

Staff Report

Report To: City Council
Report From: Kate Allan, Director of Corporate Services
Meeting Date: May 27, 2024
Report Code: CR-24-053
Subject: 2024 Water Rate and Sewer Surcharge Update

Recommendations:

THAT in consideration of Staff Report CR-24-053 respecting 2024 Water Rate and Sewer Surcharge Update, City Council directs staff to:

1. Include a four percent (4%) increase to water rates in the 2024 Fees and Charges By-law, to take effect for the July 2024 billing cycles; and
2. Provide notice of the water rate increase in accordance with the City's notice provisions.

Highlights:

- Water treatment and distribution, as well as wastewater collection and treatment services, are funded entirely through user fees, meaning that tax dollars are not collected to provide these services.
- A comprehensive rate study was undertaken in 2020. The update to this study will commence in late 2024.
- The current rate study covered a period of five years.
- With the allocation of grant funding, stabilizing construction costs, increasing interest revenue, and slightly increased usage, have allowed staff to recommend a slightly lower increase of four percent (4%) compared to the eight percent (8%) forecasted in 2023.

Strategic Plan Alignment:

[Strategic Plan](#) Priority: A City that Grows.

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 in conjunction with the fees and charges annual review.

Background:

In 2020, Hemson Consulting Ltd. was engaged by the City of Owen Sound to complete a rate study and prepare 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% 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 represent 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.

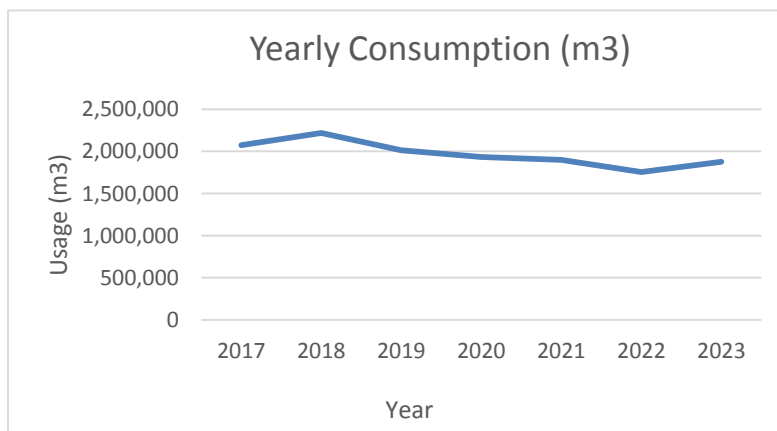
Analysis:

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, operating and capital spending forecasts, demand for water as well as interest rates applied to reserve balances, the recommended rate increase of 4% in 2024 will keep the reserve balance out of a negative position except for the forecasted position in 2030.

The previous rate update projected an annual increase of 8% over the next ten years. After reviewing long-term capital plans, staff recommended using Ontario Community Infrastructure Funding (OCIF) not only for the taxable portion of Alpha Street and the future reconstruction of 4th Ave W, but also for covering these projects' water and wastewater components. By combining this strategy with higher interest rates on reserve balances and improved usage statistics, the current increase has been reduced to 4%, surpassing the original estimate by Hemson consultants. This marks the final year of using the tool created in 2020 to determine rate increases.

Additionally, in 2024, in accordance with the *Safe Drinking Water Act, 2002*, an RFP will be issued to engage a consultant for a comprehensive review of the sustainability of water and wastewater systems, along with the development of a financial plan. The comprehensive financial plan update will confirm the future rate increases required to meet the ongoing operating and capital investment requirements, starting with the rate update for July 2025.

