

## Staff Report

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**Report To:** City Council  
**Report From:** Kate Allan, Director of Corporate Services  
**Meeting Date:** June 12, 2023  
**Report Code:** CR-23-058  
**Subject:** 2023 Water Rate and Sewer Surcharge Update

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### Recommendations:

THAT in consideration of Staff Report CR-23-058 respecting 2023 Water Rates and Wastewater Surcharge Update, City Council directs staff to:

1. Include an eight per cent (8%) increase to water rates in the 2023 Fees and Charges By-law, to take effect for the July 2023 billing cycles; and
2. Provide notice of the water rate increase in accordance with the City's notice provisions.

### 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.
- Increasing costs of capital construction and declining usage are the driving factors for the increases to rates required in 2023.

### Strategic Plan Alignment:

[Strategic Plan](#) Priority: Clear Direction - KR2 - Align total municipal levy to Council's directed threshold each year while maintaining capital increase of 1 per cent annually.

## **Climate and Environmental Implications:**

This supports the objectives of the City's Corporate Climate Change Adaptation Plan by strengthening the resiliency of City infrastructure or services.

## **Previous Report/Authority:**

Rate Updates are provided annually.

## **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 safe drinking water, Staff and Council have referred to financial plans when setting water and wastewater billing rates. 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 these services.

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. However, in light of COVID-19 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%.

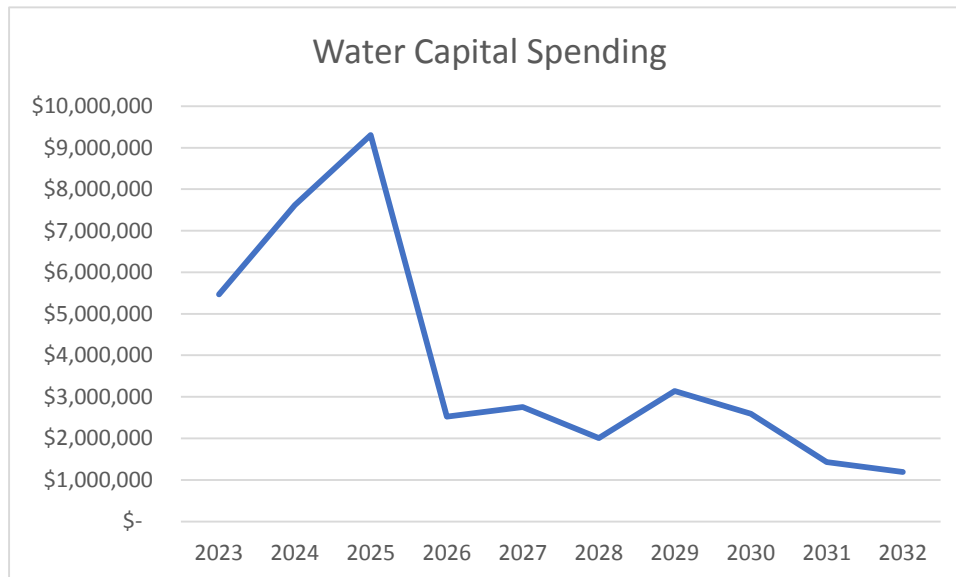
This report aims to present updated multi-year capital plans and ongoing operating budgets to calculate a stable rate increase that will ensure financial sustainability (positive reserve balances) for both water and wastewater services.

This report is provided in conjunction with a presentation which summarizes the capital plans, operating forecasts, comparable communities, and reserve balances.

