

**February 10, 2022**

### **Why do Utility Bills Increase?**

Every year, Council is tasked with the difficult decision of how much to charge for utility rates. Rate increases are never popular. As a fellow Nakusp taxpayer, I don't want to see rates increase unnecessarily either. However, there are factors like Capital Asset Management and Inflation that must be considered and accommodated for.

#### **Capital Asset Management:**

Capital Asset Management plays a part in determining how much of a rate increase is required. As mentioned before, the village is behind in the amount it needs to have in each of its reserve funds to rehabilitate and replace its assets at the end of their useful lifespan.

For example: The Water Treatment and Distribution System (WTDS).

Currently, it is forecast that the village needs to contribute \$303,000 annually to the WTDS reserve fund. This year's planned water utility increase can only result in \$274,000 added to the in the WTDS reserve fund. Unfortunately, we are missing the mark to sustainably fund our WTDS reserves. The village needs to increase utility rates yearly so that annual reserve contribution levels reach a sustainable level.

However, this year, the WTDS requires a new well and reservoir. Much of the utility funding that is meant to go into the reserve fund in 2022 is being diverted towards these projects. As a result, only approximately \$33,000 can be contributed to the WTDS reserve fund this year. This puts the village behind schedule in bringing its reserve fund to the level that is required.

#### **Inflation:**

You've likely heard a lot about inflation over the past few months. From a buyer's perspective, what you could have bought on January 1, 2021, is 4% more expensive to buy on January 1, 2022. This is because inflation was approximately 4% over that time. Inflation also negatively affects the Village's purchasing power. Inflation can take a huge bite out of any proposed increase that are meant to go into reserves.

For example:

Using the 4% inflation figure, if Council approved a 4% increase to utility bills, there would be no increase at all from a buying power perspective. No additional money could go towards reserves funds because the cost of operation has increased by 4% due to inflation.

As you can see, inflation is a complicating factor that affects everyone's bottom line, including the village. Much of the annual increase Council proposes is only to keep up with inflation and the cost of providing you basic services.

#### **5% Increase is Being Considered by Council:**

Council must carefully weigh the need to build our utility reserve funds with what the community will accept. On February 14, 2022, Council will consider 5% increase to utility fees for 2022. A 5% utility bill increase will allow the village to factor in inflation, maintain the service levels we all expect, and provide

a small increase to our reserves. But remember, when we factor in 4% inflation, a 5% rate increase only results in an additional 1% going towards the village's utility reserve funds. The other 4% covers the inflation everyone has experienced this past year.

Council understands that committing the 1% to reserves is not the level of increase truly required. However, Council seeks to find the right balance between necessary increases and what Village utility rate payers can accommodate.