

Staff Report

Report To: City Council
Report From: Kate Allan, Director of Corporate Services
Meeting Date: March 29, 2021
Report Code: CR-21-031
Subject: 2021-22 Water Rate and Waste Water Surcharge Update

Recommendations:

THAT in consideration of Staff Report CR-21-031 respecting 2021-22 Water Rates and Waste Water Surcharge Update, City Council directs staff to:

1. Bring forward a by-law to amend Fees and Charges By-law No. 2019-106 to increase water rates by four percent (4%) to take effect for the May 2021 billing cycles; and
2. Provide notice of the amendment to Fees and Charges By-law No. 2019-106 in accordance with the City's notice provisions.

Highlights:

- Water distribution and Waste Water 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:

- Address the City's infrastructure deficit
- Maximize funding and non-tax revenue opportunities
- Optimize the City's operations while maintaining or improving quality of life

Background:

In 2020 Hemson Consulting Ltd. Was engaged by the City of Owen Sound to complete a rate study and prepared a water and waste water financial plan as part of the submission requirements for the purposes of obtaining 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 rates for water and waste water 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 waste water 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 in 2020 through 2030 in order to ensure 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%.

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

Analysis:

In order to update the multi year rate and reserve fund analysis, staff updated the 10 year capital plans and the operating budget. Overall savings were realized in capital over the plan that was presented as part of the Hemson study. These savings are a result of recognized efficiencies, timing adjustments as well as improved information.

On the operating side, the water treatment and distribution budgets are consistent with the analysis completed by Hemson. However, the operating costs of the Waste Water treatment plant have increased by \$335,000. This increase is driven by higher than estimated costs of treatment supplies such as dechlorination chemical as well as property taxes on the upgraded plant.

Multi Year Capital (Attachment 1) and Year over Year Operating Budgets are attached to this report for reference (Attachments 2 and 3).

