

## Staff Report

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**Report To:** City Council  
**Report From:** Kate Allan, Director of Corporate Services  
**Meeting Date:** May 30, 2022  
**Report Code:** CR-22-053  
**Subject:** 2022 – 23 Water Rate and Wastewater Surcharge Update

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### Recommendations:

THAT in consideration of Staff Report CR-22-053 respecting, 2022 – 23 Water Rate and Wastewater Surcharge Update, City Council directs staff to:

1. Bring forward a by-law to amend Fees and Charges By-law No. 2021-045 to increase water rates by five per cent (5%) to take effect for July 2022 billing cycles; and
2. Provide notice of the amendment to the Fees and Charges By-law in accordance with the City's Notice By-law.

### Highlights:

- Water distribution and Wastewater treatment services are funded through user fees meaning that tax dollars are not collected to provide these services
- A comprehensive rate study was undertaken in 2020
- The current rate study covers a period of five years

### Strategic Plan Alignment:

This report supports the delivery of Core Service

### Previous Report Authority:

## **Background:**

In 2020 Hemson Consulting Ltd. was engaged by the City of Owen Sound to complete a rate study and prepared a water and wastewater financial plan as part of the submission requirements to obtain a municipal drinking water license as per the Safe Drinking Water Act, 2002. In addition to meeting the legislation around the safe drinking water, Staff and Council have referred to financial plans when setting rates for water and wastewater billing purposes. Legislation requires a financial plan to demonstrate the fiscal sustainability of water treatment and distribution. It is City policy to ensure that both water and wastewater are financially sustainable through rates and that taxation is not used to offset any of the cost of providing the service.

In May 2020, Hemson presented a rate study that recommended an annual increase of 5.0% to water rates from 2020 through 2030 to ensure the financial sustainability of both services. In light of COVID pressures, Council opted for a second scenario that committed to a 0% rate increase in 2020 with the caveat that sustainability would require a higher increase in future years. At the time of the presentation, that subsequent increase was estimated to be 5.95%.

In 2021 Staff presented a modified capital plan that would allow Council to gradually move to the required annual increase of 5.95%, and Council approved an increase of 4% for the 2021-22 billing year.

This report aims to present updated multi-year capital plans and ongoing operating budgets to calculate a gradual and stable rate increase that will ensure financial sustainability (positive reserve balances) for water and wastewater services.

## **Analysis:**

In order to update the multi-year rate and reserve fund analysis, staff updated the ten-year capital plans and the operating budget. Long-term savings have been adjusted in the water capital budget as a result of recognized efficiencies, timing adjustments, and the approval of a grant to help offset the cost of filtration and treatment updates at the Water Treatment Plant.

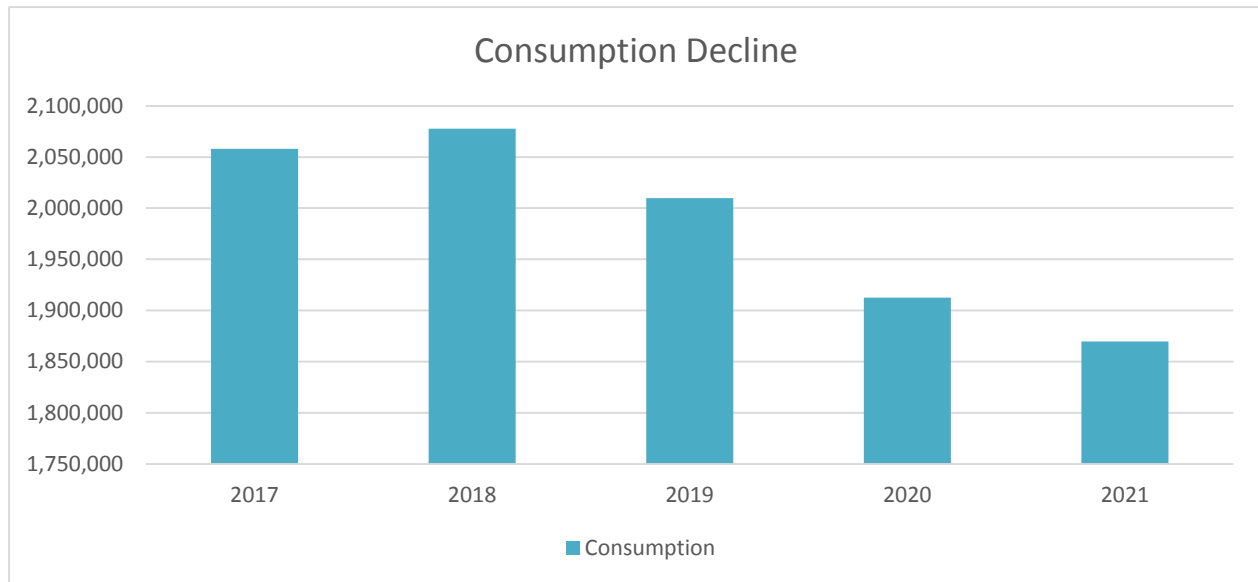
Not including changes in debt payments or allocated costs from other departments, operating costs associated with water distribution and treatment have increased by 8.5%. The majority of this increase relates to the addition of a staff person dedicated to the City's cross-connection control program for the next three years. As discussed below, the cost of chemicals and other materials and supplies has increased as well, although not to the same degree as material costs associated with wastewater.

