water and \$21 per month for sewer in 2013 for flat user fees (up from the current rates of \$20 per month for water and \$20 per month for sewer). Increases for the next year are shown in the chart below.

	2013	2014	2015	2016	2017
<b>Water</b>	\$264/year \$22/month	\$288/year \$24/month	\$318/year \$26.50/month	\$348/year \$29/month	\$384/year \$32/month
<b>Sewer</b>	\$252/year \$21/month	\$270/year \$22.50/month	\$288/year \$24/month	\$306/year \$25.50 month	\$324/year \$27/month

### **How are water and sewer services funded?**

Water and sewer services are funded by user fees, contract service agreements (i.e. Electoral Area D, First Nation reserves), third party contributions for upgrades or replacement projects (BC Hydro, Capital Power), senior government grants and development cost charges (fees paid at the time of new development, which help pay for increased infrastructure requirements created as a result of the development). When economic conditions allow, investment interest also contributes to water and sewer services funding.

### **What expenses need to be covered by a utility fee?**

Each utility (sewer and water) must cover the annual operating expenses and required capital expenses within their own service. Capital costs include the costs of system expansion (required to accommodate growth from new development), system improvements (required due to changing technology and/or increased regulatory requirements), system renewal (replacement of existing infrastructure at the end of its serviceable life). Capital costs may also include finance charges if money is borrowed for major project construction. A stable/sustainable utility should also contribute towards the creation and maintenance of reserves (savings) to provide maximum operational/financing flexibility.