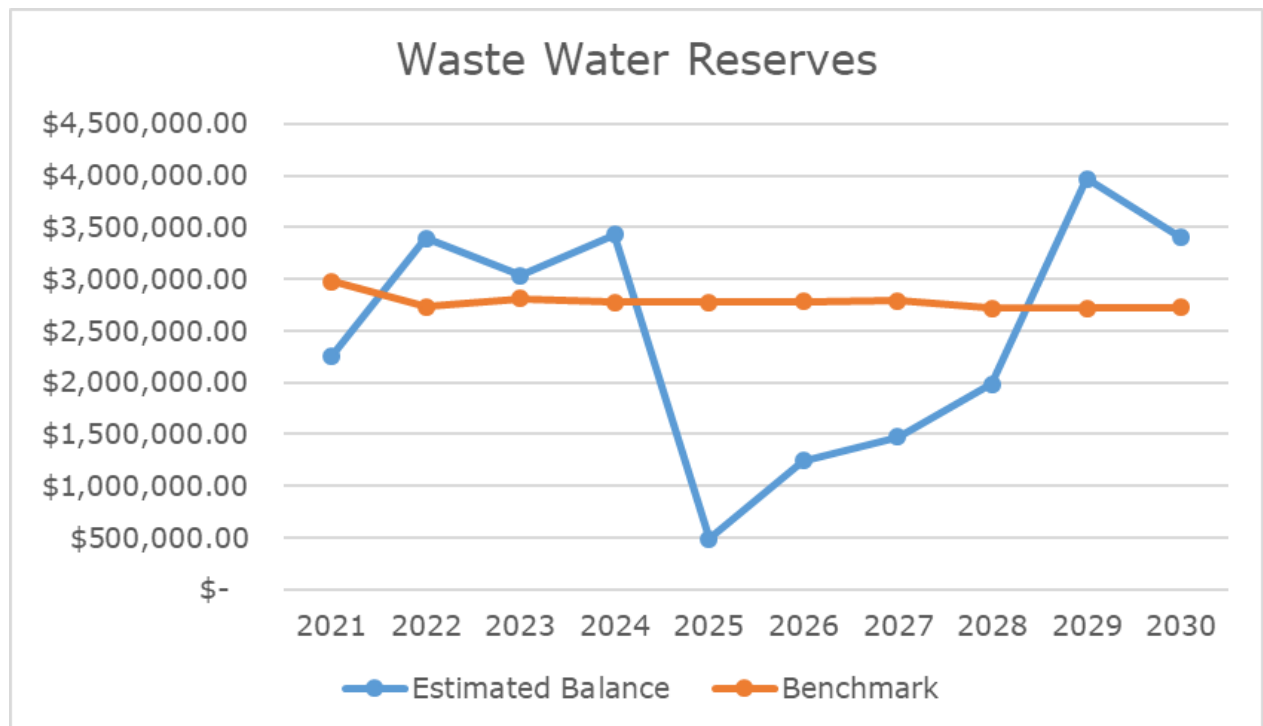
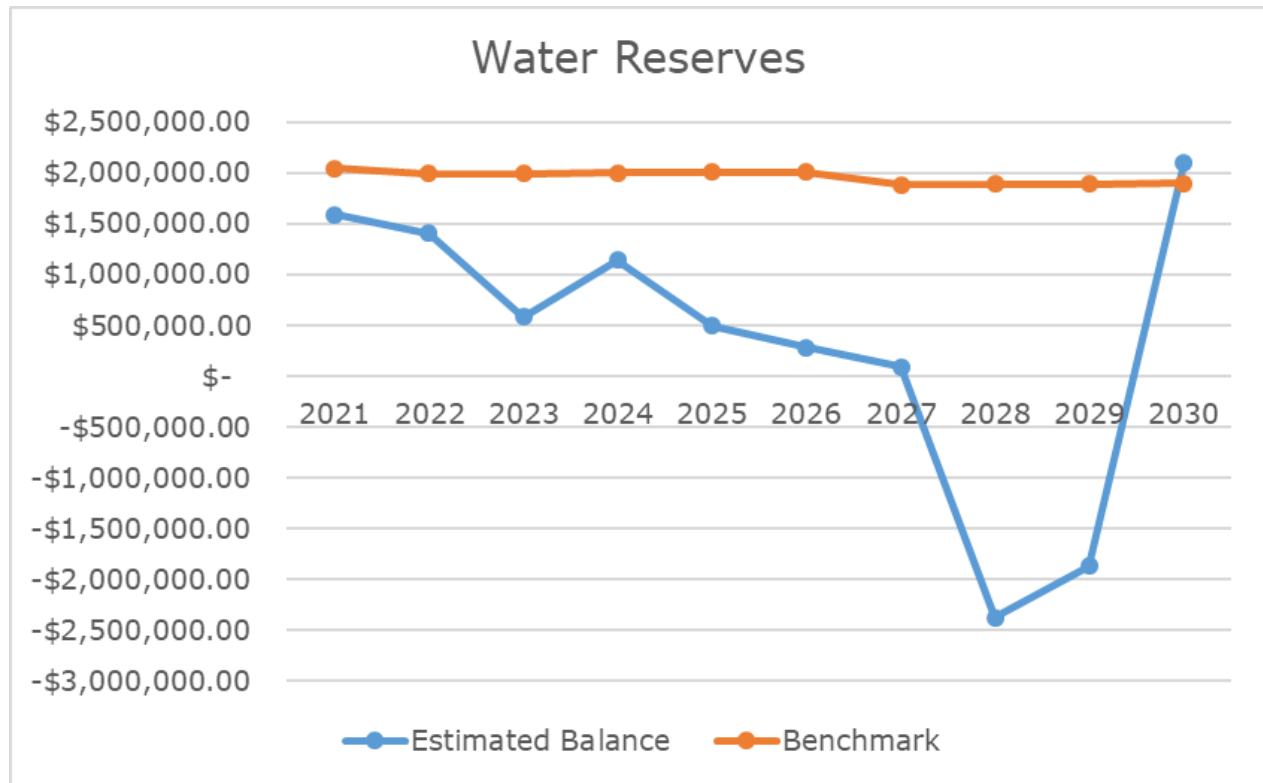
On March 9, 2021, the Water System Annual report was presented to the Operations Committee. The report highlighted that treated water production was down 12% over 2019 and that revenue declined by 5% (despite stable rates). In order to reflect some of the impact of water conservation, the rate calculation assumes a conservative decline of 0.25% usage. Should actual declines remain in the range of 5%, future updates to rates may need to take this into account.