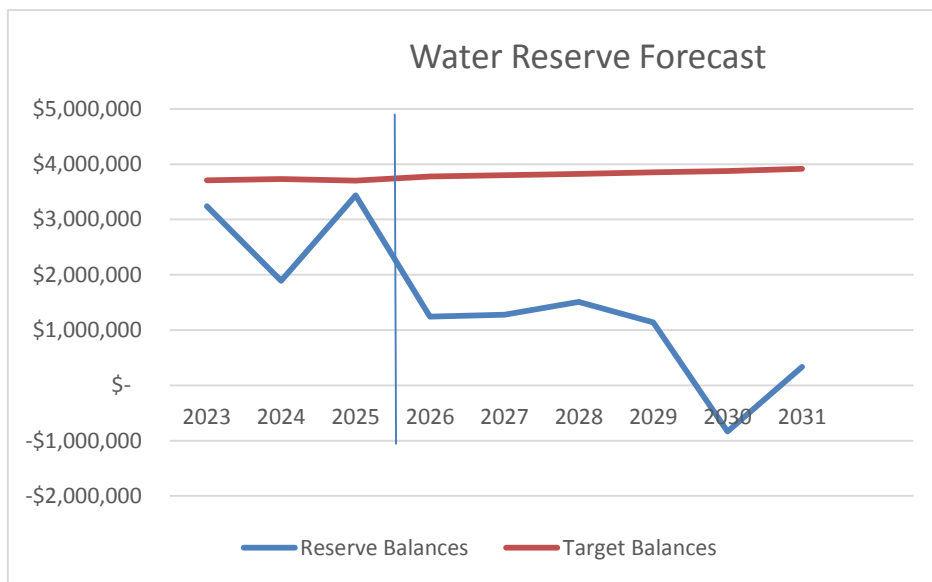
The following graph shows the total annual consumption. There is a slight increase in 2023 over 2022 however the general trend is declining. The rate calculation tool takes into account both the increase in the number of connections as well as the total consumption per billing group.



With the current annual estimated rate increase of 4% and capital spending requirements as detailed in the attached multi-year capital plans, the following graph shows the forecasted reserve balances after funding capital and operating expenditures, net of all other funding sources, with interest applied to positive balances.

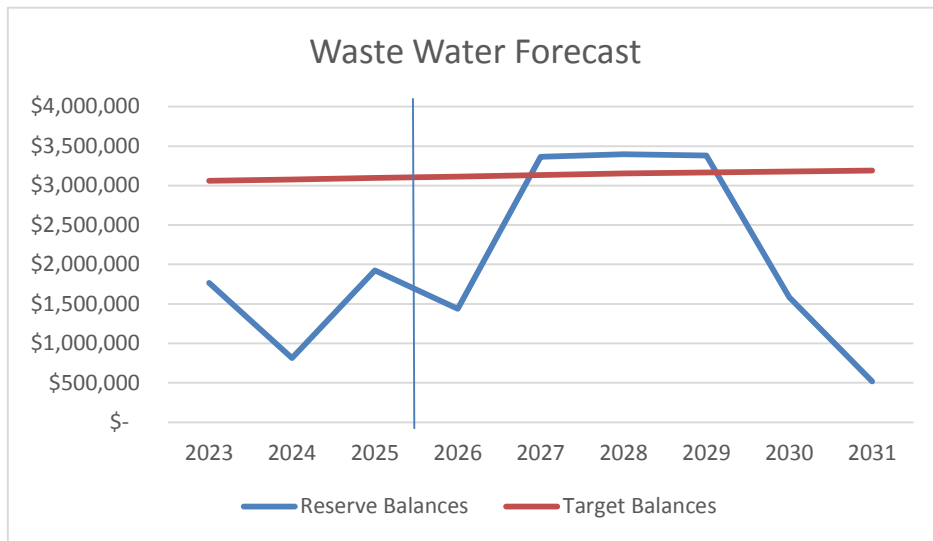
The funding model anticipates growth in the number of users in the system and is balanced by declining usage overall. The declining usage most likely reflects the impact of water conservation efforts and transitions to more modern, efficient appliances. The project to update water meters to be complete by 2027 will ensure that there is no unbilled water usage where it is possible that an older meter is not capturing all usage, particularly in low flow circumstances.

The funding model anticipates utilizing \$610,000 in development charges and accumulates new debt of \$6,600,000 with the first principal and interest payment of \$813,140 commencing in 2027. The prior model anticipated a debenture for the Alpha Street Reconstruction; however, with the lower estimated total cost and potential to use other funding sources, the model is no longer adding this project to those to be funded through debt, and instead is funding this project with OCIF grant as noted previously.



On the wastewater side, the surcharge of 124% is required to remain in place until 2026, when the current model shows that it can start being reduced so long as water rate increases are sufficient to provide sustainable funding to the wastewater division (since wastewater surcharges are fully a function of water rates and they are not metered separately).

The following graph shows the forecasted reserve balances after funding operating and capital expenditures, net of all other funding sources. The funding model anticipates using \$48,000 in Development Charges.



For both water and wastewater, it must be noted that forecasts rely entirely on current capital plans, operating costs, interest rate environments and usage patterns. Any change in any of these variables, as we have witnessed in this year’s update as well as in previous years, will impact the required rate adjustment in the future. The goal now and for the next comprehensive financial plan will be to smooth out the rate adjustments despite volatile shifts in annual spending.

