

DATE: November 14, 2019**FILE:** 5600-01/BCOB**TO:** Chair and Director
Black Creek/ Oyster Bay Services Committee**FROM:** Russell Dyson
Chief Administrative OfficerSupported by Russell Dyson
Chief Administrative Officer***R. Dyson*****RE: Asset Management Planning – Follow-Up Report**

Purpose

To provide response to questions highlighted by members of the Black Creek/ Oyster Bay (BCOB) Services Committee at its October 21, 2019 meeting in regards to asset management planning.

Recommendation from the Chief Administrative Officer:

THAT Bylaw No. 5 being the “Black Creek/ Oyster Bay Water Service Regulation, Fees and Charges Bylaw No. 5, 2008” be amended to include a five per cent rate increase for all commercial and residential minimum charge and tiered rates effective April 1, 2020.

Executive Summary

At the October 21, 2019 BCOB Services Committee meeting a staff report titled “*Asset Management Planning for the Black Creek/ Oyster Bay Water Local Service Area*” was presented, outlining the preliminary asset management planning work completed for the service and recommending a five per cent user rate increase as an interim measure while a comprehensive rate review is completed in 2020.

The BCOB Services Committee deferred the decision of an increase to rates and asked for additional information on a number of points, provided and discussed below.

1. *Financing model for asset management*

A comprehensive rate review will be completed in 2020 prior to the 2021-2025 financial planning process. This will include developing long term rate scenarios that consider future borrowing, user rates, parcel taxes etc. that will help inform the BCOB Services Committee’s decision on a path forward for the water service.

After completing the rate analysis in 2020 staff will bring forward a proposed schedule of rate increases, balanced between user rates and parcel taxes, to provide the required annual reserve contribution. Moving forward, staff will also likely recommend regular increases to water rates to allow us to maintain the reserve contributions and offset inflation.

In 2015, the Comox Valley Regional District (CVRD) hired Econics to complete a review of rates and develop a recommended annual contribution for asset replacement (ACFAR) number. The ACFAR was developed based on a preliminary asset replacement schedule, not nearly as detailed as the recently work completed by AECOM more recently. The recommended reinvestment rate can be expected to be significant to meet the replacement needs within the next 25 years. Table No. 1 below shows the actual reserve contributions for the service since 2015, attached as Appendix A is a timeline of events for rate increases and asset management planning work.

Table No. 1: Actual Reserve Contributions for BCOB Water Local Service Area, Function 313

Year	Actual Contribution to Capital Works Reserve
2015	\$0
2016	\$1,122
2017	\$90,778
2018	\$127,644

Although the contribution to capital works reserves has increased with rate increases up to 2018, Table No. 2 below presents the estimated contribution to capital works reserves for the next four years from the 2020-2023 financial plan should no further rate increases be made.

Table No. 2: Estimated Annual Contribution to Capital Works Reserves for 2020 to 2023 as Presented in 2019-2023 Financial Plan.

Year	Estimated Contribution to Capital Works Reserve
2020	\$67,630
2021	\$60,836
2022	\$61,388
2023	\$52,211

As can be seen from above, the reserve contributions have again fallen to minimal levels, providing very little buffer against unexpectedly high operating costs. An increase in rates for 2020 is required in order to provide the level of reserve contributions necessary to meet infrastructure replacement needs.

2. *Consideration should be made for pipe rehabilitation and relining instead of full asset replacement.*
The CVRD has a desire to preserve the condition of existing assets for as long as possible, by maintaining assets. There is very little replacement of asbestos cement pipe included in this 20 year plan, but staff will continue to explore all options for maximizing the lifespan of our infrastructure, including options for asset renewal such as pipe relining. Infrastructure will only be replaced if it has a high risk rating, or is experiencing a frequency of failure (i.e. main breaks) that makes it cheaper to replace than continue repairing.
3. *The procurement process for consulting work associated with the preliminary asset management plan.*
The CVRD is committed to a fair, open and transparent procurement process. A staff report titled “*Contract Award- Asset Management Planning*” was brought forward to the BCOB Services Committee in January 2018 outlining CVRD’s approach to asset management planning for water and wastewater services and to seek approval from the committee to award a contract to AECOM Canada Ltd. A full chronology, detailing the process taken to date can be found as part of Appendix A.