Inputting the updated information into the calculation template along with estimated usage statistics noted results in a stable water rate increase consistent with the 5.95% increase estimated by Hemson. In recognition of the current economic environment and the impacts of COVID on household incomes staff have prepared a model that incorporates an absolute minimum increase in 2021. This strategy requires future water rate increases to grow in order to close the gap for revenues forgone early in the model. The minimum rate increase recommended by staff is 4% in 2021; 4.5% in 2022; 5.0% in 2023 and so on. The ability to reduce rates by modifying budgets for water and waste water is limited. Operating costs are relatively set and service levels for clean water do not allow room adjustment. Annual capital investment is well below what the infrastructure gap requires, meaning there is no justification to reduce annual capital investment and ultimately the backlog of required renewal contributes to higher operating maintenance costs. Increasing revenues through rate increases and potentially by adding users to the system are the best tools to ensure that the services remain financially sustainable without any burden on the tax levy.

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.

Using the variables selected in this report the future reserve balances in comparison to benchmark are shown below. Note that water reserves remain positive until 2025 where they move into a deficit for three years. This deficit may be managed through debt financing if required however this is not a sustainable long term strategy. Waste water reserves although below the recommended benchmark remain positive through the period covered. Should water rates be increased further to compensate for

shortage of funds, the waste water surcharge may be reduced in order to smooth the financial impact to the rate payer in future periods.

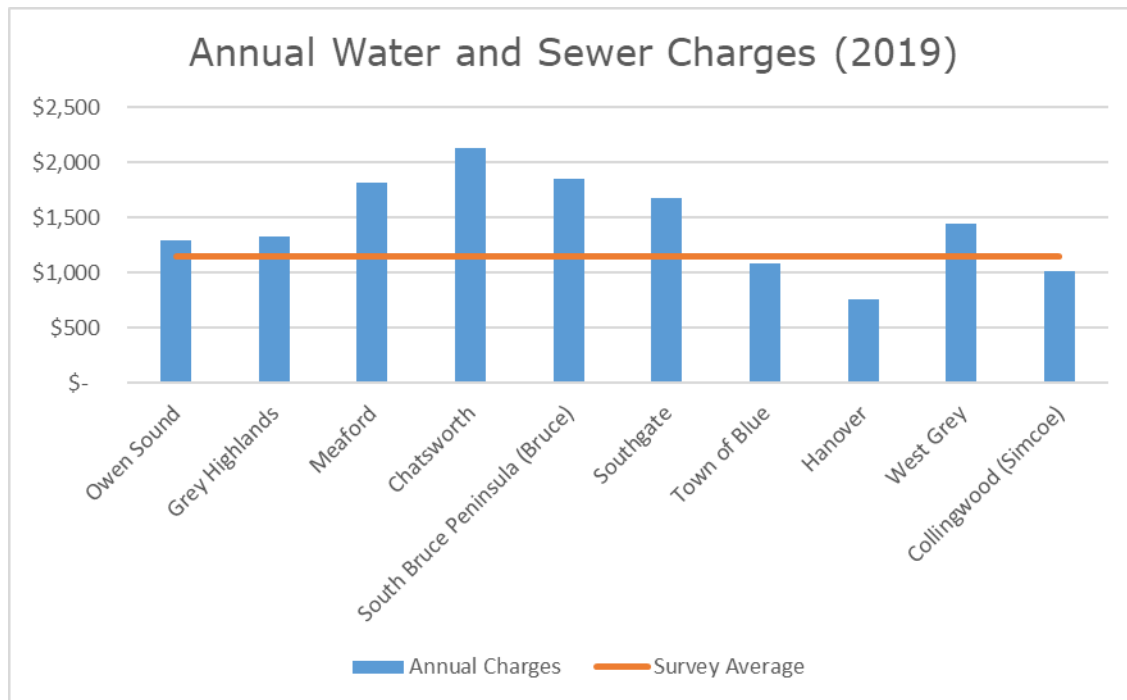


Financial Implications:

For a household using 200 cubic metres of water annually, the 4% increase in water rates will result in an estimated increase in the total bill (both water and waste water) of \$5.39 per month. The total annual bill is estimated to be \$1,357.26 after the increase.

In 2019 the average annual water bill across all municipalities participating in the BMA study was \$1,151.

Total estimated water bills for 200m³ usage in Grey County in 2019 were as follows:



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:

Matt Prentice, Manager of Public Works

Dennis Kefalas, Director of Public Works and Engineering

Christine Gilbert, Manager of Revenue

Attachments:

10 year Capital Plans

Water Operating Budget

Waste Water Operating Budget

Recommended by:

Kate Allan, Director of Corporate Services

Submission approved by:

Tim Simmonds, City Manager

For more information on this report, please contact Christine Gilbert at cgilbert@owensound.ca or 519-376-4440 ext. 1223.