The assumed variables for the current rate update are as follows:

Annual decline in consumption:	1.5%
Annual increase in equivalent meters:	25
Interest rate in 2024:	4%
Interest rate in future years:	3%
Long term borrowing rate:	4%
Annual Salary increases:	3%
Annual Operating cost increases:	3%
Annual Energy and insurance increases:	5%

New Debt was issued for the non-grant-funded portion of the water filtration project and water meter conversion project. No new wastewater debt is anticipated.

OCIF funding will be applied to the Alpha Street Reconstruction and 4th Ave West Reconstruction projects.

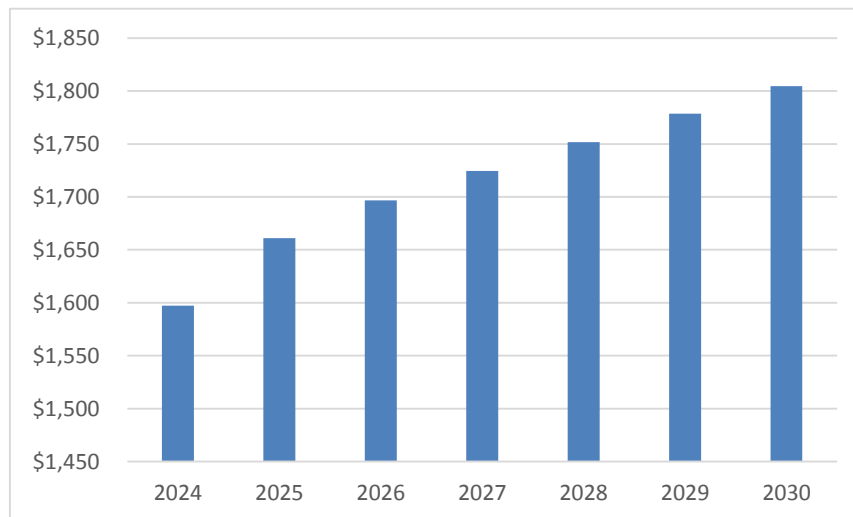
Financial Implications:

For a household using 200 cubic metres of water annually, the 4% increase in water rates will result in an estimated total bill increase of \$6.37 per month or \$76.47 per year. The total annual water bill is estimated to be \$1,597.

Given that the current model rates are anticipated to continue to increase at 4% 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. Currently, the wastewater surcharge is 124% of the water portion of the bill.

At a sustained 4% annual increase, the calculated theoretical bill based on 200 cubic metres would rise as shown in the graph below. The estimated water bill for 2030 of \$1,804 has improved by \$498 since the previous forecast provided in 2023 using 8% increases.

Estimated Annual Invoice for a Home using 200m3



The following is a comparison of total municipal water invoices for a consumer using 200 cubic metres of water in our neighbouring and comparator communities. It should be noted this table uses rates in effect in each municipality and the proposed increased rate for Owen Sound. The comparators may have current-year increases that have not yet been approved or updated.

Municipality	Estimated total water charges for 200m³ annual usage for normal residential (5/8") meter
Town of Collingwood	\$1,134.36
City of Cobourg	\$1,163.16
Town of Huntsville	\$1,340.52
Town of Amherstburg	\$1,438.04
Town of Saugeen Shores	\$1,446.76
Municipality of Strathroy-Caradoc	\$1,535.00
Town of the Blue Mountains	\$1,540.88
City of Owen Sound	\$1,597.28
Township of Georgian Bluffs	\$1,858.12
Municipality of Meaford	\$2,280.12
Town of South Bruce Peninsula	\$2,338.52

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 Corporate Services, Manager of Engineering Services, Utilities Collection Clerk

Attachments:

1. Water – 10 Year Capital Plan
2. Wastewater – 10 Year Capital Plan
3. Water Capital Detail Sheets (2024 – 2026)
4. Wastewater Capital Detail Sheets (2024 – 2026)
5. 2024 Combined Engineering Capital Plan
6. Engineering (W/WW) Capital Detail Sheets (2024 – 2026)
7. 2023 Water and Wastewater Year End Summary
8. 2024 Water Operating Budget
9. 2024 Waste Water Operating Budget
10. 2024 Allocation of Overhead for Governance, Supervision and Program Support

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, Director of Corporate Services, at kallan@owensound.ca or 519-376-4440 ext. 1238.