Asset management planning for BCOB has been a multi-year process, most reports brought forward in the past two years have referenced ongoing asset management, as well as newsletters – including award of the contract to AECOM and the financial planning process. The recommended path forward is as follows:

- **November 2019:** Adopt a five per cent increase to user rates as an interim measure to maintain a minimum reserve and avoid a deficit for the service. Rate increases incorporated into financial planning process.

- **January 2020:** Newsletter included as part of water bill providing notice to residents of a rate increase in 2020. Information about the asset management process will be included in order to prepare residents for additional rate increases in the future.
- **April 1, 2020:** Increase to user rates take effect.
- **Fall 2020:** Results of comprehensive rate review, including recommended changes to rate schedule presented for review and discussion.

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Stakeholder Distribution (Upon Agenda Publication)

Strathcona Regional District	✓
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Attachments: Appendix A – Timeline of events

BCOB Rates and Asset Management Planning- Timeline of Events

March 9, 2015	<ul style="list-style-type: none"> Staff report brought forward to BCOB services committee recommending a staged change in rates for the next four years as per the recommendation within the Econics report Recommendation referred back to staff to develop a blended rate structure with a single increase that would be sufficient for the next four years
March 23, 2015	<ul style="list-style-type: none"> Staff developed a blended rate structure between the Econics report and the committees requests It was estimated that the blended combination would achieve an ACFAR contribution of \$180,000 An increase to the parcel tax and rates was approved
June 9, 2015	<ul style="list-style-type: none"> Public information meeting to discuss with and inform residents of the rate increase
July 1, 2015	<ul style="list-style-type: none"> New rates take effect
February 29, 2016	<ul style="list-style-type: none"> Staff report for budget brought forward, notes that the rates approved in 2015 will not achieve the recommended minimum ACFAR of \$160,000 Recommends increasing the flat rates but only to reach half of the required ACFAR (\$80,000) An increase to the flat rate was approved
March 7, 2016	<ul style="list-style-type: none"> Rate increases from February 2016 provide approximately \$45,000/year but not enough to reach \$80,000 minimum as noted in February report At this time it was recommended that a review of rates be completed by September 2016 for implementation effective January 1, 2017
July 1, 2016	<ul style="list-style-type: none"> New rates take effect
October 17, 2016	<ul style="list-style-type: none"> Staff report brought forward recommending changes to rates to ensure sufficient funds are being allocated for long term asset management Report referred back to staff to investigate grant opportunities, a detailed asset management plan, and the establishment of a special reserve
November 14, 2016	<ul style="list-style-type: none"> Staff report brought forward providing a description of the existing asset management work, details about use of the existing capital works reserve, a summary of potential grant funding opportunities, and a recommendation to implement the Econics rate increases BCOB services committee approves new rates effective March 2017 (to be amended to April 2017)
January 22, 2018	<ul style="list-style-type: none"> Staff report brought forward for contract award to AECOM Canada Ltd. to develop a corporate-wide asset management policy and asset management strategy for water and wastewater services and specific asset managements for water services including function 313 BCOB service committee approves contract award recommendation
February 19, 2018	<ul style="list-style-type: none"> 2018-2022 financial planning staff report for function 313 was approved, included discussion on asset management planning work and associated future rate reviews
February 4, 2019	<ul style="list-style-type: none"> 2019-2023 financial planning staff report for function 313 was approved, included discussion on current status for asset management planning work and associated future rate reviews
July 15, 2019	<ul style="list-style-type: none"> Staff report brought forward providing update on asset management planning for the service and path forward following completion of AECOM work

BCOB Water Rates

	2015	2016	2017	2018
Flat Rate	\$23.00/month (up to 24m ³)	\$26.90/month (up to 24m ³)	\$22.88/month (up to 15m ³)	\$22.88/month (up to 15m ³)
Tier 1	\$1.30/m ³ (24m ³ -45m ³)	\$1.30/m ³ (24m ³ -45m ³)	\$1.37/m ³ (15m ³ -45m ³)	\$1.37/m ³ (15m ³ -45m ³)
Tier 2	\$1.90/m ³ (greater than 45m ³)	\$1.90/m ³ (greater than 45m ³)	\$2.06/m ³ (greater than 45m ³)	\$2.06/m ³ (greater than 45m ³)
Revenue generated from user rate	\$392,237	\$454,752	\$516,812	\$502,087
ACFAR contribution	\$0	\$1,122	\$90,778	\$127,644