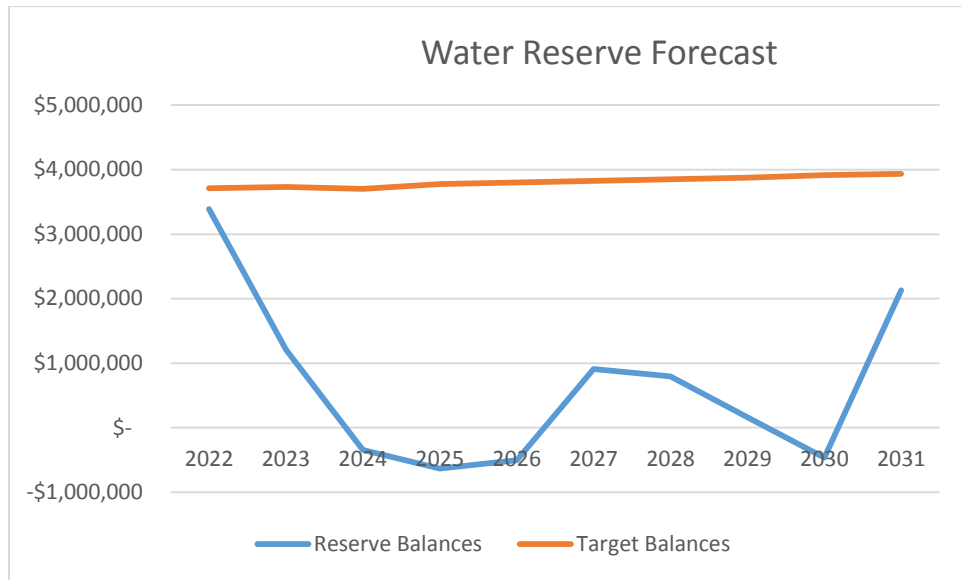
## Analysis:

In order to calculate the appropriate rate increase, staff utilize a tool that aims to flatten increases over the term of the forecast period. The tool allows for some years to achieve surpluses to offset years where planned spending exceeds forecasted revenues. Based on the current reserve balances and planned capital investments, if the model were to be funded annually, the required increase would be close to 25% upfront, followed by several years of positive and negative rate changes. The recommended rate of 8% in 2023 and for each year following will keep the reserve balance out of a negative position except for 2024 and 2025, when it temporarily dips below zero. Note that within the forecast, the reserve never achieves the target balance (equal to one year's average capital spending plus 5% of the operating budget). As such, the recommended rate aims to balance what the ratepayer can withstand with what is financially sustainable.

The graph below shows total water capital spending before grants or other funding sources, such as development charges, over the forecast period.



The following table shows the forecasted reserve balances after funding operating and capital expenditures, net of all other funding sources. The balances assume an annual increase of 8%. The funding model anticipates utilizing \$820,000 in Development Charges and accumulates new debt of \$12.4 million, with payment commencing in 2027.

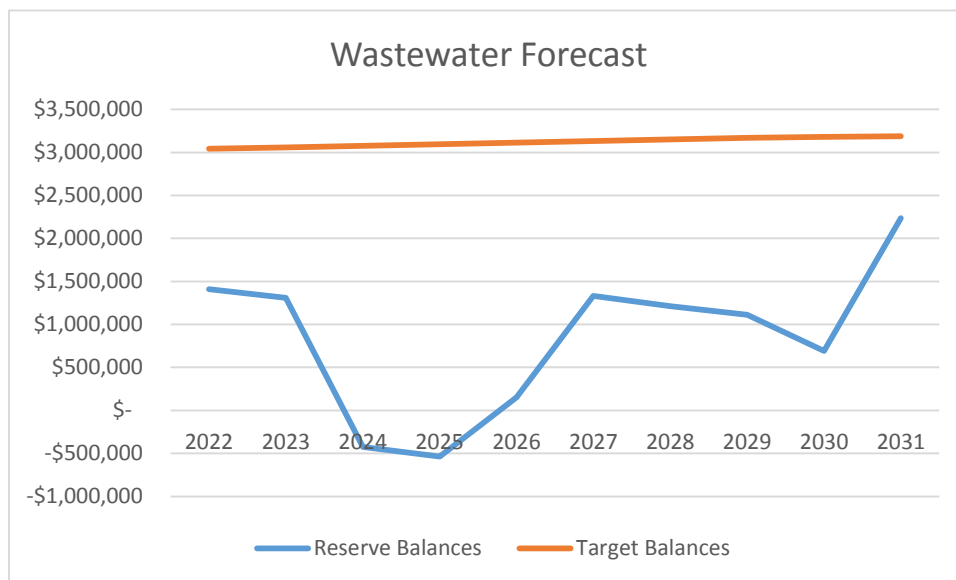


On the wastewater side, the surcharge of 124% is required to remain in place until 2026, when the surcharge may slowly be reduced until it returns to 100% of the water portion of the bill by the end of the forecast period.

The graph below shows total wastewater capital spending before grants or other funding sources, such as development charges, over the forecast period.