Wastewater capital has increased due mainly to the incremental costs associated with the East Bayshore SPS Upgrade and recently awarded force main upgrade construction. In order to offset the financial pressure related to these projects, the planned capital at the west side pumping station has been pushed forward outside of the planning period of the current rate study and capital plan.

Excluding changes in debt and internal allocations, wastewater operating costs have increased by 9% over 2021. This change is driven by rising materials costs for chemicals involved in the dechlorination and treatment of wastewater. Consistent with general city insurance, the total premium allocated to the wastewater service has increased by 20%.

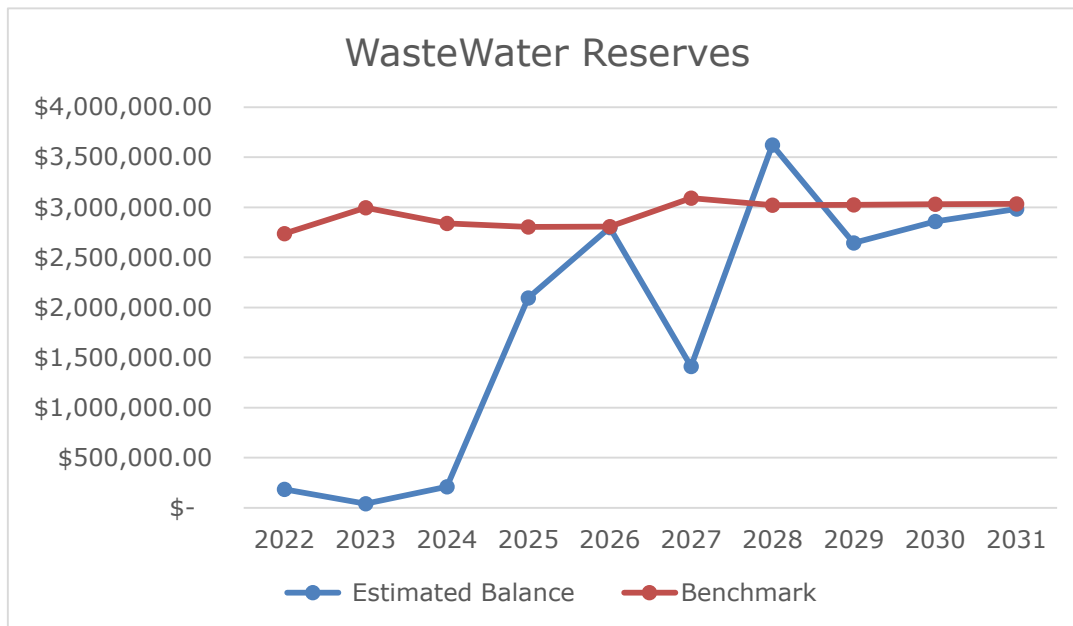
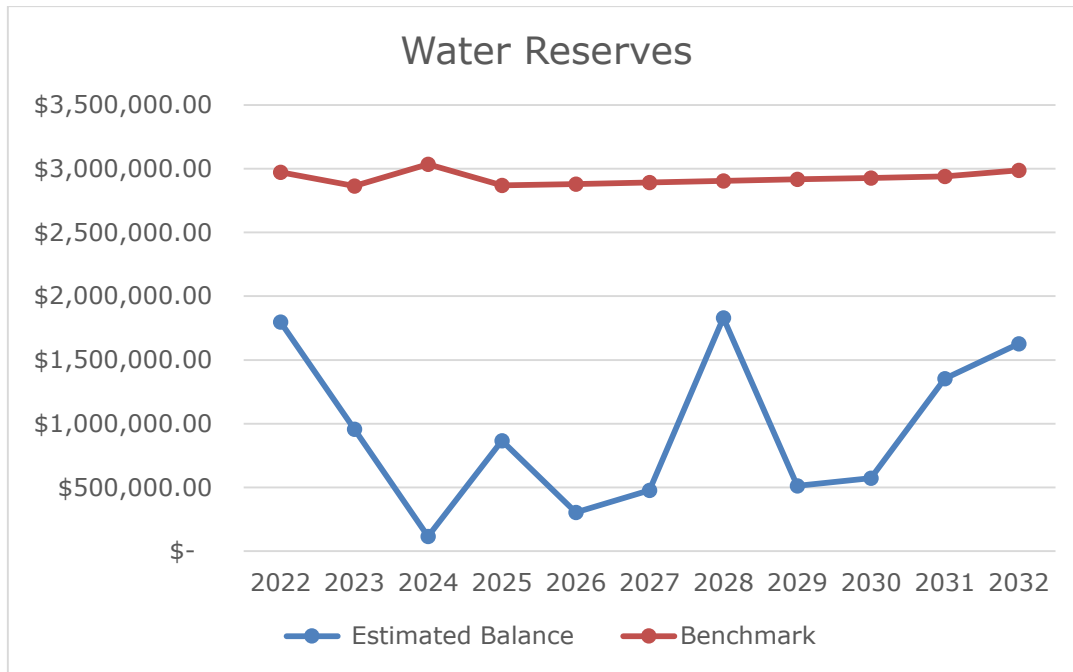
Increasing operating costs continue to put pressure on the need to raise rates. Compounding that pressure is an overall decline in water usage year over year by existing users. At the time that the background study and financial plan were completed, the estimated annual decline in usage included in the rate calculation was 0.25% per annum. In actuality, the yearly decline was 3.3% in 2019, 4.8% in 2020 and 2.2% in 2021. The 2022 and onward rate calculations have been updated to reflect a stable estimate of 2%. This increase has resulted in a decrease of \$4 million over the 10-year term that must be recovered through future rate increases.

As a result of increased operating costs and declining usage, a rate increase of 5% is proposed for 2022, with stable increases of 6% anticipated for 2023 and the following nine years. The wastewater surcharge is recommended to remain at 124% through the period covered by the current background study. The increase in 2023 and beyond will be evaluated before approval in each of those years.



While there is no industry standard for a balance to hold in reserves, staff recommend that the City strives to maintain a balance equal to the annual debt payment plus an annual capital replacement provision based on actual planned spending plus 5% of the gross operating costs. The benchmark reserve balance for both water and wastewater is approximately \$3,000,000. This amount also represents approximately 1% of the total replacement value of assets within each division.

The current financial strategy will ensure that, although both divisions maintain positive reserve balances through the ten years, water reserves will not achieve the benchmark by the end of the period, while wastewater may only reach a more sustainable reserve balance by 2028.



## Financial Implications:

For a household using 200 cubic metres of water annually, the 5% increase in water rates will result in an estimated monthly increase in the total bill (both water and wastewater) of \$5.60. The total annual bill is estimated to be \$1,411.01 after the increase.

The 2021 BMA study evaluated annual water bills among participating municipalities. The total estimated annual bill for those in Grey County using the same 200 m<sup>3</sup> of usage in 2020 was as follows:

Volume Meter Size	Residential 200 m <sup>3</sup> 5/8"	
Chatsworth	N/A	
Georgian Bluffs	N/A	
Grey Highlands	\$	1,393
Hanover	\$	782
Kincardine	\$	1,046
Meaford	\$	1,958
Owen Sound	\$	1,344
Saugeen Shores	\$	1,230
South Bruce Peninsula	\$	1,946
Southgate	\$	1,467
The Blue Mountains	\$	1,093
West Grey	\$	1,449
<b>Bruce/Grey Avg.</b>	<b>\$</b>	<b>1,371</b>
<b>Bruce/Grey Median</b>	<b>\$</b>	<b>1,369</b>

## Communication Strategy:

Updated rates are communicated to account holders in advance of impacted cycles.

The rates can be found on the City's website.

## Consultation:

A team of City Staff, including members of the Senior Leadership Team, Public Works and Engineering and Finance, have developed the background information that formed this year's recommended rate increase.

**Attachments:**

10 Year Capital Plans

Capital Detail sheets

Water Operating Budget

Waste Water Operating Budget

Draft Fee Schedule

**Recommended by:**

Kate Allan, Director of Corporate Services

**Submission approved by:**

Tim Simmonds, City Manager

For more information on this report, please contact Kate Allan at [kallan@owensound.ca](mailto:kallan@owensound.ca) or 519-376-4440 ext. 1223.