The following table shows the forecasted reserve balances after funding, operating and capital expenditures, and net of all other funding sources. The funding model anticipates utilizing \$48,000 in Development Charges and does not require any new debt financing.



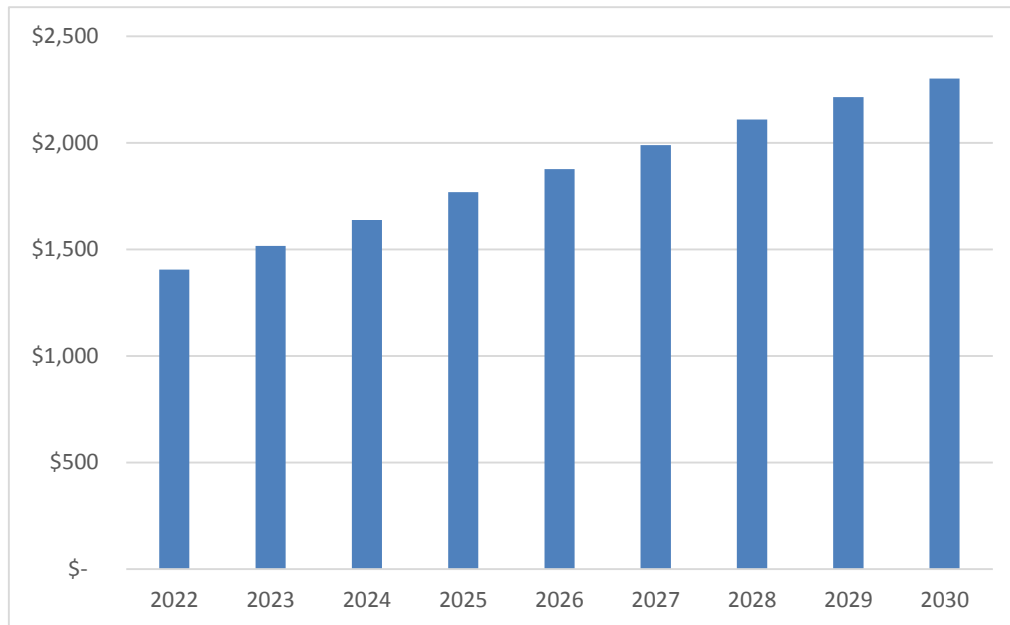
It should be noted that forecasts rely entirely on current capital plans, operating costs, and usage patterns. Any significant change in any of these variables, as we have experienced in 2023 with capital costs and declining usage, will impact the required rate adjustments in the future. A comprehensive financial plan update is anticipated to be undertaken in 2025.

## Financial Implications:

For a household using 200 cubic metres of water annually, the 8% increase in water rates will result in an estimated total bill increase of \$9.36 per month. The total annual water bill is estimated at \$1,517.15 after the increase.

Given that the current model rates are anticipated to continue increasing at 8% over the 10-year forecast, wastewater funding needs are predicted to allow the surcharge to start decreasing starting in 2026 until they are once again a 100% charge of the water portion of the bill in 2031. Currently, the wastewater surcharge is 124% of the water portion of the bill.

At a sustained 8% annual increase, the calculated theoretical total bill based on 200m<sup>3</sup> would rise as shown in the graph below:



### **Communication Strategy:**

A notice for changes to the Fees and Charges By-law is provided in accordance with the City's notice provisions. The water rates are available on the City's website.

### **Consultation:**

Director of Public Works and Engineering

Manager of Public Works

Utilities Collection Clerk

### **Attachments:**

1. Water – 10-Year Capital Plan
2. Wastewater – 10-Year Capital Plan
3. Water Detail Sheets – 2023-2025, Combined
4. Wastewater Detail Sheets – 2023-2025, Combined
5. 2023 Combined Engineering Budget
6. Water Operating Budget
7. Wastewater Operating Budget

8. Water Rate Calculation and Forecast
9. Wastewater Rate Calculation and Forecast

**Recommended by:**

Kate Allan, Director of Corporate Services

**Submission approved by:**

Tim Simmonds, City Manager

For more information on this report, please contact Natalie Stephens, Utilities Collection Clerk at [nstephens@owensound.ca](mailto:nstephens@owensound.ca) or 519-376-4440 ext. 1243.